
Chapter 14

Service Firms

Higher Level

2017

Fitpro Fitness Centre Ltd

100 Marks

Step by step approach

STEPS INVOLVED

- Step 1 Prepare a statement of the company's reserves (profit and loss balance)
- Step 2 Calculate the profit/loss from the shop for the year ended.
- Step 3 Prepare a profit and loss account for the year ended.
- Step 4 Prepare a balance sheet.
- Step 5 Some sort of Theory.

Step 1 - Prepare a statement of the company's reserves (profit and loss balance)

This is where you look at the start of the question and from the list given identify the assets and liabilities. You will have to complete a working to calculate the correct figure for Buildings and grounds, Equipment, and furniture to include the accumulate depreciation. The number of years to be calculated will be given in the question. You will also have to include the following which students usually leave out -

1. Investment Income - You might have to calculate the figure for investments.
2. Bank - the opening bank figure will have to be included. If this figure is on the debit side, it is an asset but if it is on the credit side it is a liability.
3. Loan - You might have to calculate the figure for the loan. Have a look at the payment section in the question and see if they have given you the loan figure or the loan plus the interest figure. If it is the loan plus the interest figure the loan will have to be calculated.
4. The interest figure - Take the loan figure (calculate above) and take it away from the figure in the payment section.

These figures (1-4 above) should be include are where students lose marks.

Part 1

Identify if the items at the start of the question if they are an asset or liability. Place an A over the item you think is an asset and a L under the item you think is a liability.

Assets	Liabilities
Buildings and grounds at cost (W)	Creditors for Suppliers
Equipment at cost (W)	Members fees paid in advance
Furniture at cost (W)	Issued Capital
Stock in shop	Loan (W)
Stock of heating oil	Interest (W)
Contract cleaning prepaid	
Investment income due	
Investment Income (W)	

Remember not to include Authorized capital as this is the amount of money, we can issued but have only issued €350,000. Remember the next step is to do the workings for each of the items that has a W (This will usually be the same for each question)

Part 2

The next part to the question is to do the working for the following -

- | | | |
|----------------------|--------------|--------------|
| 1. Buildings | 3. Equipment | 5. Furniture |
| 2. Investment Income | 4. Loan | 6. Interest |

Working 1 - Accumulate Depreciation

Buildings

€600,000 * 2%	Need 3 years Depreciation as per the question
= €12,000 Dep Per Year	€12,000 * 3 = €36,000

Need to reduce the buildings by €36,000 (Accumulated Depreciation)

€600,000	
<u>(€36,000)</u>	
€564,000	SoR

Equipment

€80,000 * 20%	Need 3 years Depreciation as per the question
= €16,000 Dep Per Year	€16,000 * 3 = €48,000

Need to reduce the Equipment by €48,000 (Accumulated Depreciation)

€80,000
(€48,000)
€32,000 **SoR**

Furniture

€40,000 * 20% Need 3 years Depreciation as per the question
 = €8,000 Dep Per Year €8,000 * 3 = €24,000

Need to reduce the Equipment by €48,000 (Accumulated Depreciation)

€40,000
(€24,000)
€16,000 **SoR**

Working 2 - Investment Income

Have a look on the receipt side of the receipts and payment account and look for investment and the percentage. Then check at the start of the question and see if there is an investment income due from the previous period (Last year). If there is, we take it away as it is from last year period. In this question is as follows

€3,000	From the question receipts and payment account	3%	=	€2,700
<u>(€300)</u>	From the start of the question	1%	=	€2,700 / 3
€2,700	Investment Income for the year		=	€900
P & L (A)		100%	=	€900 * 100
			=	€90,000
				SoR

Working 3 - Loan

Have a look at the payment side of the receipt and payment account given in the question. Look to see if there is a loan - in this question there is a bank loan plus 15 month interest at 4% per annum on 01.04.2016 is €63,000. We need to find out how much of this is a loan and how much is interest.

In this question the loan has 15 months interest add to it. We need to find out in percentage (APR) how much extra this is added to the loan. The APR is the loan plus interest and is different to the interest rate.

$$\begin{aligned} 15 \text{ Months} &= 4\% * 15/12 \\ &= 0.05 \text{ or } 5\% \text{ (APR)} \end{aligned}$$

105%	=	€63,000	Total	€63,000	
1%	=	€63,000 / 105	Loan	<u>€60,000</u>	SoR
	=	€600	Interest	€3,000	
100%	=	€600 * 100			
	=	€60,000			

There is 15-month interest on the loan - 3 months for the next period (year) and 12 months for this period.

$$€3,000 / 15$$

$$= €200 \text{ Per month}$$

$$€200 * 3 \text{ Months} = €600 \quad \text{P \& L (L)}$$

$$€200 * 12 \text{ Months} = €2,400 \quad \text{SoR}$$

Now that we have all the workings completed and the figures needed, we can now complete the Statement of Reserve

Statement of Capital and Reserve for Fitpro Fitness Centre Ltd on 01.01.16

Assets		
Buildings (w1)	564,000	
Equipment (w1)	32,000	
Furniture (w1)	16,000	
Stock Shop	5,000	
Stock Heating Oil	1,800	
Cleaning Prepaid	200	
Investment Due	300	
Investment	90,000	
Bank	59,500	768,000
Liabilities		
Creditors	2,000	
Member Fees Prepaid	3,000	
Issued Capital	350,000	
Loan (w3)	60,000	
Interest (w3)	2,400	(417,000)
Reserves 01.01.16		351,400

Step 2 - Calculate the profit/loss from the shop for the year ended.

