

Question 6

Balance Sheet of M. McSharry, as at 31/12/2021

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		Cost	Acc Dep	NBV
Intangible Fixed Assets				
Goodwill				22,640 [2]
Tangible Fixed Assets				
Premises		980,000 [1]		980,000
Motor Vehicles	W1	56,000 [1]	11,200 [1]	44,800
Equipment	W1	285,000 [2]	31,875 [2]	253,125
		1,321,000	43,075	1,277,925
Financial Assets				
Investments				192,000 [1]
Current Assets				
Closing Stock	W2		84,022 [1]	
Bank			108,600 [1]	
Debtors	W13	121,500 [1]		
Less Bad debts provision	W14	3,645 [2]	117,855	
Investment Income due	W8		480 [3]	
Rates prepaid	W4		6,900 [3]	
Stock of heating oil	W5		1,100 [1]	
			318,957	
Creditors: amounts falling due within 1 year				
Creditors		57,800 [1]		
Loan payments due		14,400 [2]		
Loan interest due		160 [2]		
Wages & General Exp due	W6	4,750 [1]		
Light & Heat due	W5	240 [1]	(77,350)	241,607
				1,734,172
Financed By				
Creditors: amounts falling due after 1 year				
Long Term Loan				129,600[2]
Capital				
Capital		1,350,000 [1]		
Capital introduced		290,000 [1]		
Less Drawings	W3	(21,540) [5]	1,618,460	
Net Loss	W9		(13,888)[2]	1,604,572
				1,734,172

Trading Profit and Loss Accounts of M. McSharry, for the year ending 31/12/2021

		€	€	€
Sales	W11			938,048 [2]
Less Cost of Sales				
Opening stock			46,140 [2]	
Purchases	W12	747,658[2]		
Less Drawings		(6,240)[1]	<u>741,418</u>	
			787,558	
Less closing stock	W2		(84,022) [4]	(703,536)
Gross Profit	W10			234,512
Less Expenses				
Wages and General Expenses	W6	164,500 [6]		
Light and Heat	W5	4,140 [6]		
Rates	W4	28,800 [6]		
Bad debt provision		3,645 [2]		
Cleaning expenses		3,000 [2]		
Insurance		1,960 [2]		
Depreciation: Vehicles	W1	11,200 [2]		
Depreciation: Equipment	W1	31,875 [2]	249,120	<u>(249,120)</u>
Operating Loss				(14,608)
Investment Income	W8			2,880 [4]
				(11,728)
Less Loan Interest	W7			(2,160) [4]
Net Loss				<u>(13,888) [3]</u>

Workings:

W1	Depreciation Equipment			
	225,000 @ 12½% @ 12/12 months =	28,125	=	31,875
	60,000 @ 12½% @ 6/12 months =	3,750		
	Depreciation Vehicles			
	56,000 @ 20% @ 12/12 months		=	11,200
W2	Closing Stock	85,122	=	84,022
	Less: Heating Oil	(1,100)		
W3	Drawings			
	Purchases (€120 x 52)	6,240		
	Cash (€250 x 52)	13,000		
	Light & Heat	460		
	Insurance	840	=	21,540
	Cleaning expenses	1,000		
W4	Rates			
	Bank	27,600		
	Plus: Prepaid 01/01/2021	8,100		
	Less: Prepaid 31/12/2021	(6,900)	=	28,800
W5	Light and Heat			
	Bank	5,460		
	Plus: Due 31/12/2021 (Electricity)	240		
	Less: Prepaid 31/12/2021 (Oil)	(1,100)		
	Less: Drawings (10%)	(460)	=	4,140
W6	Wages and General Expenses			
	Bank	165,750		
	Plus: Wages due 31/12/2021	4,750		
	Less: Wages due 01/01/2021	(3,200)		
	Less: Insurance	(2,800)	=	164,500
W7	Loan Interest			
	Paid during the year	2,000	=	2,160
	Due 31/12/2021	160		
	144,000 @ 3% @ 6/12 months			
W8	Investment Income			
	Received	2,400	=	2,880
	Plus: Due 31/12/2021 (3 months)	480		
W9	Net Loss for the year (balancing figure in the Balance Sheet)			
	Total Net Assets	1,734,172		
	Less: Loan	(129,600)		
	Less: Capital after drawings and before profit	(1,618,460)	=	13,888

W10	G.P.			
	Net Loss	(13,888)		
	Plus: Expenses(249,120+2,160)	251,280		
	Less: Gains	(2,880)	=	234,512
W11	Sales			
	Gross Profit / 25 * 100		=	938,048
W12	Purchases, (after Drawings)			
	Cost of Sales	703,536		
	Plus: Closing Stock	84,022		
	Less: Opening Stock	(46,140)	=	741,418
W13	Bad Debt Provision			
	Debtors of €121,500 @ 3%	3,645		
W14	Loan			
	Original Loan	144,000	=	129,600
	Less 2 payments (on the 1/1 & 1/07)	(14,400)		
W15	Cleaning	4,000		
	Less drawings	1,000	=	3,000
W17	Insurance	2,800		
	Less Drawings	840	=	1,960

C Explain two fundamental accounting concepts, with reference to how they apply to the accounts of McSharry.

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Going Concern

It must be assumed when preparing financial statements that the business will continue to operate in its present form into the foreseeable future. Indications of Going Concern are that McSharry has recently purchased and invested heavily in this business in the form of new equipment of €60,000 and a new delivery van of €56,000, capital introduced of €290,000.

Accruals (matching)

All expenses incurred /income earned that belong to an accounting period must be recorded in that accounting period regardless of whether payment/receipts have occurred or not. We see in McSharry's business, account has been taken of amounts due and prepaid at both the beginning and end of the year e.g. total investment income earned of €2,880 has been included in the profit and loss account even though €480 has yet to be received by year end. Rates prepaid of €8,100 at the beginning of the year was included in the rates bill for this year even though paid in 2020 and rates prepaid at the end of the year was excluded from this year's profit and loss account even though it was paid in 2021.

Consistency

Items must be treated in the same way from one accounting period to the next We cannot tell from just one set of accounts if this is the case. We would need for example to examine the depreciation policy of next year's accounts to examine consistency from one year to the next. Example Equipment 12.5%, Vans 20%.

Prudence

When preparing accounts, caution should be exercised. Possible losses must be recorded immediately but income must not be recorded until it is reasonably certain/realised(deferred revenue recognition). McSharry was being prudent when a bad debt provision of €3,645 was created, which is 3% of debtors.