

#### Q 4 Incomplete Records

On 1/1/2010 R. O'Hagan lodged €480,000 to a business bank account and on the same day purchased a business for €420,000, consisting of the following tangible assets and liabilities: buildings €400,000, stock €14,200, three months rates prepaid €1,800, debtors €24,400, wages due €2,900 and trade creditors €49,000.

During 2010 O'Hagan did not keep a full set of books but was able to supply the following additional information on 31/12/2010:

- (i) Each week O'Hagan took from stock, goods to the value of €160 and a cheque for €120 to pay household expenses.
- (ii) On 1/10/2010 O'Hagan borrowed €360,000, part of which was used to purchase an adjoining premises costing €280,000. It was agreed that interest would be paid on the last day of each month at the rate of 4% per annum. The capital sum was to be repaid in one lump sum in the year 2017 and to provide for this the bank was instructed to transfer €4,800 on the last day of every month from O'Hagan's business account into an investment fund.
- (iii) During the year, O'Hagan lodged receipts from cash register €120,000 and dividends €3,800 to the business bank account.

O'Hagan also made the following payments by cheque: light and heat €8,100, interest €2,400, wages and general expenses €86,000, equipment €11,000, rates for twelve months €8,400 and son's college fees €2,000.

- (iv) O'Hagan estimated that 20% of the following: equipment, light and heat **used** and interest **payable** should be attributed to the private section of the premises.
- (v) Included in the assets and liabilities of the firm on 31/12/2010 were stock €16,700, debtors €31,200, trade creditors €27,300, electricity due €620 and €36 interest earned by the investment fund to date.

#### Required:

- (a) Prepare a Statement/Balance Sheet showing O'Hagan's profit or loss for the year ended 31/12/2010. **(Show your workings).** (52)
- (b) What advice would you give O'Hagan in relation to record keeping? (8)

**(60 marks)**