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Introduction

Accounting is a fundamental aspect of business operations because it records transactions through which businesses achieve and retain profitability. Recoding transactions is an important aspect of business because the primary goal of businesses is to maximise profitability (Tirole, 2010). Accounting lays the groundwork to manage the income, expenses, assets and cash flow of the firm, all of which are pivotal to the financial health of the business regardless of its size. This report discusses different accounting principles in practice. The first task utilises the double-entry method to record the transactions of the business in ledgers using the double-entry method. This task also includes the formulation of a trial balance using the balance off rule and illustrates to which final account each trial balance entry is attributable. The second task involves the creation of final accounts for different businesses. The legal implications of varying business structures differ, so their financial statements are different. This task also includes a discussion of the properties, purposes, and structures of different financial statements. The third task addresses bank reconciliation. Bank reconciliation resolves any discordance between the records of the business and its bank statement. The gist of the fourth task is the use of control accounts. Control accounts summarise ledger balances to ensure a match between those accounts and the accounts in the ledger of each account.

Record business transactions using double-entry book-keeping and be able to extract a trial balance

P1: Apply the double-entry book-keeping system of debits and credits. Record sales and purchase transactions in a general ledger. (P1)

The double-entry method takes into account the duality of transactions. Each transaction impacts at least one other account. For income and expense accounts, for example, the double-entry method highlights the fact that cash comes from somewhere and is spent on something every time there are changes in cash. For example, when a business buys inventory, that money comes from the cash or bank account, assuming that they are not purchasing on credit. So the relevant account is declining, but another one is increasing, which in this case is the purchase account.

It is essential to understand what falls under the double-entry system between the debit and the credit sides. Debit transactions occur when asset or expense accounts are growing. Transactions where liabilities or equity are declining also belong on the debit side. The credit side accommodates increments in liability and equity in addition to declines in assets and expenses.

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Cash				
Date April	**Debit**		**Credit**	
4			Goods(Python)	£ 8,000
4	Castor	£ 9,000		
6			Cash	£ 1,200
13			Goods (Greenwall)	£ 6,000
14	Tusker Retail	£ 4,000		
16	Bastion	£ 8,000		
17	HLM	£ 6,000		
21	Tusker Retail	£ 4,050		
26			Goods(Python)	£ 6,000
28			Cash	£ 2,800
30			Insurance expense	£ 1,500
30			Cash	£ 3,000
30			Balance carried forward	£ 2,550
		£ 31,050		£ 31,050
30	Balance brought forward	£ 2,550		

Bank				
Date April	**Debit**		**Credit**	
1			Goods (TCM)	£ 5,000
2	Brendan LLC	£ 8,000		
4			Goods (TCM)	£ 7,000
13	Formulaic	£ 4,000		
14			Python LLC	£ 3,000
23			Goods (TCM)	£ 3,000
24			Goods(Python)	£ 4,000

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28			Electricity	£ 800
30			Salary expense	£ 4,200
30	Balance carried forward	£ 15,000		
		£ 27,000		£ 27,000
30			Balance brought forward	£ 15,000

Purchases				
Date		**Debit**		**Credit**
1	Python LLC	£ 3,000		
1	Goods (TCM)	£ 5,000		
4	Goods (TCM)	£ 7,000		
4	Goods(Python)	£ 8,000		
13	Goods (Greenwall)	£ 6,000		
19	Greenwall Supplies	£ 7,000		
20	Tucker LLC	£ 3,000		
23	Goods (TCM)	£ 3,000		
24	Goods(Python)	£ 4,000		
25	TCM	£ 2,000		
25	XGL	£ 4,000		
25	LPI Inc.	£ 6,000		
26	Goods(Python)	£ 6,000		
26			Bal* c/f	£ 64,000
		£ 64,000		£ 64,000
26	Balance brought forward	£ 64,000		

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Accounts payable				
Date April	**Debit**		**Credit**	
1			Python LLC	£ 3,000
14	Python LLC	£ 3,000		
19			Greenwall Supplies	£ 7,000
20			Tucker LLC	£ 3,000
25			TCM	£ 2,000
25			XGL	£ 4,000
25			LPI Inc.	£ 6,000
25	Balance c/f	£ 22,000		
		£ 25,000		£ 25,000
25			Balance b/f	£ 22,000

Sales				
Date April	**Debit**		**Credit**	
2			Brendan LLC	£ 8,000
3			Bastion	£ 4,000
4			Castor	£ 9,000
8			Tusker Retail	£ 4,500
9			Justice	£ 6,000
12			Formulaic	£ 2,000
12			Brendan LLC	£ 6,000
13			Formulaic	£ 4,000
14			Tusker Retail	£ 4,000
15			HLM	£ 6,000
16			Bastion	£ 8,000
22			Ross Retail	£ 1,000

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27			Castor	£ 1,500
28			Intercept	£ 4,000
28			BTG	£ 7,000
29	Balance carried forward	£ 75,000		
		£ 75,000		£ 75,000
29			Balance brought forward	£ 75,000

