

Q.4 Service Firm

34

Income and Expenditure (Profit and Loss) Account of M. Noctor for the year ended 31/12/2017		
Income	€	€
Profit on sale of equipment (N1)		1,200 [3]
Medical card scheme (N2)		71,600 [3]
Private patients (N3)		41,180 [2]
Investment income (N4)		<u>4,900 [2]</u>
		118,880
Expenditure		
Medical supplies (N5)	14,900 [5]	
Cleaning expenses	3,200 [1]	
Insurance (N6)	2,300 [3]	
Sponsorship of local GAA prize	2,000 [1]	
Light and heat (N7)	2,100 [2]	
Telephone (N8)	5,915 [2]	
Wages of receptionist	15,500 [1]	
Locum doctor (N9)	4,800 [2]	
Bank charges	120 [1]	
Depreciation:		
- Surgery	3,200 [1]	
- Equipment (N10)	15,600 [2]	
- Furniture	<u>4,500 [1]</u>	<u>(74,135)</u>
Net profit		<u>44,745 [2]</u>

Balance Sheet of M. Noctor as at 31/12/2017			
Fixed Assets	Cost	Depreciation	Net Book Value
	€	€	€
Surgery	160,000 [1]	12,800 [1]	147,200
Equipment (N11) (N12)	78,000 [1]	62,400 [1]	15,600
Furniture	<u>30,000</u> [1]	<u>18,000</u> [1]	<u>12,000</u>
	<u>268,000</u>	<u>93,200</u>	174,800
Financial Assets			
7% Investments		70,000 [1]	
Investment bonds		<u>30,000</u> [1]	100,000
Current Assets			
Stock of medical supplies		8,300 [1]	
Bank		3,830 [1]	
Medical card fees due		9,100 [1]	
Private patients fees due		580 [2]	
Investment income due		1,400 [1]	
Insurance prepaid		<u>800</u> [1]	
		24,010	
Creditors: amounts falling due within 1 year			
Locum wages due		3,200 [1]	
Creditors for medical supplies		<u>5,000</u> [1]	
		(8,200)	<u>15,810</u>
Total net assets			<u><u>290,610</u></u>
Financed by			
Capital 01/01/2017		284,700 [1]	
Net profit		44,745	
Less drawings (N13)		<u>(38,835)</u> [2]	<u>290,610</u>
			<u><u>290,610</u></u>

(c)

Factors to be considered before granting loan of €150,000:

- Gearing – The firm has no long term loans at the moment which would encourage a lender to grant a loan.
- Ability to pay interest – The net profit is €44,745 with no interest charges at present. The acid test ratio is 1.92:1 meaning the firm is liquid and could easily meet future interest charges.
- What is the purpose of the loan? The purpose of the loan is to update the IT system making the company more efficient going into the future.
- What security can she offer? Security is adequate with fixed assets of €174,800 and investments of €100,000 to cover a loan of €150,000.

Workings			
1	Disposal	$12,000 - 7,200 - 6,000$	1,200
2	Medical card scheme	$72,000 - 9,500 + 9,100$	71,600
3	Private patients	$40,750 + 430$	41,180
4	Investment income	$3,500 + 1,400$	4,900
5	Medical supplies	$8,000 + 20,600 - 10,400 + 5,000 - 8,300$	14,900
6	Insurance	$2,400 + 700 - 800$	2,300
7	Light and heat	$3,000 - 900$	2,100
8	Telephone	$8,450 - 2,535$	5,915
9	Locum	$1,600 + 3,200$	4,800
10	Depreciation equipment	$78,000 \times 20\%$	15,600
11	Equipment	$90,000 - 12,000$	78,000
12	Acc. dep. equipment	$54,000 + 15,600 - 7,200$	62,400
13	Drawings	$37,000 - 1,600 + 900 + 2,535$	38,835