

Question 6 – Service Firm

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(a)

Statement of Reserves on 01/01/2016

<b>Assets</b>		€		€
Buildings and grounds	[600,000 – 36,000]	564,000	[2]	
Equipment	[80,000 – 48,000]	32,000	[2]	
Furniture	[40,000 – 24,000]	16,000	[2]	
3% Investments		90,000	[1]	
Stock in shop		5,000	[1]	
Stock of oil		1,800	[1]	
Contract cleaning prepaid		200	[1]	
Investment income due		300	[1]	
Cash at bank		<u>59,500</u>	[1]	768,800
<b>Less Liabilities</b>				
Creditors for supplies		2,000	[1]	
Member fees paid in advance		3,000	[1]	
Loan		60,000	[1]	
Loan interest due		2,400	[1]	
Issued capital		<u>350,000</u>	[1]	(417,400)
<b>Reserves 01/01/2016</b>				<u><b>351,400</b></u> [1]

(b)

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

		€		€
Shop Receipts				85,000 [1]
<b>Less cost of goods sold</b>	[5,000 + 38,600 – 1,800]			<u>(41,800)</u> [5]
				43,200
<b>Less expenses</b>				
Light and heat		300	[1]	
Insurance		850	[1]	
Telephone		400	[1]	
Salary (24,000 × 60%)		<u>14,400</u>	[1]	(15,950)
Profit from shop				<u><b>27,250</b></u>

(c)

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

Income	€		€
Profit from shop	27,250		
Investment interest	2,700	[1]	
Profit on disposal of furniture	2,000	[1]	
Member fees	<u>271,500</u>	[5]	303,450
<b>Less Expenditure</b>			
Wages and salaries	73,100	[2]	
Insurance (7,200 – 850)	6,350	[2]	
Light and heat	6,700	[5]	
Telephone (1,700 – 400)	1,300	[2]	
Purchases – supplies	44,800	[3]	
Loan interest	600	[1]	
Laundry	8,900	[1]	
Contract cleaning	7,900	[3]	
Bank charges	110	[1]	
Depreciation – Buildings	14,250	[1]	
– Equipment	16,000	[1]	
– Furniture	<u>6,400</u>	[1]	(186,410)
Net profit			117,040 [1]
Add reserves 01/01/2016			<u>351,400</u> [1]
Profit and loss balance 31/12/2016			<u>468,440</u>

(d)

## Balance Sheet as at 31/12/2016

	Cost		Depreciation		Net
	€		€		€
<b>Fixed Assets</b>					
Buildings	750,000	[2]	50,250	[2]	699,750
Equipment	80,000	[1]	64,000	[2]	16,000
Furniture	<u>32,000</u>	[2]	<u>18,400</u>	[3]	<u>13,600</u>
	<u>862,000</u>		<u>132,650</u>		729,350
3% Investments					<u>90,000</u> [2]
					819,350
<b>Current Assets</b>					
Closing stock – shop	1,800	[1]			
Closing stock – oil	400	[1]			
Bank	2,240	[3]			
Contract cleaning prepaid	600	[1]			
Member fees due	<u>3,650</u>	[3]	8,690		
<b>Less Creditors: amounts due within 1 year</b>					
Wages due	1,800	[2]			
Creditors for supplies	3,600	[1]			
Member fees prepaid	<u>4,200</u>	[1]	(9,600)		(910)
					<u>818,440</u>
<b>Financed by</b>					
<b>Share Capital and Reserves</b>	<b>Authorised</b>		<b>Issued</b>		
Ordinary shares	500,000	[1]	350,000	[1]	
Profit and loss balance			<u>468,440</u>	[1]	<u>818,440</u>

- (e) Fitpro Ltd can afford the new gym equipment. It can finance the cost of €225,000 by selling the investments and receive €90,000 cash and issuing extra ordinary shares and collect €135,000 in cash (or €150,000 from shares and €75,000 from investments).

It has just repaid a loan including interest of €63,000 and spent a net €152,000 on fixed assets both of which are of a non- recurring nature. The company made a profit this year of €117,040 and has cash in the bank of €2,240. The company has no need to borrow to fund the project which will eliminate interest payments and result in higher future profits.

### Workings

1.	Cost of goods sold	$5,000 + 38,600 - 1,800$	=	41,800
2.	Member fees	$270,000 + 3,000 + 2,700 - 4,200$	=	271,500
3.	Light and heat	$5,600 - 300 + 1,800 - 400$	=	6,700
4.	Purchases – supplies	$43,200 - 2,000 + 3,600$	=	44,800
5.	Contract Cleaning	$8,300 + 200 - 600$	=	7,900
6.	Wages	$68,600 + 4,500$	=	73,100
7.	Bank	$3,300 - 950 - 110$	=	2,240
8.	Furniture disposal	$20,000 - 12,000 - 10,000$	=	2,000 <b>Profit</b>