Accounts receivable				
Date April	**Debit**		**Credit**	
3	Bastion	£ 4,000		
8	Tusker Retail	£ 4,500		
9	Justice	£ 6,000		
12	Formulaic	£ 2,000		
12	Brendan LLC	£ 6,000		
15	HLM	£ 6,000		
17			HLM	£ 6,000
21			Tusker Retail	£ 4,050
22	Ross Retail	£ 1,000		
27	Castor	£ 1,500		
28	Intercept	£ 4,000		
29	BTG	£ 7,000		
30			Utilities	£ 900
30			Balance carried forward	£ 31,050
		£ 42,000		£ 42,000
30	Balance brought forward	£ 31,050		

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Electricity						
Date April	**Debit**			**Credit**		
28	Bank	£	800	balance carried forward	£	800
		£	800		£	800
28	Balance brought forward	£	800			

Insurance						
Date: April	Debit			Credit		
30	Insurance expense	£	1,500	Balance carried forward	£	1,500
		£	1,500		£	1,500
30	Balance brought forward	£	1,500			

Rent						
Date: April	**Debit**			**Credit**		
30	Cash	£	3,000	balance carried forward	£	3,000
		£	3,000		£	3,000
30	Balance brought forward	£	3,000			

Salaries						
Date: April	Debit			Credit		
30	Salary expense	£	4,200	Balance carried forward	£	4,200
		£	4,200		£	4,200
30	Balance brought forward	£	4,200			

Drawings				
Date April	Debit		Credit	
6	Cash	£ 1,200		
28	Cash	£ 2,800	Balance carried forward	£ 4,000
		£ 4,000		£ 4,000
28	balance brought forward	£ 4,000		

Utilities				
Date April	Debit		Credit	
30	Bank	£ 900	Balance carried forward	£ 900
		£ 900		£ 900
30	Balance brought forward	£ 900		

P2: Produce a trial balance applying the use of the balance of rule to complete the ledger. (P2)

The trial balance is the worksheet in which the balances of all the ledgers are recorded (Flood, 2015; Atrill, McLaney, and Harvey, 2014). The trial balance contains the name of each nominal ledger account as well as the balance of the accounts as mentioned above. The following trial balance illustrates the balances from the general ledger, which were derived using the balance of rule. The balance off rule alludes to the fact that all the accounts in the ledger must be balanced off. During this process, the accountant sums up all of the transactions in the ledger and then records the resulting balance. For example, if the business received £30,000 in cash during the month but spent £12,000, the cash account will have a debit balance of £18,000 to bring forward into the next period. Below is the trial balance of Reef Supermarket based on the figures from the general ledger. Noteworthy, the debit and credit totals in the trial balance should be identical.

Reef Supermarket		
Trial Balance		
As of 30th April 2021		
Account	Debit	Credit
Cash	£ 2,550	
Bank		£ 15,000

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Purchases	£ 64,000	
Accounts receivable	£ 31,050	
Accounts payable		£ 22,000
Sales		£ 75,000
Electricity	£ 800	
Salaries	£ 4,200	
Insurance	£ 1,500	
Drawings	£ 4,000	
Rent	£ 3,000	
Utilities	£ 900	
	£ 112,000	**£ 112,000**

M1: Analyse transactions to show the progression from the previous trial balance to the next one using double-entry book-keeping. (M1)

The transactions of Reef Supermarket fall under the accounts of expenses, income, liabilities, and equity. The transactions that affected the firm's asset figures, such as cash and bank transactions, fall under the asset category. These are the transactions that add value to the business. The transactions that affect the revenue of the business are under the income category. In the case of Reef Supermarket, the sales account represents these transactions. Expense transactions fall under expense accounts. These accounts include purchases, insurance, rent, utilities, and salaries, to mention a few. Liability transactions increase the obligations of the firm. For example, accounts payable increase the current liability figures of the firm. Lastly, drawings fall under equity transactions and accounts. Drawings reduce the owner's equity.

All of the balances in the trial balance come from the general ledger, where double-entry accounting places transactions either on the debit or credit side of the ledger. Each debit entry has a corresponding credit entry in another account. This correspondence ensures that the debit and credit totals are identical when the balances reach the balance sheet.

D1: Apply trial balance figures to show which statement of financial accounts they will end up in. (D1)

Reef Supermarket				
Trial Balance				
As of 30th April 2021				
Account	**Debit**	**Credit**	**Account name**	**Financial statement**
Cash	£ 2,550		Asset	Balance sheet
Bank		£ 15,000	Asset	Balance sheet
Purchases	£ 64,000		Expenses (Cost of sales)	Income statement
Accounts receivable	£ 31,050		Liability	Balance sheet
Accounts payable		£ 22,000	Liability	Balance sheet
Sales		£ 75,000	Income	Income statement
Electricity	£ 800		Expense	Income statement
Salaries	£ 4,200		Expense	Income statement
Insurance	£ 1,500		Expense	Income statement
Drawings	£ 4,000		Equity	Balance sheet
Rent	£ 3,000		Expense	Income statement
Utilities	£ 900		Expense	Income statement
	£ 112,000	**£ 112,000**		

