

6. Service Firm

The following were included in the assets and liabilities of Fitpro Fitness Centre Ltd on 01/01/2016:

Buildings and grounds at cost €600,000, equipment at cost €80,000, furniture at cost €40,000, stock in shop €5,000, stock of heating oil €1,800, contract cleaning prepaid €200, investment interest due €300, creditors for supplies to the fitness centre €2,000, members' fees paid in advance €3,000. The authorised capital of the company was €500,000 and the issued capital was €350,000.

All fixed assets have 3 years accumulated depreciation on 01/01/2016.

The following is a receipts and payments account for the year ended 31/12/2016:

Receipts and Payments Account of Fitpro Fitness Centre Ltd for year ended 31/12/2016

| | € | | € |
|----------------------------------|----------------|---|----------------|
| Balance at bank 01/01/2016 | 59,500 | Wages and salaries | 83,000 |
| Members' fees | 270,000 | Telephone and broadband | 1,700 |
| Interest on 3% investments | 3,000 | Insurance | 7,200 |
| Shop receipts | 85,000 | Purchases – shop | 38,600 |
| Sale of furniture (cost €20,000) | 10,000 | Purchases – supplies for fitness centre | 43,200 |
| | | Contract cleaning | 8,300 |
| | | Light and heat | 5,600 |
| | | Purchase of adjacent building on 01/04/2016 | 150,000 |
| | | Furniture | 12,000 |
| | | Laundry | 11,600 |
| | | Bank loan plus 15 months interest at 4% per annum on 01/04/2016 | 63,000 |
| | | Balance at bank 31/12/2016 | <u>3,300</u> |
| | <u>427,500</u> | | <u>427,500</u> |

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

- (i) Closing stock at 31/12/2016: shop €1,800, heating oil €400.
- (ii) Cleaning is done under contract payable monthly in advance and includes a payment of €600 for January 2017.
- (iii) Members' fees include €4,200 for 2017. Members' fees in arrears at 31/12/2016 were €2,700.
- (iv) The closing bank figure does not take into account bank charges €110 and a dishonoured cheque €950 received from a member in respect of fees.
- (v) The payment for laundry includes €2,700 for three weeks wages paid to a replacement fitness instructor. Provide for a further two weeks wages due.
- (vi) Wages and salaries include €24,000 per annum paid to the secretary, who also runs the shop. It is estimated that 60% of this salary and €300 of the light and heat, €850 of the insurance and €400 of the telephone and broadband is attributable to the shop.
- (vii) Creditors for supplies at 31/12/2016 were €3,600.
- (viii) Depreciation is to be provided as follows:
 - Buildings and grounds 2% of cost from date of purchase.
 - Equipment 20% of cost.
 - Furniture held on 31/12/2016 is depreciated at 20% of cost. No depreciation is charged on furniture in the year of disposal.

Required:

- (a) Prepare a statement of 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. Show workings. (10)
 - (c) Prepare a profit and loss account for the year ended 31/12/2016. (32)
 - (d) Prepare a balance sheet on 31/12/2016. (30)
 - (e) Fitpro Fitness Centre Ltd have decided to purchase and install new gym equipment. They have received a quote of €225,000. Can Fitpro Fitness Centre Ltd afford this investment? Explain your answer. (10)
- (100 marks)**