

Question 6

(a)

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Statement of Capital and Reserves on 1/1/2011			
		€	€
Assets			
Buildings and grounds (520,000 – 31,200)		488,800 [2]	
Equipment (75,000 – 22,500)		52,500 [2]	
Vehicles (60,000 – 36,000)		24,000 [2]	
Stock in shop		3,600 [1]	
Stock of oil		1,800 [1]	
5% Investments		40,000 [1]	
Contract cleaning prepaid		300 [1]	
Cash at bank		<u>6,500 [1]</u>	617,500
Less Liabilities			
Creditors for supplies		1,500 [1]	
Clients fees paid in advance		5,000 [1]	
Loan		30,000 [1]	
Interest on loan (12 months @ 400 per month)		4,800 [2]	
Issued Capital		<u>350,000 [1]</u>	(391,300)
Reserves			<u>226,200 [1]</u>

(b)

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Shop Profit and Loss Account for the year ended 31/12/2011			
Shop receipts			42,000 [1]
Less Expenses			
Cost of goods sold	W 1	28,000 [5]	
Light and heat		300 [1]	
Insurance		900 [1]	
Telephone		400 [1]	
Wages and salaries (40% x 20,000)		<u>8,000 [1]</u>	(37,600)
Profit from shop			<u>4,400</u>

(c)

Profit and Loss Account for year ended 31/12/2011**Income**

Investment income		2,000	[1]	
Profit from shop		4,400	[1]	
Clients' fees	W 2	<u>320,100</u>	[5]	326,500
Less Expenditure				
Wages and salaries (84,300 – 8,000)		76,300	[2]	
Insurance (6,200 – 900)		5,300	[2]	
Light and heat	W 3	4,740	[5]	
Purchases – supplies	W 4	35,100	[3]	
Loan interest		1,200	[1]	
Laundry		3,000	[1]	
Postage and telephone (1,400 – 400)		1,000	[2]	
Depreciation – Buildings		14,800	[1]	
– Equipment		9,500	[1]	
– Vehicles		10,800	[1]	
Loss on sale of Vehicle		10,000	[2]	
Contract cleaning	W 5	<u>3,000</u>	[3]	(174,740)
Net Profit for year				<u>151,760</u> [4]
Add Reserves 01/01/2011				<u>226,200</u> [1]
Profit and Loss balance 31/12/2011				<u>377,960</u>

(d)

Balance sheet as at 31/12/2011

	Cost €	Depreciation €	Net €
Fixed Assets			
Buildings and grounds	850,000 [1]		850,000
Equipment (75,000 + 20,000)	95,000 [2]	32,000 [2]	63,000
Vehicles	<u>48,000</u> [1]	<u>4,800</u> [2]	<u>43,200</u>
	<u>993,000</u>	<u>36,800</u>	956,200
5% Investments			<u>40,000</u> [2]
			996,200
Current Assets			
Investment income due	900 [3]		
Closing stock – shop	1,600 [1]		
Closing stock – oil	400 [1]		
Cleaning prepaid	700 [1]		
Clients' fees due	<u>600</u> [2]	4,200	
Less Creditors: amounts falling due within 1 year			
Electricity due	340 [1]		
Clients' advance deposits	5,500 [2]		
Bank	108,600 [2]		
Creditors for supplies	<u>2,000</u> [2]	(116,440)	(112,240)
			<u>883,960</u>
Financed by			
Share Capital and Reserves			
Ordinary Shares	<u>400,000</u> [1]	350,000 [1]	
Revaluation Reserve		156,000 [3]	
Profit and Loss balance		<u>377,960</u>	<u>883,360</u>
			<u>883,960</u>

(e)

6

Funding options for new equipment

My advice to the company would be:	€	
Sell investments	40,000	
Sell remaining shares	50,000	
Borrow	<u>60,000</u>	
	<u>150,000</u>	

The company would be well able to pay back the loan quickly as the accounts show that it had a surplus €151,760 in 2011 and the company is generating enough cash. Although it owes the bank €108,600 it has paid out amounts up to €310,000 on non-recurring and non-trading items.

Workings

1. Cost of goods sold

Stock 1/1/2011	3,600	
Add Purchases	26,000	
Less Stock 31/12/2011	<u>(1,600)</u>	28,000

2. Clients' fees

Amount received	320,000	
Advance deposits	5,000	
Fees due	600	
Less fees prepaid	<u>(5,500)</u>	320,100

3. Light and heat

Amount paid	3,300	
Stock oil 1/1/2011	1,800	
Electricity due	340	
Stock oil 31/12/2011	<u>(400)</u>	
Charge to shop	<u>(300)</u>	4,740

4. Purchases $34,600 + 2,000 - 1,500$ 35,100

5. Contract cleaning $3,400 + 300 - 700$ 3,000