

## 6. Service Firm

(100)

- (a) Calculate the company's reserves (profit and loss balance) on 01/01/2016. (18)  
 (b) Calculate the profit/loss from the shop for the year ended 31/12/2016. (10)  
 (c) Prepare a Profit and Loss Account for the year ended 31/12/2016. (36)  
 (d) Prepare a Balance Sheet on 31/12/2016. (30)

<b>Statement of Capital and Reserves</b> on 01/01/2016		<b>Balance Sheet</b> as at 31/12/2016		
	€	€	€	€
<u>Assets</u>			<u>Fixed Assets</u>	
Buildings [€630,000 (1) – €37,800 (1)]		592,200 (2)	Buildings & Grounds <b>W10</b>	950,000
Equipment [€60,000 (1) – €18,000 (1)]		42,000 (2)	Equipment <b>W11</b>	78,000 (2) •25,800 (2)
Vehicles [€80,000 (1) – €48,000 (1)]		32,000 (2)	Vehicles <b>W12</b>	95,000 (3) •43,000 (3)
5% Investments		70,000 (1)		<u>1,123,000</u> <u>68,800</u>
Stock in shop		4,100 (1)	<u>Financial Assets</u>	
Stock of heating oil		1,700 (1)	5% Investments	70,000 (2)
Contract cleaning prepaid		650 (1)		<u>1,124,200</u>
Cash at bank		<u>13,800 (1)</u>	<u>Current Assets</u>	
		756,450	Investment Income due	••1,000 (2)
			Closing Stock - shop	3,600 (1)
			- heating oil	700 (1)
<u>Less Liabilities</u>			Contract Cleaning prepaid	550 (1)
Creditors for supplies	3,400 (1)		Clients' Fees due	<u>900 (1)</u>
Clients' fees prepaid	4,700 (1)			6,750
Loan	70,000 (1)		<u>Less Creditors: amounts</u>	
Loan Interest due <b>W1</b>	•4,200 (2)		<u>falling due within 1 year</u>	
Issued Capital	<u>575,000 (1)</u>	(657,300)	Bank Overdraft	154,200 (1)
Reserves 01/01/2016		<u>•••99,150 (1)</u>	Clients' Fees prepaid	7,300 (1)
			Creditors for supplies	2,700 (1)
			Electricity due	<u>380 (1)</u> (164,580)
			Working Capital	(157,830)
			Total Net Assets <sup>■</sup>	<u>966,370</u>
			<u>Financed by:</u>	
			<u>Capital and Reserves</u>	<u>Auth'd.</u> <u>Issued</u>
			Ordinary Shares	700,000 (1)      575,000 (1)
			Revaluation Reserve <b>W14</b>	•125,400 (3)
				700,400
			Profit and Loss balance	••265,970 (1)
			Capital Employed <sup>■</sup>	<u>966,370 (1)</u>

**Health Shop Profit and Loss Account**  
for the year ended 31/12/2016

	€	€
Shop Receipts		64,600 (1)
<u>Less Expenses</u>		
Cost of goods sold <b>W2</b>	38,600 (4)	
Light and Heat	350 (1)	
Insurance	900 (1)	
Telephone	400 (1)	
Wages and Salaries <b>W3</b>	<u>7,800 (1)</u>	(48,050)
Profit from shop		<u>•••16,550 (1)</u>

**Profit and Loss Account**  
for the year ended 31/12/2016

	€	€
<u>Income</u>		
Investment Income		3,500 (1)
Profit from health shop		••16,550 (1)
Clients' Fees <b>W4</b>		<u>331,500 (5)</u>
		351,550
<u>Less Expenses</u>		
Laundry	3,400 (1)	
Telephone <b>W5</b>	2,200 (2)	
Wages and Salaries <b>W3</b>	••78,500 (2)	
Loan Interest <b>W1</b>	••1,200 (2)	
Contract Cleaning <b>W6</b>	4,700 (3)	
Light and Heat <b>W7</b>	5,930 (5)	
Insurance <b>W8</b>	7,800 (2)	
Purchases - supplies <b>W9</b>	35,600 (3)	
Depreciation:		
Buildings <b>W10</b>	17,600 (1)	
Equipment <b>W11</b>	7,800 (1)	
Vehicles <b>W12</b>	•17,000 (2)	
Loss on sale of vehicle <b>W13</b>	•3,000 (2)	(184,730)
Net Profit for year		<u>•••166,820 (2)</u>
Add Reserves 01/01/2016		••99,150 (1)
Profit and Loss balance 31/12/2016		<u>265,970</u>

- Allow 1 mark for student's own figure.
- Allow full marks for student's own figure if consistent with previous work.
- Accept correct figure only.
- Award mark for correct 'Capital Employed' only if 'Total Net Assets' also correct.

