## Question 6

(a)

Statement of Capital and Reserves on 1/1/2013

Assets
Buildings and grounds
Equipment
Vehicles
5\% Investments
Stock in shop
Stock of oil
Contract cleaning prepaid
Cash at bank

## Liabilities

Creditors for supplies
Clients' fees paid in advance
Loan
Interest on loan (12 months @ 400 per month)
Issued Capital
Reserves 1/1/2013

## €

$€$
582,800 [2]
49,000 [2]
36,000 [2]
40,000 [1]
3,400 [1]
1,900 [1]
400 [1]
6,000 [1]
719,500

1,600 [1]
6,000 [1]
50,000 [1]
4,800 [2]
450,000 [1] $(512,400)$
$\underline{\underline{207,100}}$ [1]
(b)

Shop Profit and Loss Account for the year ended 31/12/2013
Shop receipts
Less Cost of goods sold (3,400 + 28,000 - 1,400)

## Less expenses

Light and heat
Insurance
Telephone
Wages and salaries ( $40 \% \times 22,000$ )
8,800 [1]
Profit from shop
(c)

Profit and Loss Account for year ended 31/12/2013
Income
Profit from shop 4,500
Investment income received
2,000 [1]
Clients’ fees
330,800 [5]
337,300

## Less Expenses

$\begin{array}{ll}\text { Wages and salaries } & (85,400-8,800) \\ \text { Insurance } & (6,800-800)\end{array}$
76,600 [1]
Light and heat
Purchases - supplies
6,000 [1]

Loan interest
36,300 [3]
Loan interest
1,200 [1]
Laundry
2,500 [1]
Telephone (1,600 - 500)
1,100 [1]
Depreciation - Buildings
17,000 [1]
Equipment
8,500 [1] Vehicles
Loss on sale of vehicle
Contract cleaning
19,900 [3]
3,000 [2]
3,500 [3]
$(180,260)$
157,040 [6]
207,100 [1
364,140
Net Profit for year
Add Reserves 1/1/2013
Profit and Loss balance 31/12/2013

45,000 [1]
$(30,000)$ [5] 15,000

400 [1]
800 [1]
500 [1]

4,500
(d)

Balance sheet as at 31/12/2013

|  | Cost D | Depreciation | Net |
| :---: | :---: | :---: | :---: |
| Fixed Assets | € | € | € |
| Buildings and grounds | 900,000 | - | 900,000 [1] |
| Equipment (70,000 + 15,000) | 85,000 [2] | 29,500 [2] | 55,500 |
| Vehicles | 109,000 [1] | 45,900 [3] | 63,100 |
|  | 1,094,000 | $\underline{75,400}$ | 1,018,600 |
| Investments |  |  | 40,000 [2] |
|  |  |  | 1,058,600 |
| Current Assets |  |  |  |
| Investment income due | 800 [2] |  |  |
| Closing stock - shop | 1,400 [1] |  |  |
| oil | 600 [1] |  |  |
| Contract cleaning prepaid | 500 [1] |  |  |
| Clients' fees due | 800 [1] | 4,100 |  |
| Less Creditors: amounts falling due within 1 year |  |  |  |
| Electricity due | 360 [1] |  |  |
| Clients' advance deposits | 6,500 [1] |  |  |
| Bank | 135,000 [1] |  |  |
| Creditors for supplies | 2,500 [1] | $(144,360)$ | $(140,260)$ |
|  |  |  | $\underline{\underline{918,340}}$ |
| Financed by |  |  |  |
| Share Capital and Reserves | Authorised | Issued | \} |
| Ordinary Shares | 600,000 [1] | 450,000 [1] | [2] |
| Revaluation Reserve [54,200 + 50,000] |  | 104,200 [3] |  |
| Profit and Loss balance |  | 364,140 [2] | $\frac{918,340}{918,340}$ |

(e)

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The Centre is profitable and is generating enough cash to clear the overdraft without taking any remedial action that could have negative effects on profitability.
The proposed increase of $15 \%$ in clients' fees would raise only $€ 49,620$ based on this year’s figures. This is only one third of the overdraft of $€ 135,000$ and so would not be adequate. This increase in fees could however cause a drop in membership with loss of income.
Based on this year's figures the overdraft will have been cleared by the end of next year without taking any remedial action now. The Centre this year has repaid a loan of $€ 50,000$ plus interest $€ 6,000$ and had capital expenditure of $€ 295,000$ (Equipment $€ 15,000$, Extension $€ 230,000$, Vehicles $€ 50,000$ ). This is all non-recurring expenditure.

The Centre had a surplus of $€ 157,040$ this year and is clearly being run profitably and will continue to be profitable. Its return on capital employed is $17.1 \%$.

## Workings

| Clients' fees | Amount received | 330,500 |  |
| :--- | :--- | ---: | :--- |
|  | Advance deposits | 6,000 |  |
|  | Fees due | 800 |  |
|  | Less fees prepaid | $(6,500)$ | 330,800 |
| Light and heat |  |  |  |
|  | Amount paid | 3,400 |  |
|  | Stock oil 1/1/2013 | 1,900 | 360 |
|  | Electricity due | $(600)$ | 4,660 |
|  | Stock oil 31/12/2013 | $\underline{400}$ | 36,300 |
| Purchases | Charge to shop | 3,500 |  |

