

# AAT Essentials

## Finance for non-financial managers

Course notes and activities

**Venue: Live Online**

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# Session 1

## Activity 1

From the list of assets below indicate with a tick whether they would be classified as non-current or current. Try to add at least one further asset to the list and decide whether you would classify it as non-current or current.

<b>Assets</b>	<b>Non-current</b>	<b>Current</b>
Land		
Cash		
Buildings		
Inventory		
Equipment		
Money in the bank current account		
Vehicles		
Furniture		

## Activity 2

From the list of liabilities below indicate with a tick whether they would be classified as non-current or current. Try to add at least one further liability to the list and decide whether you would classify it as non-current or current.

<b>Liabilities</b>	<b>Non-current</b>	<b>Current</b>
Loan repayable in five years' time		
Overdrawn amount at the bank		
Trade payables		
Tax owing		

### Activity 3

Indicate with a tick in which financial statement the items in the table below would be included:

Items	Statement of profit or loss	Statement of financial position
Land		
Income		
Wages		
Equity		
Trade receivables		
Insurance costs		
Motor vehicles		
Delivery expenses		
Cash and cash equivalents		
Trade payables		

## Session 2

Activities 4-6 are based on the following financial statements for Jammini plc:

Jammini plc Statement of profit or loss for the year ending 31 December		
	20X0 £'000	20X1 £'000
Revenue	9,150	10,100
Cost of sales	6,510	7,240
Gross profit	2,640	2,860
Distribution costs	300	340
Administration expenses	390	500
Profit from operations	1,950	2,020
Finance costs	220	190
Profit before tax	1,730	1,830
Tax expense	1,020	1,250
Profit for the year	710	580
Jammini plc Statement of financial position as at 31 December		
	20X0 £'000	20X1 £'000
<b>Non-current assets</b>		
Property, plant and equipment	3,600	3,400
<b>Current assets</b>		
Inventory	1,290	1,460
Trade and other receivables	1,540	1,630
Cash and cash equivalents	690	1,150
	3,520	4,240
<b>Total assets</b>	7,120	7,640
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital	2,000	2,000
Retained earnings	1,130	1,710
<b>Total equity</b>	3,130	3,710
<b>Non-current liabilities</b>	2,000	1,600
<b>Current liabilities</b>		
Trade and other payables	970	1,080
Tax liabilities	1,020	1,250
	1,990	2,330
<b>Total liabilities</b>	3,990	3,930
<b>Total equity and liabilities</b>	7,120	7,640

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## Activity 4

Using the statement of profit or loss and statement of financial position for Jammini Plc, calculate the following profitability ratios and comment on any change from 20X0:

- return on capital employed (ROCE)
- gross profit margin
- operating profit margin

### Return on capital employed:

$$\text{ROCE} = \frac{\text{Profit from operations}}{\text{Equity + non-current liabilities}} \times 100$$

**20X0:**

**20X1:**

**Comments on ROCE:**

### Gross profit margin:

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Revenue (sales)}} \times 100$$

**20X0:**

**20X1:**

**Comments on GP margin:**

**Operating profit margin:**

$$\text{Operating profit margin} = \frac{\text{Profit from operations}}{\text{Revenue (sales)}} \times 100$$

**20X0:**

**20X1:**

**Comments on OP margin:**

## Activity 5

Using the statement of profit or loss and statement of financial position for Jammini plc calculate the following liquidity ratios and comment on changes from 20X0:

- Current ratio
- Quick ratio

### Current ratio:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

**20X0:**

**20X1:**

**Comments on current ratio:**

### Quick ratio:

$$\text{Quick ratio} = \frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$$

**20X0:**

**20X1:**

**Comments on quick ratio:**

## Activity 6

Using the statement of profit or loss and statement of financial position for Jammini plc calculate the following efficiency ratios for 20X0 and 20X1 and provide comments on each of the three ratios:

- Non-current asset turnover.
- Inventory holding period.
- Trade receivables collection period.
- Trade payables payment period.

