

## 6. Service Firm

The following were included in the assets and liabilities of the Elms Nursing Home Ltd, on 01/01/2009: Buildings and Grounds €550,000; Equipment €45,000; Mini Bus at cost €50,000; Stock in shop €3,300; Stock of Heating oil €1,600; Creditors for supplies to Nursing Home €1,000; 5% Investments €30,000; Contract cleaning prepaid €200; Clients deposits paid in advance €4,000; Authorised Capital €450,000; Issued Capital €320,000.

**All fixed assets have 3 years accumulated depreciation on 01/01/2009**

The following is a Receipts and Payments Account for the year ended 31/12/2009:

### **Receipts and Payments Account of Elms Nursing Home Ltd for year ended 31/12/2009**

	€		€
Balance at Bank 01/01/2009	8,250	Laundry	2,000
Clients fees	340,000	Telephone	1,600
Investment Income	1,000	Wages & Salaries	85,500
Shop receipts	40,000	Repayment of €40,000 loan on 01/05/2009	
Balance c/d	75,450	with 18 months Interest.	48,100
		Equipment	15,000
		New extension	200,000
		New Mini Bus	35,000
		Contract cleaning	3,500
		Light and heat	3,100
		Insurance	6,400
		Purchases – shop	28,000
		Purchases – supplies	35,900
		Dishonoured cheque – fees	600
	<u>464,700</u>		<u>464,700</u>

The following information and instructions are to be taken into account:

- (i) Closing stocks at 31/12/2009: Shop €1,500, Heating oil €300.
- (ii) Cleaning is done under contract payable monthly in advance and includes a payment of €400 for January 2010.
- (iii) Clients' fees include fees for 2010 of €5,000. Clients' fees in arrears at 31/12/2009 €500.
- (iv) The dishonoured cheque was not subsequently recovered, and was written off as a bad debt.
- (v) Wages and Salaries include €18,000 per annum paid to the secretary, who also runs the shop. It is estimated that 40% of this salary, €250 of the light and heat, €800 of the insurance and €350 of the telephone is attributable to the shop.
- (vi) Creditors for supplies to the Nursing Home at 31/12/2009 are €1,800.
- (vii) Electricity due on 31/12/2009 €320.
- (viii) Depreciation to be provided as follows:
  - Buildings 2% of cost for the full year
  - Equipment 15% of cost per annum
  - Mini bus at 20% of cost per annum from date of purchase to date of sale
  - The mini bus held on 01/01/2009 was purchased on 01/01/2006 and was traded in on 01/07/2009 against a new mini bus. The trade in allowance was €7,000 against a new bus valued at €42,000.
- (ix) On 31/12/2009 the Elms Nursing Home Ltd decided to re-value buildings at €900,000

### **Required:**

- (a) Calculate the company's reserves (profit and loss balance) on 01/01/2009 (18)
- (b) Calculate the profit/loss from the shop for the year ended 31/12/2009 (10)
- (c) Prepare the Profit and Loss Account of Elms Nursing Home Ltd for the year ended 31/12/2009 (36)
- (d) Prepare the Balance Sheet of Elms Nursing Home Ltd on 31/12/2009 (30)
- (e) The management of the nursing home is considering an increase of 10% in the clients' fees. What advice would you give? Explain your answer. (6)

**(100 marks)**