Q.3 Incomplete Records

(a)

Trading profit and loss account for year ended 31/12/2017			
	€	€	€
Sales (N1)			312,840 [9]
Less cost of sales			
Opening stock		22,600 [2]	
Purchases (N2)		112,160 [7]	
		134,760	
Less closing stock		(24,200) [2]	(110,560)
Gross profit			202,280
Less Expenses			
General expenses (N3)		42,400 [4]	
Light and heat (N4)		10,240 [5]	
Insurance (N5)		19,500 [5]	
Interest (N6)		2,700 [5]	
Rent (N7)		10,000 [4]	
Standing order		2,000 [2]	
Depreciation on equipment (N8)		5,880 [2]	(92,720)
			109,560
Add Operating Income			
Interest on fund			900 [2]
Net profit			110,460 [3]

Workings			
Sales (N1)			
Credit	52,000 + 23,400 – 28,300	47,100	
Cash	141,000 + 43,200 + 76,000 + 4,680 + 860	265,740	312,840
Purchases (N2)			
Credit	47,000 + 18,200 – 25,400	39,800	
Cash		76,000	
Less drawings of stock		(3,640)	112,160
Gen. expenses (N3)	43,200 – 800		42,400
Light and heat (N4)	11,500 + 1,300 – 2,560		10,240
Insurance (N5)	19,600 + 4,800 – 4,900		19,500
Interest (N6)	1,200 + 2,400 – 900		2,700
Rent (N7)	24,000 – 14,000		10,000
Dep. equip (N8)	42,000 × 14%		5,880

(b)

8

(i)   If drawings are not treated correctly they may be entered in error as a business expense with the result that the profit figure will be reduced/understated. It is also essential to control/monitor how much is taken from the business in the form of drawings.

(ii)   Importance of double entry bookkeeping for Walsh:

- It provides a more accurate look at the financial position of a business than single entry bookkeeping due to the matching principle which uses accrual accounting rules to record revenue and expenses.
- It reduces errors by providing checks and balances.
- It reduces fraud because it allows transactions to be traced/audited.
- It can be used in the preparation of financial statements.