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Prepare final accounts for sole traders, partnerships, or limited companies in accordance with appropriate principles, conventions, and standards

Prepare final accounts from the given trial balance (P2)

Final accounts from the previous trial balance

Reef Supermarket Income statement As of 30th April 2021	
Revenue	£ 75,000
Purchases	£ 64,000
Gross profit	£ 11,000
Operating expenses	
Electricity	£ 800
Salaries	£ 4,200
Insurance	£ 1,500
Rent	£ 3,000
Utilities	£ 900
	£ 10,400
Operating profit (loss)	**£ 600**

Reef Supermarket	
Balance sheet	
As of 30th April 2021	
ASSETS	
Current assets	
Cash	£ 2,550
Bank	£ 15,000
Accounts receivable	£ 31,050

Total current assets	£ 48,600
Non-current assets	
Equipment	£ 14,000
Vehicles	£ 32,400
Total non-current assets	£ 46,400
Total assets	£ 95,000
LIABILITIES	
Current liabilities	
Accounts payable	£ 22,000
Total current liabilities	£ 22,000
Non-current liabilities	
Long-term loan	£ 46,000
Total non-current liabilities	£ 46,000
Total liabilities	£ 68,000
EQUITY	
Owner's capital	£ 31,000
Less: Drawings	£ 4,000
Total equity	£ 27,000
Liabilities and equity	£ 95,000

Note: Some of the figures in the balance sheet are not part of the ledger because they are not part of the monthly transactions. Regardless, the balance sheet requires them and this is the reason why they are there.

Reef Supermarket		
Cash flow statement		
As of 30th April 2021		
Cash flows from operating activities		
Net income	£ 600	
Increase in accounts receivable	£ (31,050)	

Increase in accounts payable	£ 22,000	
	£ (64,000)	
Decrease in inventory	£ 75,000	
	£ 2,550	
Cash flow from investing activities	£ -	
Cash flow from financing activities	£ -	
Change in cash	£ 2,550	
Beginning cash	£ -	
Ending cash	**£ 2,550**	

Produce final accounts for a range of examples that include sole traders, partnerships, and limited companies. (P4)

The final accounts of the business vary depending on the legal structure of the same. For example, a sole trader's financial statements may not include taxes because the sole proprietor's income is taxed as personal income. Alternatively, the income of the limited company is subject to corporate tax. This section illustrates the final accounts of a sole trader and a limited company. These accounts are different from those in the previous example because they require additional information. However, the previous accounts from Reese Supermarket can also serve as sole trader's accounts.

Final accounts of a sole trader

Higgs Plumbing	
Income statement	
As of 30th June 2021	
Revenue	£ 85,000
Purchases	£ 65,000
Gross profit	£ 20,000
Operating expenses	
Electricity	£ 800

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Salaries	£ 4,200
Promotions	£ 600
Insurance	£ 1,500
Depreciation	£ 2,000
Repairs	£ 200
Rent	£ 3,000
Utilities	£ 900
Web hosting	£ 10
	£ 13,210
Operating profit (loss)	£ 6,790
Interest payment	£ 1,200
Net profit	£ 5,590

Higgs Plumbing	
Balance sheet	
As of 30th June 2021	
ASSETS	
Current assets	
Cash	£ 43,490
Bank	£ 15,000
Accounts receivable	£ 25,000
Total current assets	£ 83,490
Non-current assets	
Equipment	£ 26,000
Vehicles	£ 24,000
Total non-current assets	£ 50,000
Total assets	**£ 133,490**

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LIABILITIES	
Current liabilities	
Accounts payable	£ 28,000
Total current liabilities	£ 28,000
Non-current liabilities	
Long-term loan	£ 74,136
Total non-current liabilities	£ 74,136
Total liabilities	**£ 102,136**
EQUITY	
Owner's capital	£ 31,000
Less: Drawings	£ (3,000)
Add: retained earnings	£ 3,354
Total equity	**£ 31,354**
Liabilities and equity	£ 133,490
Note: Assumption that the sole trader retained 60% of the net profits	

Higgs Plumbing	
Cash flow statement	
As of 30th June 2021	
Cash flows from operating activities	
Net income	£ 5,590
Increase in accounts receivable	£ (13,000)
Increase in accounts payable	£ 8,000
Decrease in inventory	£ 45,000
	£ 45,590
Cash flow from investing activities	£ -
Cash flow from financing activities	

Principle payment	£ (3,500)
Interest payment	£ (1,200)
	£ (4,700)
Change in cash	£ 40,890
Beginning cash	£ 2,600
Ending cash	**£ 43,490**

Final accounts of a limited company

If Higgs Plumbing were a limited company, then its income statement would include a provision for taxes because, unlike a sole proprietorship, the taxes of the limited company are separate from those of the owners. Using the same accounts, these changes are displayed below:

Higgs Plumbing	
Income statement	
As of 30th June 2021	
Revenue	£ 85,000
Purchases	£ 65,000
Gross profit	£ 20,000
Operating expenses	
Electricity	£ 800
Salaries	£ 4,200
Promotions	£ 600
Insurance	£ 1,500
Depreciation	£ 2,000
Repairs	£ 200
Rent	£ 3,000
Utilities	£ 900

Web hosting	£ 10
	£ 13,210
Operating profit (loss)	£ 6,790
Interest payment	£ 1,200
	£ 5,590
Taxes 21%	£ 1,174
Net profit	**£ 4,416**

Higgs Plumbing	
Balance sheet	
As of 30th June 2021	
ASSETS	
Current assets	
Cash	£ 47,552
Bank	£ 15,000
Accounts receivable	£ 25,000
Total current assets	£ 87,552
Non-current assets	
Equipment	£ 26,000
Vehicles	£ 24,000
Total non-current assets	£ 50,000
Total assets	**£ 137,552**
LIABILITIES	
Current liabilities	
Accounts payable	£ 28,000
Total current liabilities	£ 28,000
Non-current liabilities	

Long-term loan	£ 74,136
Total non-current liabilities	£ 74,136
Total liabilities	**£ 102,136**
EQUITY	
Owner's equity	£ 31,000
Add: retained earnings	£ 4,416
Total equity	**£ 35,416**
Liabilities and equity	£ 137,552

Make adjustments to balance of sum accounts, such as accruals, depreciation, and prepayments, before preparing the final accounts. (M2)

Reef Supermarket		
Adjusted income statement		
As of 30th April 2021		
Revenue	£	75,000
Adjustment: Bad debt provision	£	300
	£	74,700
Purchases	£	64,000
Gross profit	£	11,000
Operating expenses		
Electricity	£	800
Salaries	£	4,200
Insurance	£	1,500
Adjustment: Depreciation	£	200
Rent	£	3,000
Utilities	£	900
	£	10,600
Operating profit (loss)	**£**	**400**

Reef Supermarket		
Adjusted balance sheet		
As of 30th April 2021		
ASSETS		
Current assets		
Cash	£	2,550
Adjustment: Bad debt provision	£	300
Bank	£	15,000
Accounts receivable	£	31,050
Total current assets	**£**	**48,300**
Non-current assets		
Equipment	£	14,000
Less: Depreciation	£	100
Vehicles	£	32,400
Less: Depreciation	£	100
Total non-current assets	£	46,200
Total assets	**£**	**94,500**
LIABILITIES		
Current liabilities		
Accounts payable	£	22,000
Total current liabilities	£	22,000
Non-current liabilities		
Long-term loan	£	46,000
Adjustment: Principle reduction	£	8,500
Total non-current liabilities	£	37,500
Total liabilities	**£**	**59,500**

EQUITY		
Owner's capital	£	31,000
Less: Drawings	£	4,000
Total equity	**£**	**35,000**
Liabilities and equity	£	94,500

Reef Supermarket		
Adjusted cash flow statement		
As of 30th April 2021		
Cash flows from operating activities		
Net income	£	400
Increase in accounts receivable	£	(31,050)
Adjustments:		
Depreciation	£	200
Increase in accounts payable	£	22,000
	£	(64,000)
Decrease in inventory	£	75,000
	£	**2,550**
Cash flow from investing activities	£	-
Cash flow from financing activities	£	-
Change in cash		
Beginning cash	£	-
Ending cash	**£**	**2,550**

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Compare the essential features of each financial account statement to analyse the differences between them in terms of purpose, structure, and content. (D2)

To assess the overall financial performance of the firm, four primary financial statements are available for review. These financial statements include the income statement, the balance sheet, and the statement of cash flows (McLaneyand Atrill, 2016). Each statement presents different information and serves a different purpose, as well as having a unique structure. The statement below discusses each financial statement and the differences between these statements.

The balance sheet

Description: A balance sheet provides a summary of the financial position of a business over a predetermined period. Businesses may prepare financial statements on a monthly, quarterly, or annual basis.

Purpose of the balance sheet: The balance sheet is supposed to show the firm's financial position. The financial position that the balance sheet shows includes the liquidity of the business (with current assets and current liabilities). The balance sheet also aims to show the long-term solvency of the business based on the long-term assets of the business's liabilities. Furthermore, the balance sheet also shows the leverage position of the firm by showing the relationship between its debt and assets, as well as its debt and equity. Creditors use leverage information to evaluate the risk of the business. For example, a business whose debt to asset ratio is more than one is very risky. It means that the business's total assets are already used as collateral, and new creditors may not have access to sufficient collateral. Likewise, investors use the leveraged information to explore the potential of the business. For example, investors might find a company with a very high debt to equity ratio undesirable because the creditors have priority claims over the shareholders of the business in case the business fails (Drury, 2013; McNeal, 2016).

