

Question 3 – Revaluation of Fixed Assets

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(a)

		Land and Buildings Account			
		€		€	
01/01/2012	Balance b/d	960,000	[1]		
01/01/2012	Revaluation Reserve	<u>180,000</u>	[1]	31/12/2012	Balance c/d
		<u>1,140,000</u>			<u>1,140,000</u>
01/01/2013	Balance b/d	1,140,000		01/01/2013	Disposal
				31/12/2013	Balance c/d
		<u>1,140,000</u>			<u>825,000</u>
					<u>1,140,000</u>
01/01/2014	Balance b/d	825,000	[1]		
	Bank	360,000	[1]		
	Bank	90,000	[1]		
	Wages	<u>30,000</u>	[1]	31/12/2014	Balance c/d
		<u>1,305,000</u>			<u>1,305,000</u>
01/01/2015	Balance b/d	1,305,000			
	Revaluation Reserve	<u>130,500</u>	[2]	31/12/2015	Balance c/d
		<u>1,435,500</u>			<u>1,435,500</u>
01/01/2016	Balance b/d	1,435,500		01/01/2016	Disposal
	Revaluation Reserve	<u>42,000</u>	[3]	31/12/2016	Balance c/d
		<u>1,477,500</u>			<u>570,000</u>
					<u>1,477,500</u>
01/01/2017	Balance b/d	570,000			

Provision for Depreciation on Buildings Account

		€				€	
01/01/2012	Revaluation Reserve	144,000	[1]	01/01/2012	Balance b/d	144,000	[2]
31/01/2012	Balance c/d	<u>16,500</u>		31/12/2012	Profit and loss	<u>16,500</u>	[1]
		<u>160,500</u>				<u>160,500</u>	
				01/01/2013	Balance b/d	16,500	
31/12/2013	Balance c/d	<u>33,000</u>		31/12/2013	Profit and loss	<u>16,500</u>	[1]
		<u>33,000</u>				<u>33,000</u>	
				01/01/2014	Balance b/d	33,000	
31/12/2014	Balance c/d	<u>59,100</u>		31/12/2014	Profit and loss	<u>26,100</u>	[1]
		<u>59,100</u>				<u>59,100</u>	
01/01/2015	Revaluation Reserve	59,100	[1]	01/01/2015	Balance b/d	59,100	
31/12/2015	Balance c/d	<u>28,710</u>		31/12/2015	Profit and loss	<u>28,710</u>	[1]
		<u>87,810</u>				<u>87,810</u>	
01/01/2016	Disposal	18,150	[2]	01/01/2016	Balance b/d	28,710	
01/01/2016	Revaluation Reserve	10,560	[3]	31/12/2016	Profit and loss	11,400	[1]
31/12/2016	Balance c/d	<u>11,400</u>				<u>40,110</u>	
		<u>40,110</u>				<u>40,110</u>	
				01/01/2017	Balance b/d	11,400	

Disposal of Land Account

		€				€	
01/01/2013	Buildings	315,000	[1]	01/01/2013	Bank	420,000	[1]
31/12/2013	Profit and loss (profit)	<u>105,000</u>	[1]			<u>420,000</u>	
		<u>420,000</u>				<u>420,000</u>	

Disposal of Buildings Account

	€		€
01/01/2016 Buildings	907,500 [1]	01/01/2016 Depreciation	18,150 [1]
31/12/2016 Profit and loss (profit)	<u>48,150 [1]</u>	01/01/2016 Bank	<u>937,500 [1]</u>
	<u>955,650</u>		<u>955,650</u>

Revaluation Reserve Account

	€		€
01/01/2013 Revenue Reserve	75,000 [1]	01/01/2012 Land & Buildings	180,000 [1]
01/01/2016 Revenue Reserve	381,000 [2]	01/01/2012 Provision for dep.	144,000 [1]
31/12/2016 Balance c/d	110,160 [3]	01/01/2015 Land & Buildings	130,500 [1]
		01/01/2015 Provision for dep.	59,100 [1]
		01/01/2016 Land & Buildings	42,000 [1]
		01/01/2016 Provision for dep.	<u>10,560 [1]</u>
	<u>566,160</u>	01/01/2017 Balance b/d	<u>110,160</u>

