

6. Incomplete Records

A. Fay lodged €650,000 to a business bank account on 1/1/2008 and on the same day purchased a business for €610,000, including the following assets and liabilities: Premises €540,000; Stock €36,500; Debtors €48,200; 4 months Rates prepaid €2,080; Trade Creditors €32,500; Wages due €850.

Fay did not keep a full set of books during 2008 but estimates that the gross profit was 40% of sales and he was able to supply the following additional information on 31/12/2008:

- (i) Each week Fay took goods from stock to the value of €300 and cash €250 for household expenses.
- (ii) Fay borrowed €250,000 on 1/9/2008, part of which was used to purchase an adjoining premises costing €230,000. It was agreed that Fay would pay interest on the last day of each month at the rate of 9% per annum. The capital sum was to be repaid in a lump sum in the year 2014 and, to provide for this, the bank was instructed to transfer €1,800 on the last day of each month from Fay's business account into an investment fund commencing on 30/9/2008.
- (iii) During the year, Fay lodged dividends €4,800 to the business bank account and made the following payments: light and heat €8,300; interest €3,100; wages and general expenses €102,000; furniture €18,000; rates for twelve months €7,080 and college fees €9,000.
- (iv) Fay estimated that 20% of the following: furniture, light and heat *used* and interest *payable* should be attributed to the private section of the premises. Fay further estimates that 30% of college fees should be attributed to a family member and the remainder to an employee.
- (v) Included in the assets and liabilities of the firm on 31/12/2008 were: Stock €38,200, Debtors €42,400, Trade Creditors €35,100, Cash at bank €33,220, Electricity due €300 and €120 interest earned by the investment fund to date.

You are required to prepare, with workings, a:

- (a) Statement/Balance Sheet showing Fay's profit or loss for the year ended 31/12/2008. (50)
- (b) Trading, Profit and Loss Accounts, in as much detail as possible, for the year ended 31/12/2008. (40)
- (c) Summary of the advice you would give Fay in relation to the information given above. (10)

(100 marks)