

## 19.1 A drill to practise the treatment of opening and closing stock in Cost of Sales

### Business 1

At the start of a period, the opening balance sheet of Business 1 is as shown below:

19.1 BUSINESS 1 opening balance sheet	
Assets	
Stock	120
Trade Debtors	100
Bank	150
	<u>370</u>
Liabilities	
Trade Creditors	60
Loan	130
	<u>( 190)</u>
Net Assets	<u>£ 180</u>
Capital	<u>£ 180</u>

Put the opening balances on to the relevant accounts and record the following transactions:

1. business buys goods for £700 on credit
2. business sells goods on credit for £900
3. business receives cheque value £750 from trade debtor.

Balance the accounts at the end of the period and produce a P&L Account for the period and a balance sheet as at the end of the period.

NOTE: at the end of the period, Business 1's closing stock is valued at £160.

### Response

Stock	
b/f	120
to P&L	120
from P&L	160

Trade Debtors	
b/f	100
(2)	900
	<u>1 000</u>
b/f	250
(3)	750
c/f	250
	<u>1 000</u>

Bank	
b/f	150
(3)	750
	<u>900</u>
b/f	900
c/f	900

Trade Creditors	
c/f	760
	<u>760</u>
b/f	60
(1)	700
	<u>760</u>
b/f	760

Loan	
b/f	130

Capital	
c/f	420
	<u>420</u>
b/f	180
profit	240
	<u>420</u>
b/f	420

Purchases	
(1)	700
to P&L	700

Sales	
to P&L	900
(2)	900

P&L Account	
Purchases	700
opening stock	120
c/f	240
	<u>1 060</u>
to Capital	240
Sales	900
closing stock	160
	<u>1 060</u>
b/f profit	240

19.1 BUSINESS 1 closing balance sheet	
Assets	
Stock	160
Trade Debtors	250
Bank	900
	<u>1 310</u>
Liabilities	
Trade Creditors	760
Loan	130
	<u>( 890)</u>
Net Assets	<u>£ 420</u>
Capital	<u>£ 420</u>

## Business 2

At the start of a period, the opening balance sheet of Business 2 is as shown below:

19.1 BUSINESS 2 opening balance sheet	
Assets	
Stock	250
Trade Debtors	420
Cash	130
	<u>800</u>
Liabilities	
Trade Creditors	200
Loan	500
	<u>( 700)</u>
Net Assets	<u>£ 100</u>
Capital	<u>£ 100</u>

Put the opening balances on to the relevant accounts and record the following transactions:

1. business sells goods for £200 on credit
2. business buys goods on credit for £600
3. business pays supplier £700 by cheque
4. business receives cheque for £620 from customer.

Balance the accounts at the end of the period and produce a P&L Account for the period and a balance sheet as at the end of the period.

NOTE: at the end of the period, Business 2's closing stock is valued at £200.

## Response

Stock	
b/f	250
	<u>250</u>
to P&L	250
from P&L	200
	<u>200</u>

Trade Debtors	
b/f	420
(1)	200
	<u>620</u>
(4)	620
	<u>620</u>

Cash (including Bank)	
b/f	130
(4)	620
	<u>750</u>
b/f	50
(3)	700
c/f	50
	<u>750</u>

Trade Creditors	
(3)	700
c/f	100
	<u>800</u>
b/f	200
(2)	600
	<u>800</u>
b/f	100

Loan	
	b/f
	500

Capital	
loss from P&L	450
	<u>450</u>
b/f	350
	<u>350</u>
b/f	100
c/f	350
	<u>450</u>

Sales	
to P&L	200
	<u>200</u>
(1)	200
	<u>200</u>

Purchases	
(2)	600
	<u>600</u>
	to P&L
	<u>600</u>

P&L Account	
Purchases	600
opening stock	250
	<u>850</u>
b/f loss	450
	<u>450</u>
Sales	200
closing stock	200
c/f	450
	<u>850</u>
	to Capital
	<u>450</u>

19.1 BUSINESS 2 closing balance sheet	
Assets	
Stock	200
Cash and Bank	50
	<u>250</u>
Liabilities	
Trade Creditors	100
Loan	500
	<u>( 600)</u>
Net Assets	<u>£(350)</u>
Capital	<u>£(350)</u>

### NOTICE

1. how the accounts for Bank and Cash have been combined
2. how the loss incurred by this firm is large enough to wipe out the owner's entire investment and end with negative capital (where the firm will have a claim on the owner)