

Question 6 – solution**20****(a)****Statement of Capital and Reserves on 1/1/2006**

Assets	€	€
Buildings and grounds (500,000 – 20,000)	480,000 [2]	
Equipment (70,000 – 21,000)	49,000 [2]	
Furniture (20,000 – 10,000)	10,000 [2]	
Investments	70,000 [1]	
Stock – health food for resale	1,300 [1]	
Stock – oil	640 [1]	
Contract cleaning prepaid	250 [1]	
Cash at bank	<u>7,250 [1]</u>	618,440
Liabilities		
Creditors for supplies	1,250 [1]	
Customers advance deposits	4,300 [1]	
Loan	50,000 [2]	
Interest on loan (14 months @ €400 per month)	5,600 [2]	
Issued Capital	<u>300,000 [1]</u>	(361,150)
Reserves 1/1/2006		<u>257,290 [2]</u>

(b)**Health Shop Profit and Loss Account for the year ended 31/12/2006**

	€	€
Shop receipts		65,000 [2]
Less expenses		
Cost of goods sold (1,300 + 42,100 – 1,600)	41,800 [5]	
Light and heat	200 [1]	
Insurance	500 [1]	
Telephone	340 [1]	
Wages and salaries (70% x 12,000)	<u>8,400 [2]</u>	<u>51,240</u>
Profit from Health shop		<u>13,760</u>

(c)**Profit and Loss Account for year ended 31/12/2006**

Income			
Interest received		3,500 [1]	
Profit from health shop		13,760 [1]	
Customer's fees	W 1	<u>254,350 [5]</u>	271,610
Less Expenses			
Wages and salaries (86,220 – 8,400)		77,820 [2]	
Insurance (6,200 – 500)		5,700 [1]	
Light and heat	W 2	3,260 [5]	
Purchases – supplies	W 3	36,950 [3]	
Loan interest	W 4	1,600 [3]	
Laundry		800 [1]	
Postage and telephone (1,660 – 340)		1,320 [1]	
Depreciation – Buildings		11,400 [1]	
Equipment		12,600 [1]	
Furniture		5,000 [1]	
Contract cleaning	W 5	<u>2,550 [3]</u>	(159,000)
Net Profit for year			<u>112,610 [6]</u>
Add Reserves 1/1/2006			<u>257,290 [1]</u>
Profit and Loss balance 31/12/2006			<u>369,900</u>

12**36**

(d)

Balance Sheet as at 31/12/2006

	Cost €	Depreciation €	Net €
Fixed Assets			
Buildings and grounds	680,000 [1]	-	680,000
Equipment (70,000 + 14,000)	84,000 [2]	33,600 [2]	50,400
Furniture	<u>20,000 [1]</u>	<u>15,000 [2]</u>	<u>5,000</u>
	<u>784,000</u>	<u>48,600</u>	735,400
Investments			<u>70,000 [2]</u>
			805,400
Current Assets			
Investment income due	500 [2]		
Closing stock – shop goods	1,600 [1]		
Oil	250 [1]		
Cleaning prepaid	300 [2]		
Customer's fees due (450 +100)	550 [3]		
Bank	W 6 <u>7,370 [2]</u>	10,570	
Less Creditors: amounts falling due within 1 year			
Electricity due	270 [2]		
Customer's advance deposits	3,000 [2]		
Creditors for supplies	<u>1,400 [2]</u>	<u>(4,670)</u>	<u>5,900</u>
			<u>811,300</u>
Financed by			
Share Capital and Reserves	Authorised	Issued	
Ordinary Shares	<u>430,000 [1]</u>	300,000 [1]	
Revaluation Reserve		141,400 [3]	
Profit and Loss balance		<u>369,900</u>	<u>811,300</u>
			<u>811,300</u>