## 6. Service Firm (cont'd.)

<b>Workings:</b>	€	€
<b>W1</b> Loan Interest		
18 months' interest [€75,400 – €70,000]	5,400	
Loan Interest due 01/01/2016 [€5,400 ÷ 18 × 14]	<u>4,200 (2)</u>	
Figure transferred to Capital & Reserves	4,200	
Loan Interest for year [€5,400 – €4,200]	<u>••1,200 (2)</u>	
Figure transferred to Profit & Loss a/c	1,200	
<b>W2</b> Cost of Goods Sold		
Opening Stock	4,100 (1)	
+ Purchases	<u>38,100 (1)</u>	
	42,200	
– Closing Stock	<u>(3,600) (1)</u>	
Figure transferred to Shop Profit & Loss	38,600 (1)	
<b>W3</b> Wages and Salaries		
Charge to shop [30% of €26,000]	<u>7,800 (1)</u>	
Figure transferred to Shop Profit & Loss	7,800	
Payments during the year	86,300 (1)	
– Charge to shop [30% of €26,000]	<u>••(7,800) (1)</u>	
Figure transferred to Profit & Loss a/c	78,500	
<b>W4</b> Clients' Fees		
Receipts during the year	333,200 (1)	
+ Clients' Fees prepaid 01/01/2016	4,700 (1)	
+ Clients' Fees due 31/12/2016	<u>900 (1)</u>	
	338,800	
– Clients' Fees prepaid 31/12/2016	<u>(7,300) (1)</u>	
Figure transferred to Profit & Loss a/c	331,500 (1)	
<b>W5</b> Telephone		
Payments during the year	2,600 (1)	
– Charge to shop	<u>(400) (1)</u>	
Figure transferred to Profit & Loss a/c	2,200	
<b>W6</b> Contract Cleaning		
Payments during the year	4,600 (1)	
+ Cleaning prepaid 01/01/2016	<u>650 (1)</u>	
	5,250	
– Cleaning prepaid 31/12/2016	<u>(550) (1)</u>	
Figure transferred to Profit & Loss a/c	4,700	
<b>W7</b> Light and Heat		
Payments during the year	4,900 (1)	
+ Stock of Heating Oil 01/01/2016	1,700 (1)	
+ Electricity due 31/12/2016	<u>380 (1)</u>	
	6,980	
– Stock of Heating Oil 31/12/2016	<u>(700) (1)</u>	
– Charge to shop	<u>(350) (1)</u>	
Figure transferred to Profit & Loss a/c	5,930	
<b>W8</b> Insurance		
Payments during the year	8,700 (1)	
– Charge to shop	<u>(900) (1)</u>	
Figure transferred to Profit & Loss a/c	7,800	
<b>W9</b> Purchases - supplies		
Payments during the year	36,300 (1)	
+ Creditors 31/12/2016	<u>2,700 (1)</u>	
	39,000	
– Creditors 01/01/2016	<u>(3,400) (1)</u>	
Figure transferred to Profit & Loss a/c	35,600	
<b>W10</b> Buildings and Grounds		
Cost 01/01/2016	630,000	
+ Extension	<u>250,000</u>	
	880,000	
+ Revaluation 31/12/2016 [€950,000 – €880,000]	<u>70,000</u>	
Figure transferred to Balance Sheet	950,000 (1)	
Depreciation charge for the year [2% of €880,000]	<u>17,600 (1)</u>	
Figure transferred to Profit & Loss a/c	17,600	
<b>W11</b> Equipment		
Cost 01/01/2016	60,000 (1)	
+ Purchase of new equipment	<u>18,000 (1)</u>	
Figure transferred to Balance Sheet	78,000	
Depreciation charge for the year [10% of €78,000]	<u>7,800 (1)</u>	
Figure transferred to Profit & Loss a/c	7,800	
<b>W12</b> Vehicles		
Cost 01/01/2016	80,000 (1)	
+ New vehicle purchased	<u>45,000 (1)</u>	
	125,000	
– Old vehicle sold	<u>(30,000) (1)</u>	
Figure transferred to Balance Sheet	95,000	
Depreciation charge for the year [20% of €50,000]	10,000	
[20% of €30,000 × 8/12]	4,000	
[20% of €45,000 × 4/12]	<u>3,000</u>	
Figure transferred to Profit & Loss a/c	•17,000 (2)	
<b>W13</b> Loss on Sale of Vehicle		
Cost of vehicle sold	30,000	
– Depreciation to date of sale [20% of €30,000 × 3 yrs. & 8 mths.]	<u>22,000</u>	
Net Book Value on date of sale	8,000	
– Trade-in Allowance	<u>(5,000)</u>	
Figure transferred to Profit & Loss a/c	•3,000 (2)	
<b>W14</b> Revaluation Reserve		
Buildings [€950,000 – €880,000] <b>W10</b>	70,000 (1)	
Depreciation:		
3 yrs: [2% of €630,000 × 3]	37,800 (1)	
2016: [2% of €880,000]	<u>17,600 (1)</u>	
Figure transferred to Balance Sheet	125,400	

- Allow 1 mark for student's own figure.
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- Accept correct figure only.

**6. Service Firm (cont'd.)**

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- (e) The company now wishes to purchase equipment for the new extension.  
Advise the company on how to fund the expected cost of €240,000. (6)

Advice (6)

- sell the investments €70,000 (1)
- sell the remaining shares €125,000 (1)
- borrow the remaining €45,000 (1)
- the company would be well able to pay back the loan quickly (1)  
as the accounts show that it had a surplus of €166,820 (1) in 2016 and is generating enough cash
- although the company has a bank overdraft of €154,200, it has made capital payments of €378,000 in 2016 (1)

• Allow full marks for student's own figure if consistent with previous work.

\*\* Figures in brackets show the breakdown of marks if answer incomplete.

\*\* Accept student's own wording if equivalent meaning conveyed.

\*\* Accept other appropriate material.