

Question 7 - solution

52

Trading and Profit and loss Account for the year ended 31/12/2006

	€	€
Sales		374,800 [11]
Less Cost of Sales		
Opening stock	19,000 [2]	
Purchases (156,200 – 7,800)	<u>148,400 [7]</u>	
	167,400	
Closing stock	<u>(16,400)[2]</u>	(151,000)
Gross Profit		223,800
Less Expenses		
General expenses	71,200 [5]	
Insurance	6,700 [6]	
Interest	2,400 [4]	
Light and heat	<u>4,410 [6]</u>	84,710
		139,090
Add Income from Investment Fund		<u>25 [3]</u>
Net Profit		<u>139,115 [6]</u>

40

(b)

Balance Sheet as at 31/12/2006

	€	€	€
Intangible Fixed Assets			
Goodwill			18,000 [3]
Tangible Fixed Assets			
Buildings	715,000 [2]		
Delivery Vans	28,400 [1]		
Furniture	<u>10,500 [2]</u>		753,900
Financial Assets			
Investment Fund			<u>4,825 [2]</u>
			776,725
Current Assets			
Stock	16,400 [1]		
Debtors	20,200 [1]		
Bank	104,550 [5]		
Cash	400 [2]		
Prepayments (Insurance)	<u>1,700 [3]</u>	143,250	
Creditors: amounts falling due within 1 year			
Creditors	30,400 [1]		
Interest due	750 [3]		
Electricity due	<u>480 [1]</u>	<u>(31,630)</u>	111,620
			<u>888,345</u>
Financed By			
Creditors: Amounts falling due after more than one year			
Loan			180,000 [2]
Capital	590,000 [2]		
Capital introduced	3,000 [3]		
Net Profit	<u>139,115</u>		
	732,115		
Less Drawings	<u>(23,770)[6]</u>		708,345
			<u>888,345</u>

(c)

(i) **Accounting concepts**

Accounting concepts are the accounting practices or rules that are applied in the preparation of financial statements.

(ii) **Fundamental Accounting concepts**

Accruals, Going Concern, Consistency and Prudence

(iii) **The accruals Concept** – All expenses incurred in a particular period must be included in the accounts of that period regardless of whether they are paid or not. Similarly, all revenue income must be included in the accounts of that period whether received or not. E.g Electricity due for the current year must be included in the accounts, although the bill may not be paid until the following year as the expense refers to the current year. Insurance prepaid should not be included in the current year's accounts as the payment refers to the following year.

Workings

1. Sales – Credit (61,000 + 20,200 – 12,000)	69,200
– Cash (116,000 + 73,800 + 105,200 + 10,400 + 400 – 200)	<u>305,600</u>
Total Sales	374,800
2. Purchases	
Credit purchases (-18,200 + 30,400 + 38,800)	51,000
Cash purchases	<u>105,200</u>
Total Purchases	156,200
Less drawings of stock	<u>(7,800)</u>
Total purchases	148,400
3. General Expenses (73,800 – 2,600)	71,200
4. Insurance (1,600 + 6,800 – 1,700)	6,700
5. Interest (3,000 – 600)	2,400
6. Light and heat (5,400 + 480 – 1,470)	4,410
7. Drawings (7,800 + 10,400 + 1,470 + 600 + 3,500)	23,770