The next step is to prepare a profit and loss account for the shop. Highlight all the words that says shop including the start of the question, the receipts and payments account and the end of the question. You will have to complete some workings for the expense section of the profit and loss account

Highlight the following.

Start of the question

Stock in shop (Opening Stock)

Receipt and Payments

Shop receipts (Receipts)

Purchases - Shop (Payments)

End of the Question

Closing Stock - Shop

Adjustment (iv) Salaries (w)

Adjustment (vi) - Light and Heat (w)

Adjustment (vi) - Insurance (w)

Adjustment (vi) - Broadband (w)

We need to do workings from adjustment (iv) taken into account what they are telling us as per the question.

Working 5 - Wages

€24,000 * 60%	Amount	€83,000	As per the question
= €14,400 P & L (Shop)	Less Shop	<u>(€14,000)</u>	See working 5
		€68,600	
	Laundry	<u>€2,700</u>	Adjustment (v)
		€71,300	
	*Wages Due	<u>€1,800</u>	Adjustment (v) BS CA
		€73,100	P & L (L)

* €2,700 / 3

= €900 * 2 weeks

= €1,800

Working 6 - Laundry

Amount	€11,600		
Wages	<u>(€2,700)</u>		
	€8,900		P & L (L)

Working 7 - Light and Heat

Amount	€5,600	As per the question.	
Less Shop	<u>€300</u>	Adjustment (vi)	P & L Shop
	€5,300		
Add Oil 01.01	<u>€1,800</u>	Start of the question.	
	€7,100		
Less Oil 31.12	<u>€400</u>	End of the question.	BS CA
	€6,700	P & L (L)	

Working 8 - Insurance

Amount	€7,200	As per the question.	
Less shop	<u>€850</u>	Adjustment (vi)	P & L Shop
	€6,350	P & L (L)	

Working 9 - Telephone and Broadband

Amount	€1,700	As per the question.	
Less shop	<u>€400</u>	Adjustment (vi)	P & L Shop
	€1,300	P & L (L)	

Now we have all the working completed for Part b we can not prepare the Profit and Loss account for the Shop.

Trading Profit and Loss for Fitpro Fitness Centre Ltd for year ended 31.12.2016.

Sales		85,000
Less Cost of Sales		
Opening Stock	5,000	
Add Purchases	38,600	
	43,600	
Less Closing Stock	1,800	41,800
Gross Profit		43,200
<u>Less Expenses</u>		
Wages (w5)	14,400	
Light & Heat (w7)	300	
Insurance (w8)	850	
Telephone & Broadband	400	15,950
Profit		27,250

This profit will be included in the Part C - Profit and Loss account under Assets.

Step 3 - Prepare a profit and loss account for the year ended.

The next step is to complete the profit and loss account. Here you need to work down through each item in the receipt and payment account. The receipts are an asset and the payment is a liability. You will also have to look the adjustments and complete workings for calculate the correct figure -

Receipts

Bank	This has been entered in the SoR account as part of Part A
Member fees	An adjustment will be needed (See Working 10)
Interest on investments	See working 2.
Shop receipts	Used for P & L for the shop. Include if a profit was made.
Sale of furniture	An Adjustment will be needed (See Working 11)

Working 10 - Member Fees

We need to look at the start of the question to see if there are any member/client fees due or prepaid. Look at the end of the question to see if there are any member/client fees due or prepaid. And have a look to see if there are any dishonored cheques.

01.01.xx	Due	Less	31.12.xx	Due	Add
01.01.xx	Prepaid	Add	31.12.x	Prepaid	Less
Amount	€270,000		Receipts section.		
01.01.16 Prepaid	<u>€3,000</u>		Start of the question.		
	€273,000				
31.12.16 Prepaid	<u>€4,200</u>		End of the question.		BS CL
	€268,800				
31.12.16 Due	<u>€3,650</u>		€2700 + €950 (Cheque Dishonored)		BS CA
	€272,450				
Less Cheque	<u>€950</u>		Adjustment (iv)		
	€271,500		P & L (L)		

Remember

Any items that at the end of the question will probably go in the Balance sheet as well.