Workings

W 1	Customer's fees	€	€	
	Amount received	252,600	252,600	
	Less Dishonoured cheque	(100)	-	
	Fees due	550	450	
	Advance deposits	4,300	4,300	
	Less fees prepaid	<u>(3,000)</u>	<u>(3,000)</u>	
				254,350
W 2	Light and heat			
	Amount paid		2,800	
	Stock oil 1/1/2006		640	
	Electricity due		270	
	Stock oil 31/12/2006		(250)	
	Charge to shop		<u>(200)</u>	3,260
W 3	Purchases	36,800 + 1,400 – 1,250		36,950
W 4	Loan Interest	7,200/18 x 4		1,600
W 5	Contract cleaning	2,600 +250 – 300		2,550
W 6	Bank	7,470–100		7,370

Question 7 - solution

52

Trading and Profit and loss Account for the year ended 31/12/2006

	€	€
Sales		374,800 [11]
Less Cost of Sales		
Opening stock	19,000 [2]	
Purchases (156,200 – 7,800)	<u>148,400 [7]</u>	
	167,400	
Closing stock	<u>(16,400)[2]</u>	(151,000)
Gross Profit		223,800
Less Expenses		
General expenses	71,200 [5]	
Insurance	6,700 [6]	
Interest	2,400 [4]	
Light and heat	<u>4,410 [6]</u>	84,710
		139,090
Add Income from Investment Fund		<u>25 [3]</u>
Net Profit		<u>139,115 [6]</u>

40

(b)

Balance Sheet as at 31/12/2006

	€	€	€
Intangible Fixed Assets			
Goodwill			18,000 [3]
Tangible Fixed Assets			
Buildings	715,000 [2]		
Delivery Vans	28,400 [1]		
Furniture	<u>10,500 [2]</u>		753,900
Financial Assets			
Investment Fund			<u>4,825 [2]</u>
			776,725
Current Assets			
Stock	16,400 [1]		
Debtors	20,200 [1]		
Bank	104,550 [5]		
Cash	400 [2]		
Prepayments (Insurance)	<u>1,700 [3]</u>	143,250	
Creditors: amounts falling due within 1 year			
Creditors	30,400 [1]		
Interest due	750 [3]		
Electricity due	<u>480 [1]</u>	<u>(31,630)</u>	111,620
			<u>888,345</u>
Financed By			
Creditors: Amounts falling due after more than one year			
Loan			180,000 [2]
Capital	590,000 [2]		
Capital introduced	3,000 [3]		
Net Profit	<u>139,115</u>		
	732,115		
Less Drawings	<u>(23,770)[6]</u>		708,345
			<u>888,345</u>

(c)

(i) **Accounting concepts**

Accounting concepts are the accounting practices or rules that are applied in the preparation of financial statements.

(ii) **Fundamental Accounting concepts**

Accruals, Going Concern, Consistency and Prudence

- (iii) **The accruals Concept** – All expenses incurred in a particular period must be included in the accounts of that period regardless of whether they are paid or not. Similarly, all revenue income must be included in the accounts of that period whether received or not. E.g Electricity due for the current year must be included in the accounts, although the bill may not be paid until the following year as the expense refers to the current year. Insurance prepaid should not be included in the current year's accounts as the payment refers to the following year.

Workings

1. Sales – Credit	(61,000 + 20,200 – 12,000)	69,200
– Cash	(116,000 + 73,800 + 105,200 + 10,400 + 400 – 200)	<u>305,600</u>
Total Sales		374,800
2. Purchases		
Credit purchases	(-18,200 + 30,400 + 38,800)	51,000
Cash purchases		<u>105,200</u>
Total Purchases		156,200
Less drawings of stock		<u>(7,800)</u>
Total purchases		148,400
3. General Expenses	(73,800 – 2,600)	71,200
4. Insurance	(1,600 + 6,800 – 1,700)	6,700
5. Interest	(3,000 – 600)	2,400
6. Light and heat	(5,400 + 480 – 1,470)	4,410
7. Drawings	(7,800 + 10,400 + 1,470 + 600 + 3,500)	23,770