Data from the balance sheet:

Assets: The items that add value to the business that the owners use in operations to create value (Weygandt et al., 2019). Assets include current and non-current assets. Current assets are short-term, and while non-current assets are long-term. . Examples of current assets include cash, inventory, accounts receivable, and notes

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receivable, to mention a few. Non-current assets may include equipment, vehicles, and premises, among others.

Liabilities: Liabilities are the obligations of the business. Like assets, liabilities include both short-term obligations that are current liabilities and long-term obligations that are non-current liabilities. Examples of current liabilities include accounts payable and notes payable, among others. Long-term liabilities may include items such as long-term loans, which the firm has to pay in a period of five or more years.

Equity: Equity describes the ownership value of the owners who are shareholders in the case of companies. In the case of partnerships, the owners are the partners, and under a sole proprietorship, the owner is the sole proprietor. Depending on the type of business, the equity section of the balance sheet may include drawings, retained earnings, and shares that the firm sells.

Structure of the balance sheet: The business's balance sheet is often organised with assets on top, liabilities in the middle, and equity at the bottom (Table 1). This structure reflects the accounting rule that the sum of total assets is equal to the total sum of liabilities and owners' equity.

Table 1: Balance sheet structure

Item	Figure
ASSETS	
Current assets	
Cash	
Bank	
Accounts receivable	
Total current assets	
Non-current assets	
Equipment	
Vehicles	
Total non-current assets	

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Total assets	

LIABILITIES	
Current liabilities	
Accounts payable	
Total current liabilities	

Non-current liabilities	
Long-term loan	
Total non-current liabilities	
Total liabilities	

EQUITY	
Owner's equity	
Add: retained earnings	

Liabilities and equity	

Income statements

Description: The income statement shows the net earnings of a business.

Purpose of the income statement

The income statement is designed to show the revenue, costs, and net profit of the business. Businesses use this information to examine the growth and determine whether the industry they operate is still profitable enough to continue.

Information from the income statement

The income statement reports the revenue of the firm. The revenue includes all of the earnings from the

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operating activities of the business. It is essential to deduct returned items and discounts from the calculations of revenue.

The income statements also report on the direct costs of generating revenue. This is usually reported under the cost of sales to derive the gross profit.

The income statement reports the difference between the sales and the cost of sales. This figure is the gross profit.

The income statement also reports on the operating expenses of the firm. Noteworthy, operating expenses are different from the cost of sales because usually, they are not direct to the product or service. For example, a supermarket may sell a cup for £30. If the supermarkets bought this cup for £20, then that £20 is the cost of sales, assuming there are no other costs that are directly attributable to the cup. However, if the supermarket pays rent, that rent is not a direct cost, so it is an operating expense.

After reporting the operating expenses, the income statement shows the operating profit of the business. The operating profit is the difference between the gross profit and the operating expense of the business.

The income statement also shows other items such as the interest and tax expenses of the firm that are not categorised under operating expenses.

If a business has used any debt, then it may have to pay interest on that loan. The business will have to deduct that interest expense from the operating profit. Furthermore, the business has to pay taxes if it is profitable. The tax expense is also deducted from the operating profit of the firm. After deducting these final expenses, the income statement shows the net profit. The net profit of the firm is attributable to the owners.

Structure of the income statement

The income statement begins with the revenue of the business. Below the revenue is the cost of sales, followed by the gross profit, as Table 1 illustrates. The operating expenses come after the gross profit, and the operating profit follows the operating expenses. After the operating profit, are the interest and tax expenses, and finally, the income statement concludes with a net profit or net loss figure.

Table 1: Structure of an income statement

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Item	Figure
Revenue	
Less: Purchases	
Gross profit	

Sample operating expenses	
Electricity	
Salaries	
Promotions	
Insurance	
Depreciation	
Repairs	
Rent	
Utilities	
Web hosting	
Sum: Total operating expenses	
Operating profit (loss) (Gross profit- total operating expenses.	
Less: Interest payment	
Less: Taxes	
Net profit	

Statement of cash flows

The statement of cash flows illustrates how the cash of the business flows into and out of business. In other words, the cash flow statement records how the firm disburses its cash and how it earns the same. The cash flow statement includes three primary sections: operating, investing, and financing.

Purpose of the cash flow statement

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The purpose of the cash flow statement is to show and explain the changes in the retained earnings of the firm in the period between the previous balance sheet date and the incumbent balance sheet date. The cash flow statement is important because cash is a fundamental requirement for businesses. Cash facilitates the liquidity of the firm on which long-term continuity is contingent. Furthermore, evaluating the firm's cash flows could facilitate strategic planning and budgeting (Seru and Sufi, 2020).

Data from the income statement

Cash flow from operating activities describes the cash that the business spends and earns in the process of its operations. Table 2 below shows some of the cash transactions that fall under the cash from operating activities category.

Cash from financing activities is a section that describes cash from financing expenses or income (Tirole, 2010). Cash flows from financing activities may include items such as a loan that brings cash into the business, principal payments, and interest payments.

