Preparation of final accounts for a sole trader

In the APII assessment you are likely to have to prepare an income statement (IS) and/or statement of financial position (SFP) for a sole trader from figures provided in a trial balance.

So it is very important that you are confident in recognising which accounts appear in each of the two statements and also, that you are able to correctly classify all items under the appropriate headings in each statement.

To start with, see if you can correctly identify which statement each of the following accounts will appear in. Tick the correct box and click to reveal the answer and explanation.

Account	Income statement	Statement of financial position
Accumulated depreciation		
Allowance for doubtful debts		
Bank overdraft		
Closing inventory		
Drawings		
Irrecoverable debt expense		
Opening inventory		
Other receivables		

When it comes to preparing the IS and SFP from figures given in a trial balance, it is not enough to just enter the figures in the correct statement; you must also make sure that they are included under the correct headings.

Income statement headings

There are four possible categories to consider in the IS – revenue, cost of sales, other operating income, and expenses. There may not always be a heading given for Other operating income, in which case this should be included below gross profit and above expenses.

Try and classify the following income and expenses under the correct headings. Tick the correct box. Click to reveal answer and explanation.

Account	Revenue	Cost of sales	Other operating income	Expenses
Carriage in				
Carriage out				
Discount allowed				
Discount received				
Profit on sale of non-current asset				
Opening inventory				
Rent payable				
Sales returns				

Statement of financial position headings

There are five possible categories in the SOFP – non-current assets, current assets, current liabilities, non-current liabilities, and equity.

Try and classify the following assets and liabilities under the correct headings. Tick the correct box and click to display the answer and explanation.

Account	Non current assets	Current assets	Current liabilities	Non current liabilities
Bank loan				
Bank overdraft				
Inventory				
Motor car				
Other payables				
Trade receivables				
VAT (owing to HMRC)				

Now let's try and put together an income statement and statement of financial position from information provided in a trial balance. Skeleton pro formas will be provided in the assessment and you may find it useful to adopt a methodical approach, working down the trial balance line by line, inserting the figures in the correct places in the financial statements to ensure that you don't leave anything out.

Hint: Remember that debit balances will be assets or expenses (except drawings, which is part of equity) and credit balances will be income or liabilities (except the equity balance at the start of the period).

A business has the following trial balance at 31 March 20X3.

Account	DR £	CR £
Allowance for doubtful debts		1,110

Allowance for doubtful debts adjustment		360
Carriage out	300	
Cash and cash equivalents	14,030	
Depreciation expense	5,800	
Discount allowed	1,830	
Discount received		1,040
Drawings	12,000	
Equipment – cost	9,500	
Equipment – accumulated depreciation		3,400
Equity at 1 April 2012		33,600
Heat and light	5,950	
Loan		18,000
Motor vehicles – cost	26,000	
Motor vehicles – accumulated depreciation		8,000
Opening inventory	2,600	
Other payables		1,600
Purchases	230,200	
Rent	14,000	
Revenue		305,850
Staff wages	20,000	
Trade payables		24,140
Trade receivables	56,460	
VAT		1,570
Totals	398,670	398,670

Note: At 31 March 20X3, closing inventory totalled £3,200.

Prepare the income statement and statement of financial position at 31 March 20X3, from the information in the trial balance and note above.

Click to reveal the answer.

Income statement for the year ended 31 March 20X3	£	£

Statement of financial position as at 31 March 20X3	£	£	£

If you have put any of these figures in the wrong place, go back and look at the earlier examples and make sure that you understand the reason why each item is shown where it is.

It is important to practise this sort of question to build your familiarity with identifying the figures to include under each of the headings in each of the financial statements. You will find more examples in the practice CBT assessments for APII, which are well worth working through prior to your actual assessment.