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# Chapter 14

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## Service Firms

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### Section 1 & 2

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**60 Marks and 100 Marks**

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**Higher Level**

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**Past Exam notes (For this chapter)**

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### Service Firms

These are business that are set up to make a profit. This is achieved by providing a service for example hairdressers, taxi drivers doctors. They also have to keep a proper set of accounts for the following reasons -

1. To find out the profit or loss of the business.
2. The keep account of the money owed to them and the amount they owe.
3. To find the value of the assets and worth of the business.
4. To find the value of closing stock of saleable items.
5. For revenue commissioners.

### The Accounts

Service firms usually prepare the following accounts -

1. Statement of Capital/Reserve.
2. Special purpose profit and loss account.
3. Profit and loss account/income and expenditure account.
4. Balance Sheet.

#### 1. Statement of Capital/Reserve (Usually part A)

This is prepared to find out the value of the service firm at a certain time (Usually at the start of the year). It is similar to the Accumulated fund in club accounts. It is a list of assets and liabilities at the beginning of a period. This is then added onto the net profit at the end of the profit and loss account for the business (Part C). Do not get this mixed up with the profit and loss for the shop. Remember to include -

- a. the Bank balance at the start of the year. If the bank balance is on the debit side, it goes in the asset section but if it is on the credit side it goes in the liability section.
- b. Also, you might have to calculate the total investment income due (Find 100%)
- c. the total Loan and the interest on this loan (Find the loan figure and take it away from the figure in the receipts section of the question)

#### 2. Special purpose profit and loss account (Usually Part B)

Most service firm don't prepare a trading account as they are not buying and selling anything. Instead, they prepare a special purpose account where they earn income from hair care products sold to clients. It involves a trading account and expense account to find out if a profit

or loss has been made. If this is a profit it will be included in the Assets section of the profit and loss account (Part C) and if it is a loss, it will be included in the Liability section of the profit and loss account (Part C). Remember you might have to do some calculates for the expense section of the account.

### 3. Profit and loss account/income and expenditure account (Usually Part C)

This account is presented in the same way as a club account. It takes into account accruals, prepayments, depreciation and other income and expenditure items from the receipts and payments account. Work down through the receipts and payment account - Receipts are income and go in Assets section of the profit and loss account and payments are expenditure and go in the Liability section of the profit and loss account. There will be working to be done for this section.

### 4. Balance Sheet

The Balance sheet is presented in the same way as club accounts and other organisations.

## Adjustments

Some of the adjustments needed for this question included the following -

1. Depreciation.
2. Client Fees.
3. Materials used in the business.
4. Shop trading account.
5. Investments.
6. Income due.
7. Accruals and prepayments (Light and Heat).
8. Division of expenses between the firm and a special purpose account.
9. Client cheques dishonoured.