Cash from investing activities shows the cash flows that arose from the investing activities of the firm. For example, if the business invests in treasury bills, then this cash flow falls under investing activities. This section also includes cash flows that a firm spends to buy assets such as land and equipment (Stice and Stice, 2013).

Structure of the cash flow statement

Table 2 shows the common structure of the cash flow statement. The statement begins with cash flows from operating activities with the aim of reporting on net changes in cash.

Statement of Cash Flows	**Figure**
Cash flows from operating activities	
Profit / (Loss) before taxation	
Adjustments for:	
Depreciation	
Amortisation	

Investment income	
Interest expense	
Profit / (Loss) on the sale of property, plant & equipment	
Profit / (Loss) on the sale of intangible assets	
Movement in reserves	
Working capital changes:	
(Increase) / Decrease in trade and other receivables	
(Increase) / (Decrease) in inventories	
Increase / (Decrease) in trade and other payables	
Cash generated from operations	
Interest paid	
Income taxes paid	
Dividends paid	
Net cash from operating activities	
Cash flows from investing activities	
Business acquisitions, net of cash acquired	
Purchase of property, plant, and equipment	
Purchase of intangible assets	
Proceeds from the sale of equipment	
Proceeds from the sale of intangibles	
Acquisition of investments	
Investment income	
Net cash used in investing activities	
Cash flows from financing activities	
Proceeds from issue of share capital	

Proceeds from long-term borrowings	
Payment of long-term borrowings	
Net cash used in financing activities	
Net increase in cash and cash equivalents	
Cash and cash equivalents at beginning of the period	
Cash and cash equivalents at end of the period	

The differences between the financial statements are demonstrable in their purposes, structure, and information, as the discussion above illustrates. However, despite these differences, the financial statements have a point of convergence in ratio analysis. Some ratios require the amalgamation of data from different statements. For example, the return on assets ratio and the asset turnover ratio combine figures from the income statement and the balance sheet to analyse the firm's financial performance. The return on assets figure combines the net income (income statement) with the asset figure (balance sheet), and the asset turnover ratio combines the revenue (income statement) with the assets (balance sheet).

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Perform bank reconciliations to ensure company and bank records are correct

Apply the bank reconciliation process to prepare several bank reconciliations. (P 5)

Bank reconciliation refers to the process of evaluating the bank statements of the business to match them to the records of the business. The goal is to ensure that all of the transactions that the business has recorded as having gone through the bank account are identical to the firm's book. For example, if the business paid £600 to a supplier on a given date through the bank, then the figure should reflect that; 1. That amount was disbursed to the supplier. 2. That is was disbursed to the right supplier and 3. That the bank disbursement figure matches the figure that the firm recorded in its account. So, if the payment was made on 5th January to ABC Company for the supply of goods, then the bank statement should show that the business disbursed £600 to ABC on that very date.

Bank reconciliations should not be limited to the business's bank accounts (Graham, Adam, & Gunasingham, 2020). The perception that bank reconciliation is limited to the bank is rooted in older practices where businesses conducted all of their transactions either by cash or bank. However, there is a multitude of alternative transaction platforms in the 21st century that businesses should also reconcile. For example, a business may have alternative payments like Apple Pay, PayPal, credit cards, and Google Pay, to mention a few. It is important to vary transaction platforms to facilitate convenience for all of the transacting stakeholders (Deepak and Jeyakumar, 2020; Park, 2020). Accordingly, businesses are likely to accommodate the inconvenience of multiple platforms.

How bank reconciliation is done

The gist of bank reconciliation is to compare the business' transactions with its bank statements, regarding transactions that it performed with the bank as an intermediary (Clarke and Wilson, 2019). However, the process of bank reconciliation is more detailed than this.

The first stage of performing a bank reconciliation is evaluating the business's accounting books to estimate how much money should be in the bank. For example, the business might have received sales revenue worth £8,000 through the bank for a given month, according to its leger. Therefore, the business owner expects the

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bank balance to be £8,000 higher, assuming that they did not withdraw any money and the bank did not deduct any fees.

The business owner will then check their bank statement to see how much money entered their account during that period. If the business owner finds more or less money than is in their accounting books, they will identify the source of the discrepancies before performing a bank reconciliation. For example, if the owner finds that the bank balance is £200 less than the balance in their ledger, they may assess the ledger to identify which entries there are not reflected in the bank statement. If the bank balance is £300 higher than the ledger implies it should be, then the business owner could compare the bank statement with the ledger to identify items that occur in the bank statement but are not reflected in the ledger.

After identifying the causes of the mismatch between the accounting books and the bank statement, the business owner or their accountant follows up on the differences. After resolving the differences, the accountant or business owner will reconcile the figures in the accounting books.

