

# Accounting

One of the most demanding aspects of A-level Accounting is the need to become familiar with Financial Statements, which you shall through the course be preparing and interpreting:

The two key Financial Statements that you shall be preparing are:

- 1) The Income Statement;
- 2) The Statement of Financial Position (used to be called the balance sheet);



Watching the first video tutorial on the Income Statement; complete the following:

Video tutorial at: <https://www.youtube.com/watch?v=or3bOLtAV4s>

- 1) Describe briefly what an Income Statement shows;
- 2) Set out the basic structure of an Income Statement;
- 3) Identify how the Income Statement would assist a business in measuring two important measures of profitability; namely the Gross Profit margin, and the Operating Profit margin.

Watching the second video tutorial on the Balance sheet (now the Statement of Financial Position); complete the following:

Video tutorial at: <https://www.youtube.com/watch?v=Syu2sKv05rQ>

- 1) Describe briefly what a Balance sheet / Statement of Financial Position shows;
- 2) Set out the key categories of items within the Balance sheet/ Statement of Financial Position;
- 3) What is the difference between an “asset” and a “liability”?
- 4) Which assets are “current assets”?
- 5) Which assets are “current liabilities”?
- 6) What distinguishes a “current” asset/liability, from a “non-current” asset/liability;
- 7) What method of accounting is mentioned which is used by accountants and means that the Statement of Financial Position balances?

Explain (some of these you will obtain from the video-tutorial, others will require further research):

- 1) What is meant by a “Non-current asset”;
- 2) What is meant by “Depreciation”;
- 3) What is meant by “trade receivables”;
- 4) What is meant by “trade creditors”.

You can, when you visit any UK PLC’s website (Public Limited Companies e.g Greggs, Tesco, Natwest, Barclays, GKN, Next, Easyjet) find their “Annual Report” with their latest Financial Statements within them. These are often found in the “Investors” section of their website, although you will find them if you Google “Tesco’s latest Annual report” etc.

These will be much more complicated than those which you shall prepare. However, from the above work, you will be familiar with some items within their Financial Statements already. The Chairman's/ Chief Executive Officer's and Financial Directors reports will also shed some light on reasons for changes between the last reported year (most likely a year ending in 2019) and the previous year (the previous year is always included alongside in the latest year). These may include changes in the External environment (e.g Political or Economic changes), or Strategic Changes that the business has undertaken.

Choose a UK PLC, have a look at their Annual report and have a go at the following:

- 1) Identify 5 items that have changed in the most recently reported year compared to the previous year, in each of the Income Statement and the Statement of Financial Position;
- 2) Describe the changes e.g "Sales Revenue has increased by £350million over the last year to 30 October 2019" to £1.2 billion" or "Operating Profit has fallen by £0.6 million over the 12 months to 31<sup>st</sup> December 2019 to £702.8 million)
- 3) Explain, from perusal of the Chairman's / Chief Executive Officer's/Financial Director's reports likely reasons for the changes. Note that some changes will be related, so for example, if a business experiences higher levels of sales in its Income Statement, then it may well have a higher amount of "trade receivables" in its Statement of Financial Position. Explain these inter-relationships where you can.
- 4) Write your findings in a mini-report highlighting some key changes in the Financial Position and Performance of the business and provide summarised explanations for them.
- 5) You may want to go beyond the Annual report in explaining the reasons, you may want to research further some of the issues comprised within the Chairman's/ Chief Executive Officer's/Financial Director's report by looking at news articles and press releases online.