

## **Lothian YES Finance Training**

**January 2012**

**This information sheet contains important information regarding the winding up of your company and the preparation of final accounts. It also provides, at the end, an example of a profit and loss account and a balance sheet which can be used as a template for your final accounts if you wish. You may find it useful to work through the example prior to beginning your own set of accounts.**

### **Winding up the Company**

#### **Step one: Working towards final accounts**

Experience shows that winding up a Young Enterprise company takes much longer than you might imagine. At the half year Board Meeting in January you should decide the date for Company liquidation.

Remember to consider other activities such as examinations, holidays, school trips etc. You should begin the winding up of the company at least six weeks before your planned liquidation.

Over a planned period of time:

Review stock of all surplus materials and attempt to clear by making into products to sell or by selling off the raw materials.

Run down operations.

Complete all outstanding orders.

Return all tools and equipment in good order.

Collect all outstanding monies.

Pay students' wages.

Pay off all debts (wages and rewards).

Ensure that YE VAT has been calculated and prepare draft final accounts including preparing a proposal for allocation of dividends to Shareholders.

#### **Step two: Winding up company meeting**

Agree the Draft Report and Accounts.

Resolve any outstanding issues.

Agree the final distribution of profits to be approved at the AGM.

Liquidation Report together with YE Corporation Tax and YE VAT payment to be sent to YE National Office.

### **Step three: Young Enterprise Company Final Report and Accounts**

All companies must produce a final written Report and Accounts. This must be prepared in time for your Annual General Meeting of shareholders and invited guests. A draft Report and Accounts should be presented and discussed at the Winding up Board Meeting. The Company Report and Accounts are also required for your entry into the Young Enterprise Company Competition.

An interim set of accounts may be produced if you plan to trade beyond the local competition date.

### **Step four: Annual General Meeting**

All shareholders must be invited to your AGM. You may also wish to invite other guests to hear about your company's results (Head Teacher, Governors etc.)

You should prepare a team presentation based on your company report.

You should have copies of your report available for inspection by shareholders at the meeting.

Remember to use this opportunity to thank everyone who has helped your company during the year.

Letters of thanks should be sent to the supporting organisations, advisers, teachers and anyone else who has assisted your company.

### **Step five: Final liquidation company meeting**

You will need to arrange a final Board Meeting with your Advisers and Link Teacher to complete all the required procedures; ensure that all your taxes and debts have been paid and your Bank Account has been closed.

The winding up process including closing down your bank account and any web sites must be complete by the 31st July following the date of registration at the latest. Insurance cover ends at this date.

## **Ending the Year Preparation for liquidation**

The Board should decide on a date when trading ceases and fix a Board Meeting to decide where the profit goes. Inform them of stocks which need to be sold. Ensure the ledgers are up to date and create and print off a new set of monthly accounts. Print off a blank end of year accounts input form (found in the "End of Year Reports" section)

Provide the Board with various choices of profit allocation, taking into account YE Corporation Tax, various levels of dividend and so on.

Be prepared at the Board Meeting to explain the four ways in which profit may be allocated:

- bonus to students (which then alters the net profit as it increases wages);
- YE Corporation Tax (10%)
- dividend to shareholders;
- allocation to charities.

It is not permitted to carry forward any surplus for next year's Young Enterprise Company.

### **Final accounts**

Prepare your final end of year reports by completing your "End of Year Accounts Input Form" in the "End of year Reports" section on the company website, Prepare your own Financial Report to the Shareholders. Include the Liquidation Report. If not yet paid, pay YE VAT and corporation tax due to the Young Enterprise Office. Ensure the final Balance Sheet. Statement of Taxation Liabilities and Liquidation Report are signed as required.

### **Liquidation**

Liaise with the Company Secretary to repay share capital and agreed dividend to shareholders.

Pay any Bonuses and Charitable Donations.

Record sale of any stock or equipment and continue to record these and any other transactions.

Add the Liquidation Report to the Company Report.

Close Bank Account once all cheques are cleared.

### **Fees, Shares and Taxes 2011/12**

The following fees, shares and taxes will apply for the academic year 2011/12

Company Registration Fee = £100

Share Price = 50p per share

Maximum Share holding per person = £10.00 (ie. 20 shares)

Maximum Share Capital = £400

YE VAT (on all sales and purchases without exception) = 20%

YE Corporation Tax (small business rate) = 10%

## Case Study – Tom’s Toboggans

Tom’s Toboggans manufactures sledges. Below is some information relating to the finances of the company.

1. Tom’s Toboggans purchased 140 sledges from their supplier at the start of the year at a price (incl VAT) of £8 each
2. During the year Tom’s Toboggans sold 120 sledges at a price of £14 (incl VAT) each
3. Their expenses during the year were as follows:  
£100 registration fee  
£10 fee for a stand at a local trade fair  
£9 marketing costs
4. They issued 100 shares in the company to employees at a price of 50 pence per share.

The company must produce a Profit & Loss Account and a Balance Sheet at their year end. Listed on the next page in no particular order are the items which must appear in these two accounts. See if you can identify where each must go in the accounts. If the exercise has been completed correctly the balance sheet will balance once all items have been taken account of. Corporation tax is assumed to be charged at 10% and VAT at 20%.

**Registration Fee £100**

**Closing Stock £160**

**Corporation Tax £51.70**

**Bank £491**

**Marketing £9**

**Trade Fair £10**

**Sales (excl VAT) £1344**

**VAT Due £112**

**Issued Share Capital £50**

**Retained Profit £440.10**

**Purchases (excl VAT) £896**

**Gross Profit £608**

**Net Profit before tax £489**

**Net Profit after tax £440.10**

**Net Assets £515.30**

### Profit & Loss Account of Tom's Toboggans

	£	£
Sales (ex VAT)		1344
<b>Less cost of sales</b>		
Purchases (ex VAT)	896	
Closing stock	160	
		736
<b>Gross profit</b>		<b>608</b>
<b>Less expenses</b>		
Marketing	9	
Trade fair	10	
Registration fee	100	
		119
<b>Operating profit</b>		<b>489</b>
Less corporation tax		48.90
<b>Net profit after tax</b>		<b>440.10</b>

#### Calculations:

Sales: 120 sledges @ £14 =£1,680

Purchases: 140 sledges @£8 £1,120

VAT received on sales: £1,680 x 20%= £336

VAT paid on purchases: £1,120 x20%=£224

Balance of VAT due to Young Enterprise:£336-£224=£112

### Balance Sheet of Tom's Toboggans

	£	£
<b>Fixed assets</b>		0
<b>Current assets</b>		
Stock	160	
Cash in bank	491	
		651
<b>Less current liabilities</b>		
Corporation tax	48.90	
VAT Owed To YE	112	
		160.9
		490.10
<b>Net assets</b>		<b>490.10</b>
<b>Financed By</b>		
Share capital		50
Retained profit		440.10
		<b>490.10</b>