Why bank reconciliation is necessary

Businesses use bank statements to get a more realistic picture of financial wellbeing. Bank reconciliation enables the business owner to understand the financial position of the business. When a business owner evaluates their accounting books, they will understand whether the books reflect the financial reality of the business. Otherwise, the business owner could spend more money than they have if their accounts are misaligned. A business owner may believe that they have £70,000 in the bank because a client who has a history of paying on time is supposed to pay that figure on Monday. If this business owner enters into an arrangement that requires them to pay £60,000 and they have not checked their bank account, they risk being unable to make that payment if that client fails to pay and may be filed for bankruptcy. Likewise, the business owner could end up hoarding money that they could otherwise be investing for returns. For example, the business owner might get the opportunity to purchase inputs at a highly discounted rate if they can pay in cash instead of credit. This business owner might underestimate their bank balance because they expect that they have not yet received that much money. Checking their bank balance might reveal that they indeed have the money probably because the bank has not processed it as payment to the intended supplier yet or some similar scenario. Reconciling the bank statement of the business might also expose some increments of bank charges that affect the business's monthly budget in a manner that is substantial enough to affect its operations.

Businesses use bank reconciliation to track their cash flow. The liquidity of a business is fundamental to its long-term survival. Accordingly, monitoring and managing the cash flows of the business is a determinant of business success. Therefore, the business needs to understand how much cash it has in the bank and on hand. A business that heavily relies on cash, such as a casino, must be keen on cash management. The same goes for supermarket businesses, especially those which do not exclusively rely on digital payment methods. Likewise, businesses that deal with suppliers with a rigid payables period must be keen on managing their cash. This ensures that businesses retain sufficient cash either on hand or at the bank to meet their daily, weekly, or monthly obligations.

Businesses use bank reconciliation to detect fraud. Reconciling bank statements exposes discrepancies between the bank statements of the firm and it (Christensen, Cottrell and Budd, 2016). These discrepancies cause the business owner to investigate the cause of the discrepancies. If there has been any fraud, then the business owner will detect it. For example, an employee may claim that they deposited the cash of the business on a given date, but they did not. A bank reconciliation shall reveal that they did not deposit it. The same applies to instances where a debtor may claim that they paid the business when they did not. Similarly, a supplier may deny having received a payment, but the bank statements will reveal that they received the payment, how much they received, and when they received it.

Businesses use bank statements to identify bank errors. Banks are not fail-proof. Accordingly, there is a risk that the bank may record the transactions of the business inaccurately. The inaccuracy has multiple implications for the business. For example, suppose a bank fails to send a creditor their payment over a long period, and they discover this later. In that case, it could damage the relationship between the business and the creditors. If the bank fails to make interest payments on behalf of the client (assuming that they put them understanding order payments), the business could face penalties. Reconciling bank statements enables the

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business to identify these errors early enough to address them without causing extensively high costs for the clients.

Who would be interested in the outcomes of a bank reconciliation?

The business itself owner will be interested in the outcomes of bank reconciliation. This way, the business owner learns about the financial health of their business, their financial strengths and weaknesses, as well as possible fraud, among other issues.

The transaction partners of the business would also be interested in the outcomes of bank reconciliation. For example, the business suppliers may be interested in the bank reconciliation outcomes to prove that they received a given amount of money. This is especially true if the business books imply that they paid a different amount than what the supplier received. If the ledger shows that XB Corp. received £40,000 for their products in March, but those of XB show that the business has not yet paid any money at all, then XB will be interested in proving that it did not receive the money as mentioned above. Likewise, a debtor may claim that they paid all or part of their obligations, but the business books show that they have never paid. A bank reconciliation should settle this dispute, especially if the debtor claims to have made the payment through the bank. Discrepancies in employee salaries could also be settled by reviewing the bank statements of the business.

Auditors might also be interested in the bank reconciliation outcomes of the business. If the business is being audited before its sale or for tax purposes, auditors might be interested in learning whether the figures in the ledger match those in the bank. For example, a business might claim that it has paid more interest than it did in its accounting books. Interest is tax-deductible. If the tax authority is auditing the claims of the business, they might be interested in reconciling the books of the firm with its banks. Similarly, an auditor may examine bank statements to ensure that bank figures match those in the books. These figures may be crucial for business valuation. The auditor would be able to clarify whether there are no discrepancies that might misrepresent the actual value of the business to the potential buyers.

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Apply the reconciliation process demonstrating the use of deposit in transit, outstanding checks, and NSF check. (M 3)

A deposit in transit is a transaction that has been recorded by the company's accountant but not yet processed by the bank (Lessambo, 2018). Alternatively, outstanding checks are payments that have been written but have not yet been cashed by the payee. Lastly, not insufficient funds (NSFs) occur when the bank does not honour a check because of insufficient funds in the account. All of these three elements may cause discordance between the accounts of the business and its bank statements.

Prepare accurate bank reconciliations that apply appropriate tools and techniques to check general accounts and balance sheets. (D3)

Ending balance according to the bank statement	£ 12,000	Ending balance according to the company records	£ 12,450
Addition: Deposits in transit	£ 900	Deduction: NSF checks	£ 250
Deduction: Outstanding checks	£ 200		
Corrected cash balance	**£ 12,700**	**Corrected cash balance**	**£ 12,700**

Reconcile control accounts and shift recorded transactions from the suspense accounts to the right accounts.