Revenue Reserve Account

	€		€
01/01/2013 Revaluation Reserve	75,000 [1]		
01/01/2016 Revaluation Reserve	<u>381,000 [1]</u>		
	<u>456,000</u>		

Balance Sheet (extract) as at 31/12/2016

	€	€	€
Fixed Assets			
Land and Buildings	570,000 [1]	11,400 [1]	558,600
Financed by			
Revaluation Reserve			110,160 [1]
Revenue Reserve			456,000 [1]

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(b)

(i) **Importance of revaluation:**

1. The accounts will show fixed assets at their true market value and thereby show a true and fair view of the financial position of the company.
2. It provides useful information to users of the accounts (lenders, takeover bidders etc.).
3. It enables ratios to be calculated more accurately (e.g. ROCE).
4. Depreciation will not be understated and therefore profits will not be overstated.

(ii) **Factors that influence the price of property on the market:**

1. The use of the land – zoning, commercial or private.
2. New investments and projects nearby – for example a new Luas line.
3. Overall state of the property market – boom, recession.
4. Tax rates/breaks etc. to encouragement development.
5. The overall levels of supply and demand and the availability of credit from financial institutions.

Question 4 – Departmental Final Accounts

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(a)

Departmental Trading and Profit and Loss Account for the year ended 31/12/2016

	€		€		€		€		€			
	Total		Ladieswear		Menswear		Total		Ladieswear		Menswear	
Sales							500,000	[1]	300,000	[1]	200,000	[1]
Less Cost of goods sold												
Stock 01/01/2016	41,000	[1]	25,000	[1]	16,000	[1]						
Purchases	350,000	[1]	210,000	[1]	140,000	[1]						
Returns out	(3,000)	[1]	---		(3,000)	[1]						
Carriage in	4,000	[1]	4,000	[1]	---							
Import duty	<u>1,000</u>	[1]	---		<u>1,000</u>	[1]						
	393,000		239,000		154,000							
Less stock 31/12/2016	<u>(45,000)</u>	[1]	<u>(28,000)</u>	[1]	<u>(17,000)</u>	[1]	<u>(348,000)</u>		<u>(211,000)</u>		<u>(137,000)</u>	
Gross profit							152,000		89,000		63,000	
Less expenses												
Salaries and general expenses	75,600	[1]	45,360	[1]	30,240	[1]						
Advertising	4,000	[3]	2,400	[1]	1,600	[1]						
Insurance	7,000	[3]	5,600	[1]	1,400	[1]						
Light and heat	10,300	[1]	8,240	[1]	2,060	[1]						
Cleaning	9,100	[1]	7,280	[1]	1,820	[1]						
Dep. – delivery vans	8,000	[1]	4,800	[1]	3,200	[1]						
Dep. – buildings	<u>8,800</u>	[1]	<u>7,040</u>	[1]	<u>1,760</u>	[1]	<u>(122,800)</u>		<u>(80,720)</u>		<u>(42,080)</u>	
Operating profit							29,200		8,280		20,920	
Less mortgage interest							<u>(6,000)</u>	[1]	<u>(4,800)</u>	[1]	<u>(1,200)</u>	[1]
Net profit for year							<u>23,200</u>	[4]	<u>3,480</u>		<u>19,720</u>	

(b) Recommendations to the Manager:

[10]

- Downsize the Ladieswear Department and expand the Menswear Department as the €4.35 profit earned per square metre in the Ladies section is far less than the €98.60 profit per square metre earned in the Menswear section.
- Rent out the Ladieswear Department as the €35 per square metre (€28,000) earned from rent would be far greater than the profit made per square metre of €4.35 (€3,480).
- Close the business and rent out all the floor space as the rental income of €35,000 (€35 per square metre) is greater than the combined profit from the two Departments of €23,200 (€23.2 per square metre).

Workings

1.	Insurance paid	8,400	
	Less prepaid	<u>(1,400)</u>	7,000
2.	Advertising paid	6,000	
	Less prepaid	<u>(2,000)</u>	4,000