

2. Incomplete Records

On 01/01/2022, P. Shepard purchased a business which included the following tangible assets and liabilities:

Buildings €300,000; stock €63,000; debtors €73,200; equipment €70,000, wages due €1,700; trade creditors €57,700; rates prepaid (1 month) €450; delivery van €35,000 and cash €300.

During 2022 Shepard did not keep a full set of accounts but was able to supply the following information for the year ended 31/12/2022:

Cash Payments: Lodgements €196,000; general expenses €12,500; purchases €84,000.

Bank Payments: Interest €3,300; creditors €37,000; rates for 12 months €6,000; general expenses €81,000; equipment (purchased on 01/05/2022) €24,000 and light and heat €20,700.

The payment for general expenses includes a payment of €4,100 for a diesel bill. It is estimated that 20% of this diesel bill relates to Shepard's private use.

Bank Lodgements: Debtors €46,000, cash €196,000.

Each week Shepard took goods from stock to the value of €120 and cash €180 for household expenses.

On 01/08/2022 Shepard borrowed €150,000 all of which was used to purchase an adjoining building on the same date. Interest was to be charged on the loan at the rate of 7% per annum. The capital sum borrowed is to be repaid using an investment fund which has been set up. Payments were made into this investment fund from the business bank account. The fund had earned interest of €150 by 31/12/2022.

Shepard estimated that 15% of light and heat used and 20% of interest payable should be attributed to private use.

Shepard has decided that equipment be depreciated at 10% of cost per annum, buildings at 2% of cost per annum and delivery vans at 20% of cost per annum.

Shepard has also decided to set up a provision for bad debts amounting to 4% of debtors on 31/12/2022.

Included in the assets and liabilities of the firm on 31/12/2022 were stock €40,700 (which includes a stock of heating oil €500), electricity due €700, debtors €43,000, trade creditors €55,400, cash €430 and wages due €1,400.

Required:

- (a) Prepare the trading and profit and loss account for Shepard, for the year ended 31/12/2022. (Show your workings). (52)
- (b) (i) What additional information would be available to Shepard if he used the double entry system to record financial transactions?
(ii) What advice would you give Shepard in relation to record keeping? (8)

(60 marks)