### Non-current asset turnover:

$$\text{Non-current asset turnover} = \frac{\text{Revenue (sales revenue)}}{\text{Carrying amount of non-current assets}}$$

**20X0:**

**20X1:**

**Comments on non-current asset turnover:**

### Inventory holding period:

$$\text{Inventory holding period} = \frac{\text{Inventory}}{\text{Cost of sales revenue}} \times 365$$





**20X0:**

**20X1:**

**Comments on inventory holding period:**

**Trade receivables collection period:**

$$\text{Trade receivables collection period} = \frac{\text{Trade receivables}}{\text{Revenue (sales revenue)}} \times 365$$

**20X0:**

**20X1:**

**Comments on trade receivables collection period:**

**Trade payables payment period:**

$$\text{Trade payables payment period} = \frac{\text{Trade payables}}{\text{Cost of sales}} \times 365$$



**20X0:**

**20X1:**

**Comments on trade payables payment period:**

### Activity 7

**Gearing ratio:**

$$\text{Gearing ratio} = \frac{\text{Non-current liabilities}}{\text{Capital employed}} \times 100$$

**20X0:**

**20X1:**

**Comments on gearing ratio:**

## Session 3

### Activity 8

#### Statement of profit or loss for the year ended...

	£	£
Sales		350,000
Opening inventory	23,800	
Purchases	225,000	
Closing inventory	(25,300)	
Cost of sales		(223,500)
Gross profit		126,500
Expenses		(59,200)
Operating profit		67,300

#### Further information:

- All sales and purchase are made on credit
- Cash received from customers - £343,700
- Cash paid to suppliers - £222,800
- Depreciation charge included in expenses - £14,500
- Non-current assets paid for in cash - £37,000
- The cash position at the beginning of the year was £14,000 overdrawn

Calculate the cash balance at the end of the year and explain the reasons for the difference between this figure and the profit recorded.

	£
Overdraft at start of the year	
Cash received from customers	
Cash paid to suppliers	
Expenses	
Payments for non-current assets	
Cash balance at the end of the year	

#### Comments:

## Activity 9

### Statement of profit or loss for the year ended...

	£	£
Sales		150,000
Opening inventory	9,400	
Purchases	76,000	
Closing inventory	(10,800)	
Cost of sales		(74,600)
Gross profit		75,400
Expenses		(52,300)
Operating profit		23,100

#### Further information:

- All sales and purchase are made on credit
- Cash received from customers: £127,300
- Cash paid to suppliers: £86,700
- Depreciation charge included in expenses: £7,200
- Non-current assets paid for in cash: £12,000
- The cash position at the beginning of the year was £3,000

Calculate the cash balance at the end of the year and explain the reasons for the difference between this figure and the profit recorded.

	£
Bank balance at start of the year	
Cash received from customers	
Cash paid to suppliers	
Expenses	
Payments for non-current assets	
Cash balance at the end of the year	

#### Comments:



## Activity 10

**Describe four common methods available for the purchase of non-current assets**


## Activity 11

Review the aged trade receivables analysis list below and the additional notes. For each debtor suggest actions to try to recover the monies owed.

Customer	Credit limit £	Total balance £	Current £	+1 month £	+2 months £	+3 months £	+4 months £	+5 months £	6 months or older £
Jones Ltd	10,000	7,000	4,000	2,500					500
Brink	5,000	6,000	0		3,000	1,500	1,500		
Smale	1,000	800	800						
Cragon	8,000	6,000	0	4,500	1,500				
Boom	2,000	1,100	800	200	100				
Fylde plc	25,000	35,000	25,000	10,000					
Total		55,900	30,600	17,200	4,600	1,500	1,500	0	500

### Notes:

Jones: Have been in dispute regarding the £500 owing from seven months ago. They say they returned the goods but we have no record of receiving the goods. Yesterday they provided courier references so this is being investigated.

Brink: Despite receiving promises of full payment when we have spoken over the telephone nothing has been received.

**Comments on Jones Ltd:**

**Comments on Brink:**

**Comments on Smale:**

**Comments on Cragon:**

**Comments on Boom:**

**Comments on Fylde plc:**

## Session 4

### Activity 12

Review the budget below and calculate the variances between the budgeted and actual figures and identify whether these are adverse or favourable.

	<b>Budget £</b>	<b>Actual £</b>	<b>Variance £</b>	<b>Adv/Fav</b>
Volume sold	4,000 units	4,200 units		
Sales revenue	160,000	168,000		
Less costs:				
Purchases	60,000	63,000		
Wages & salaries	32,000	36,600		
Expenses	31,200	32,700		
Profit	36,800	35,700		

### Activity 13

Review the variances calculated and identify possible causes and actions that may be taken.

**Comments on variances:**

## Activity 14

Review the departmental budget below. Calculate the difference between actual and budgeted amounts for period 1-10 cumulative and period 11 and make comments about the differences.

