

Question 6

18

(a)

Statement of Capital and Reserves on 1/1/2009

	€	€
Assets		
Buildings and grounds (550,000 – 33,000)	517,000 [2]	
Equipment (45,000 – 20,250)	24,750 [2]	
Mini Bus (50,000 – 30,000)	20,000 [2]	
5% Investments	30,000 [1]	
Stock in shop	3,300 [1]	
Stock of oil	1,600 [1]	
Contract cleaning prepaid	200 [1]	
Cash at bank	<u>8,250</u> [1]	605,100
Liabilities		
Creditors for supplies	1,000 [1]	
Clients' fees paid in advance	4,000 [1]	
Loan	40,000 [1]	
Interest on loan (14 months @ 450 per month)	6,300 [2]	
Issued Capital	<u>320,000</u> [1]	(371,300)
Reserves		<u>233,800</u> [1]

(b)

10

Shop Profit and Loss Account for the year ended 31/12/2009

Shop receipts		40,000 [1]
Less expenses		
Cost of goods sold (3,300 + 28,000 – 1,500)	29,800 [5]	
Light and heat	250 [1]	
Insurance	800 [1]	
Telephone	350 [1]	
Wages and salaries (40% x 18,000)	<u>7,200</u> [1]	(38,400)
Profit from shop		<u>1,600</u>

(c)

Profit and Loss Account for year ended 31/12/2009

	€	€
Income		
Interest received	1,500 [1]	
Profit from shop	1,600 [1]	
Clients' fees	<u>339,500 [5]</u>	342,600
Less Expenses		
Wages and salaries (85,500 – 7,200)	78,300 [2]	
Insurance (6,400 – 800)	5,600 [2]	
Light and heat	4,470 [5]	
Purchases – supplies	36,700 [3]	
Loan interest	1,800 [1]	
Laundry	2,000 [1]	
Telephone (1,600 – 350)	1,250 [2]	
Bad debt	600 [1]	
Depreciation – Buildings	15,000 [1]	
Equipment	9,000 [1]	
Mini Bus	9,200 [1]	
Loss on sale of Bus	8,000 [1]	
Contract cleaning	<u>3,300 [3]</u>	<u>(175,220)</u>
Net Profit for year		167,380 [4]
Add Reserves 1/1/2009		<u>233,800 [1]</u>
Profit and Loss balance 31/12/2009		<u>401,180</u>

Workings

Clients' fees

Amount received	340,000	
Fees due 31/12/2009 (500 + 600 – 600)	500	
Advance deposits 1/1/2009	4,000	
Less fees prepaid 31/12/2009	<u>(5,000)</u>	339,500
Light and heat		
Amount paid	3,100	
Stock oil 1/1/2009	1,600	
Electricity due 31/12/2009	320	
Stock oil 31/12/2009	(300)	
Charge to shop	<u>(250)</u>	4,470
Purchases	35,900 + 1,800 – 1,000	36,700
Contract cleaning	3,500 + 200 – 400	3,300

(d)

Balance sheet as at 31/12/2009

	Cost €	Depreciation €	Net €
Fixed Assets			
Buildings and grounds	900,000 [1]	-	900,000
Equipment (45,000 + 15,000)	60,000 [2]	29,250 [2]	30,750
Mini Bus	42,000 [1]	4,200 [2]	37,800
	<u>1,002,000</u>	<u>33,450</u>	968,550
Investments			<u>30,000 [2]</u>
			998,550
Current Assets			
Investment income due	500 [2]		
Closing stock – shop	1,500 [1]		
– oil	300 [1]		
Cleaning prepaid	400 [2]		
Clients' fees due	500 [2]	3,200	
Less Creditors: amounts falling due within 1 year			
Electricity due	320 [2]		
Client's advance deposits	5,000 [2]		
Bank	75,450 [2]		
Creditors for supplies	1,800 [2]	(82,570)	(79,370)
			<u>919,180</u>
Financed by			
Share Capital and Reserves	Authorised	Issued	
Ordinary Shares	450,000 [1]	320,000 [1]	
Revaluation Reserve		198,000 [2]	
Profit and Loss balance		401,180	919,180
			<u>919,180</u>

(e)

A 10% increase in clients' fees would increase income by €33,950.

There is no need to increase fees for viability or profitability purposes.

The company is profitable as its return on capital employed is 18.4% particularly in the current climate.

The company is generating ample cash. It has repaid a loan of €40,000, purchased equipment €15,000, contributed €35,000 towards a new mini bus and has financed about 58% of a €200,000 extension from cash receipts.

In the current climate costs are dropping, there is increased competition and consequently charges should **not** be increasing.