Working 11 - Furniture

Furniture	
€40,000	€20,000
€12,000	€32,000 (BS TA)
€52,000	€52,000

Acc Dep Furniture	
€12,000	€24,000
€18,400 (BS TA)	€6,400 (P * L (L))
€30,400	€30,400

Disposal	
€20,000	€10,000
€2,000 (P & L (A))	€12,000
€22,000	€22,000

Depreciation this year

€32,000 * 20%
= €6,400

Furniture Sold

€20,000 * 20%
= €4,000 * 3 year
= €12,000

Profit and Loss account for Fitpro Fitness Centre Ltd for year ended 31.12.2016.		
Assets		
Member Fees (w10)	€271,500	
Investment Income (w2)	€2,700	
Shop Profit	€27,250	
Profit from furniture	€2,000	€303,450

Payments

Wages and Salaries	See working 5.
Telephone and Broadband	See working 9.
Insurance	See working 8.
Purchases - Shop	Used for P & L for the shop. Include if a loss was made.
Purchases - Suppliers	An Adjustment will be needed (See Working 12)
Contract Cleaning	An Adjustment will be needed (See Working 13)
Light and Heat	See working 7.
Purchase of adjacent building	An Adjustment will be needed (See Working 14)
Furniture	See working 11.
Laundry	See working 6.
Loan Interest	See working 3.
Bank Balance	An Adjustment will be needed (See Working 15)

Working 12 - Purchases - Suppliers

Amount	€43,200	As per the question.
Less Creditors 01.01	<u>€2,000</u>	See the start of the question.
	€41,200	
Add creditors 31.12	<u>€3,600</u>	See the end of the question BS CL
	€44,800	P & L (L)

Working 13 - Contract Cleaning

Amount	€8,300	As per the question.
Add prepaid 01.01	<u>€200</u>	See the start of the question.
	€8,500	
Less Prepaid 31.12	<u>€600</u>	See the end of the question BS CA
	€7,900	P & L (L)

Working 14 - Depreciation**Buildings**

Amount	€600,000	See the start of the question.
New Buildings	<u>€150,000</u>	As per question.
	€750,000	BS TA

€600,000 * 2%	=	€12,000	
€150,000 * 2% * 9/12	=	<u>€2,250</u>	
		€14,250	P & L (L)

Accumulate Depreciation

Amount	€36,000	As per working 1
This year	<u>€14,250</u>	As per above
	€50,250	BS TA (Dep)

Furniture

See working 11.

Tangible Asset	€32,000	BS TA
Acc Dep	€18,400	BS TA

Equipment

€80,000 * 20%	BS TA
= €16,000	P & L (L)

Accumulate Depreciation

Amount	€48,000	As per working 1
This year	<u>€16,000</u>	As per above
	€64,000	BS TA (Dep)

Working 15 - Bank

Amount	€3,300	As per the question.	
Less cheque	<u>€950</u>	Adjustment (iv)	
	€2,350		
Add Charges	<u>€110</u>	Adjustment (iv)	P & L (L)
	€2,240	BS CA	

Liabilities		
Wages (5)	€73,100	
Telephone (w9)	€1,300	
Insurance (w8)	€6,350	
Purchases - Suppliers (w12)	€44,800	
Contract Cleaning (w13)	€7,900	
Light and Heat (7)	€6,700	
Dep Buildings (w14)	€14,250	
Dep Furniture (w11)	€6,400	
Dep Equipment (w14)	€16,000	
Laundry (w6)	€8,900	
Loan Interest (w3)	€600	
Bank Charges (w15)	€110	€186,410

Profit and Loss account for Fitpro Fitness Centre Ltd for year ended 31.12.2016.		
Assets		
Member Fees (w10)	€271,500	
Investment Income (w2)	€2,700	
Shop Profit	€27,250	
Profit from furniture	€2,000	€303,450
Liabilities		
Wages (5)	€73,100	
Telephone (w9)	€1,300	
Insurance (w8)	€6,350	
Purchases - Suppliers (w12)	€44,800	
Contract Cleaning (w13)	€7,900	
Light and Heat (7)	€6,700	
Dep Buildings (w14)	€14,250	
Dep Furniture (w11)	€6,400	
Dep Equipment (w14)	€16,000	
Laundry (w6)	€8,900	
Loan Interest (w3)	€600	
Bank Charges (w15)	€110	(€186,410)
Net Profit		€117,040
Add Reserves 01.01.16		€351,400
Profit and Loss 31.12.16		€468,440

Step 4 - Prepare a balance sheet.

Balance Sheet for Fitpro Fitness Centre Ltd for year ended 31.12.2016			
Fixed Asset	Cost	Ac Dep	NBV
Buildings (w14)	€750,000	€50,250	€699,750
Equipment (w14)	€80,000	€64,000	€16,000
Furniture (w11)	€32,000	€18,400	€13,600
	€862,000	€132,650	€729,350
Financial Assets			
3% Investments (w2)			€90,000
			€819,350
Current Assets			
Closing stock (Oil)		€1,800	
Closing Stock (Shop)		€400	
Cleaning Prepaid (w13)		€600	
Client Fees Due (w10)		€3,650	
Bank (w15)		€2,240	
		€8,690	
Creditors due within one year			
Creditors (Suppliers) (w12)	€3,600		
Client Fees Prepaid (w10)	€4,200		
Wage Due (w5)	€1,800	€9,600	(€910)
			€818,440
Finance by			
	Authorized	Issued	
Capital	€500,000	€350,000	
Profit and Loss		€468,440	
			€818,440

Step 5 - Some sort of Theory.

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.

1. Fitpro Ltd can afford the new gym equipment.
2. 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).
3. 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.