	<b>Periods 1-10 cumulative</b>	<b>Periods 1-10 cumulative</b>	<b>Period 11</b>	<b>Period 11</b>
	Budget £	Actual £	Budget £	Actual £
Sales revenue – retail	15,000	21,000	1,500	1,700
Sales revenue – wholesale	36,000	32,000	3,600	5,700
Salaries – permanent	23,000	19,000	2,300	2,100
Wages – temporary	4,000	7,000	400	600
Electricity	900	950	90	50
Current depreciation	1,200	1,300	120	130
Fuel	800	700	80	120
Stationery	750	900	75	100
Staff training	3,000	1,500	300	1,200
Printing	1,000	700	100	90
Marketing	1,500	2,500	150	200
Profit	14,850	18,450	1,485	2,810
Total income	51,000	53,000	5,100	7,400
Total expenses	36,150	34,550	3,615	4,590

### Sales revenue – retail

<b>Difference:</b>	<b>Period 1-10 £</b>	<b>Period 11 £</b>
<b>Comments:</b>		



### Sales revenue – wholesale

Difference:	Period 1-10 £	Period 11 £
Comments:		

### Salaries – permanent

Difference:	Period 1-10 £	Period 11 £
Comments:		

### Wages – temporary

Difference:	Period 1-10 £	Period 11 £
Comments:		

### Electricity

Difference:	Period 1-10 £	Period 11 £
Comments:		



**Current depreciation charge(s)**

<b>Difference:</b>	<b>Period 1-10</b>	<b>Period 11</b>
	£	£
<b>Comments:</b>		

**Fuel**

<b>Difference:</b>	<b>Period 1-10</b>	<b>Period 11</b>
	£	£
<b>Comments:</b>		

**Stationery**

<b>Difference:</b>	<b>Period 1-10</b>	<b>Period 11</b>
	£	£
<b>Comments:</b>		

**Staff training**

<b>Difference:</b>	<b>Period 1-10</b>	<b>Period 11</b>
	£	£
<b>Comments:</b>		

## Printing

Difference:	Period 1-10 £	Period 11 £
Comments:		

## Marketing

Difference:	Period 1-10 £	Period 11 £
Comments:		

## Profit

Difference:	Period 1-10 £	Period 11 £
Comments:		

## Total income

Difference:	Period 1-10 £	Period 11 £
Comments:		

**Total expenses**

<b>Difference:</b>	<b>Period 1-10</b> £	<b>Period 11</b> £
<b>Comments:</b>		

## Activity 15 – Extension task

Decide whether each variance is adverse or favourable and calculate the percentage variance against budget for each line.

The company investigates variances which are above 5% unless they are £200 or lower. Identify the variances which must be investigated.

Periods 1-11 cumulative	Budget £	Actual £	Variance £	Adverse or Favourable	Percentage Variance £	Requires investigation
Sales revenue – retail	16,500	22,700	6,200			
Sales revenue – wholesale	39,600	37,700	1,900			
Salaries – permanent	25,300	21,100	4,200			
Wages – temporary	4,400	7,600	3,200			
Electricity	990	1,000	10			
Current depreciation	1,320	1,430	110			
Fuel	880	820	60			
Stationery	825	1,000	175			
Staff training	3,300	2,700	600			
Printing	1,100	790	310			
Marketing	1,650	2,700	1050			
Profit	16,335	21,260	4925			
Total income	56,100	60,400	4,300			
Total expenses	39,765	39,140	625			

This table lists for your information key accounting terms used through the AAT Essentials short courses, and corresponding terms which can be alternatively be used in practice.

<b>Key accounting terms</b>	<b>Sometimes referred to as</b>
Aged trade payables analysis	Aged creditor analysis
Aged trade receivables analysis	Aged debtor analysis
Carrying amount	Net book value
Cash and cash equivalents	Cash at bank and in hand
Depreciation charge(s)	Depreciation
Diminishing balance depreciation	Reducing balance depreciation
Equity (limited companies)	Capital and reserves
Finance costs	Interest payable
Financial statements	Financial accounts
General terms	General terms
Inventories	Stocks
Non-controlling interest	Minority interest
Non-current assets	Fixed assets
Non-current liabilities	Long-term liabilities
Other operating costs	Sundry expenses
Other operating income	Sundry income
Other payables	Accruals
Other receivables	Prepayments
Profit from operations	Operating profit
Profit/loss for the year/period	Net profit/loss
Property, plant and equipment	Tangible assets
Retained earnings	Profit and loss balance/reserve
Revenue from sales revenue	Turnover or sales
Statement of cash flows	Cash flow statement
Statement of financial position	Balance sheet
Statement of profit or loss	Income statement
Subsidiary accounts	Memorandum accounts
Trade and other payables	Creditors and accruals
Trade and other receivables	Debtors and prepayments
Trade payables	Trade creditors or creditors
Trade receivables	Trade debtors or debtors



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