

6. Service Firm

The following were included in the assets and liabilities of the Serenity Gym and Health Centre Ltd, on 01/01/2013:

Buildings and Grounds €620,000; Equipment €70,000; Vehicles at cost €90,000; Stock in shop €3,400; Stock of heating oil €1,900; Creditors for supplies to Gym and Health Centre €1,600; 5% Investments €40,000; Contract cleaning prepaid €400; Clients' deposits paid in advance €6,000, Authorised Capital €600,000, Issued Capital €450,000.

All fixed assets have 3 years accumulated depreciation on 01/01/2013.

The following is a Receipts and Payments Account for the year ended 31/12/2013:

Receipts and Payments Account of Serenity Gym and Health Centre Ltd for year ended 31/12/2013

	€		€
Balance at bank 01/01/2013	6,000	Laundry	2,500
Clients' fees	330,500	Telephone	1,600
Investment income	1,200	Wages & salaries	85,400
Shop receipts	45,000	Repayment of €50,000 loan	
Balance 31/12/2013	135,000	on 01/04/2013 with	
		15 months interest	56,000
		Equipment	15,000
		New Extension	230,000
		New Vehicle	50,000
		Contract cleaning	3,600
		Light and heat	3,400
		Insurance	6,800
		Purchases – shop	28,000
		Purchases – supplies	<u>35,400</u>
	<u>517,700</u>		<u>517,700</u>

The following information and instructions are to be taken into account:

- (i) Closing stock at 31/12/2013: Shop €1,400, Heating oil €600.
- (ii) Cleaning is done, under contract, payable monthly in advance and includes a payment of €500 for January 2014.
- (iii) Clients' fees include €6,500 for 2014. Fees due from Clients at 31/12/2013 were €800.
- (iv) Wages and salaries include €22,000 per annum paid to the secretary, who also runs the shop. It is estimated that 40% of this salary and €400 of the light and heat, €800 of the insurance and €500 of the telephone is attributable to the shop.
- (v) Creditors for supplies to the Gym & Health Centre at 31/12/2013 were €2,500.
- (vi) Electricity due on 31/12/2013 was €360.
- (vii) Depreciation to be provided as follows:
 - Buildings 2% of cost for the full year.
 - Equipment 10% of cost for the full year.
 - Vehicles 20% of cost per annum from date of purchase to date of sale.
 - On 01/07/2013 a vehicle which cost €40,000 on 01/01/2010 was traded in against a new vehicle which cost €59,000. An allowance of €9,000 was given on the old vehicle.
- (viii) On 31/12/2013 the Serenity Gym and Health Centre Ltd decided to revalue buildings at €900,000.

Required:

- (a) Calculate the company's reserves (profit and loss balance) on 01/01/2013. (18)
- (b) Calculate the profit/loss from the shop for the year ended 31/12/2013. (10)
- (c) Prepare a Profit and Loss Account for the year ended 31/12/2013. (36)
- (d) Prepare a Balance Sheet on 31/12/2013. (30)
- (e) The owners of the Serenity Gym and Health Centre Ltd have proposed a 15% increase in clients' fees to help clear the bank overdraft. What arguments would you make against this proposal? (6)

(100 marks)