Explain the process taken to reconcile control accounts and clear suspense accounts using given account examples. (P 6)

A control account summarises the transactions from other accounts. For example, the business might have recorded transactions from several debtors under their personal or business names. Likewise, the business may have sold goods on credit to MH Enterprises, another credit sale to JH Company, and several other similar transactions. All of these occurrences have individual entries in the ledger. A control account simply places them all under debtors and then records the final balance from this account as table 3 illustrates. The firm may then compare the figure in the control account with the figures in the ledger.

How control accounts are used and why they are used

Control accounts enable businesses to reduce clutter in the trial balance. Less clutter improves the chances of comprehension because the reader can peruse the information more conveniently. Control accounts are used to summarise entries from the general ledger. Individual accounts from the general ledger are lower-level entries that would be a crowd out the final accounts. Accordingly, businesses use the control accounts to summarise all of the lower level entries into the specific account under which they fall. For example, the company would place all of its credit purchases from the ledger under accounts payable as Table 3 shows. Still, the total amount from the creditors should match that in the control account.

Since the control account figure must match the amount from the subsidiary ledger entries, control accounts are useful in locating errors. A business can identify where it made a mistake if there is an imbalance between the control account and the subsidiary ledger entries.

Control accounts also facilitate fraud prevention. This property is especially useful for businesses where the person who is in charge of journal entries and the one who is in charge of the control accounts are different. This ensures that the individual who is in charge of the control accounts can identify discrepancies and trace them back to their source for more in-depth analysis. If there has been any fraud, the use of control accounts will expose it.

The control accounts are also of critical importance in the reconciliation of transactions. These accounts allow business owners to identify areas of discrepancy which must be resolved to achieve successful reconciliation.

Suspense accounts and how they differ from control accounts

A suspense account contains transactions where there is some relative ambiguity or when the transaction is incomplete. Bookkeepers and accounts eventually transfer these transactions to their respective accounts after resolving the issues which caused them to be in the suspense account. A suspense account is different from a control account based on its purpose. Unlike suspense accounts, control accounts are designed to summarise transactions. However, a suspense account can be useful in reconciling a control account. For example, the sum of figures in the payables ledger might not match the sum in the payables control account because one of the credit purchases is still in the suspense account. Upon resolving the purchases, they can be transferred from the suspense account to their respective accounts, and this figure can be used to reconcile the control account.

Demonstrate understanding of the different types of accounts and how and why they are reconciled. (M 4)

The type of account that might need reconciliation varies. A business may have a payables control account, a receivables control account, and an inventory control account, to mention a few. Each of these accounts has specific transactions in the ledger that can be summarised with a control account. All accounts from credit sales will go under debtors, and all accounts from credit purchases will go under creditors in control accounting.

After summarising the accounts from the general ledger, reconciliation is necessary if there is a mismatch between the total sum of the ledger figures and the control account figure. For example, if the sum of debtors is £28,000 in the general ledger, but it is £26,000 in the debtors' control account, reconciliation is necessary to bridge the £2,000 difference.

Reconciliation is performed by assessing the figures in the general ledger to identify any errors or occurrences that might explain why the figures in the general ledger do not match the figures in the control account. When the accountant finds the errors, they address them and then rerecord the figures to ensure that the ledger sums are identical to those in the control accounts. The next subsection discusses the reconciliation process in greater detail.

Produce accurate accounts that have been reconciled applying the appropriate methods. (D 4)

The data in this section is based on the assumption that there were the following errors in data entry that caused the discrepancies:

Table 3: Reconciled control account

Date April	Debtor	Error	Amount
16	Formulaic	Paid and recorded in debtors book but not in control account	£ 500
27	Castor Traders	Sales entered in sales account but not debtor's account	£ 1,500
8	Tusker Retail	10% discount for Tusker Retail not recorded	£ 450
22	Ross Retail	A's sale does not appear in the debtor's account but in the control account	£ 1,000

The following table illustrates the receivables ledger control account after the reconciliation:

Accounts receivable control account			
Debit		Credit	
Balance	£31,450	Payment by debtor	£ 500
Credit	£ 1,500	Discount	£ 450
		Balance c/f	£ 32,000
	£32,950		£ 32,950

Table 2 below illustrates the reconciliation of individual balances to match the control account balance.

Reconciliation of individual balances	
	DR
Debit	
Balance as extracted	£31,450
Discount	-£ 450
Sale	£ 1,000
Total	**£32,000**

Conclusion

Accounting remains of critical importance to the continuity and performance of organisations. This report has discussed accounting basics, such as the double entry method and the balance of rule. The report has also provided some examples of the accounting methods and rules that were used. Additionally, the report also discusses financial statements. The critical financial statements were the income statement, balance sheet, and cash flow statement in this report. However, other financial statements exist, such as the statement of changes in equity. Owing to circumstances such as outstanding checks, there may be discrepancies between the figures in the business books and those on the bank statement. Bank reconciliation attempts to address this issue. Regarding issue of internal inconsistencies, control account reconciliation is one of the solutions.

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