Teacher: Mr Lee



Incomplete Records II (Higher Level)

Bookkeeping (Higher Level)

As we have already stated, some business people do not keep proper books of accounts but may keep records of cash, sales, purchases, expenses and VAT. The business does not use the double entry system. A record of VAT will be kept because it has to be paid or received back from the Revenue Commissioners every two months. At the end of the year the owner will do a stock take and all records then are given to an accountant in order to prepare final accounts. These accounts are then audited for tax purposes.

What advice would be prudent for the owner of this business?

- The owner should keep a detailed cash book and general ledger
- The double entry principle should be used when preparing accounts
- Day books should be kept
- All of these would enable the owner to prepare accurate statements and not rely on estimates
- There are software packages that the owner could learn to use such as Sage in order to keep detailed books of first entry and ledgers so that accurate financial accounts can be prepared.

Type A (T Account Method)

When answering in this format follow this sequence:

- 1. Find capital/goodwill
 - To find capital: assets liabilities at start of year
 - To find goodwill: assets (liabilities + purchase price of business) at start of year

2. Find total sales

• (A) Prepare a cash account to find cash sales

	Cash A	secount	
Balance b/d	xx	Payments (add all payments)	xx
*Cash sales	xx	Cash drawings	xx
		Balance c/d	

• (B) Prepare a debtors control account to find credit sales

De	btors Con	trol Account	
Balance b/d	xx	Cheques received (found in bank lodge)	xx
*Credit sales	xx	Balance c/d	XX

• Note: Total sales = cash sales + credit sales

3. Find total purchases

• Prepare a creditors control account

Cre	editors Cor	ntrol Account	
Cheques paid (found in the bank pay)	XX	Balance b/d	xx
Balance c/d	xx	*Credit purchases	xx

Note: Total purchases = cash purchases + credit purchases - drawings of stock

4. Find loan interest

Work out the interest on the loan for so many months. Therefore, total interest = interest paid + interest due

Example: 10% loan of €100,000 taken out on 1/04/2014. Drawings are one third of interest payable and interest paid is €2,000.

Interest payable = 10% of €100,000 for 9 months = €7,500. Therefore, drawings are €2,500.

Interest paid	€2,000
=Interest due at 31/12/2014	<u>€5,500</u>
Total interest payable for year	€7,500
-Drawings	<u>€2,500</u>
Profit/Loss	€5,000



5. Work out expenses regarding drawings

Used Method		Paid Method	
Rent paid	X	Rent paid	Х
Add due at end of	X	Less Drawings (of	X
year		rent paid)	
Less Prepaid at end	х	Add Due at end of	Х
of year		year	
Less Drawings (of	X	Less Prepaid at end	X
last figure)		of year	
Profit/loss	х	Profit/loss	Х

Notes:

- If you are required to find drawings as part of interest payable or rent payable, then apply the "used method"
- Wages due at the beginning of the year are usually deducted from general expenses
- Stock of fuel is light and heat prepaid
- Covenant for charity is an expense
- College fees for a family member are included in drawings
- Dividends are usually capital introduced and are added to capital in the balance sheet

6. Find bank balance

	Ba	nk Account		
Lodgements (all added)	х	Payments (all added)	Х	
Loan received	х	Premises bought	х	
		Investment fund	х	
		*Balance c/ d	x	

Notes:

- Interest earned on investment fund is added to gross profit
- Investment fund + investment interest go into financial assets in the balance sheet, i.e. assuming investment interest is due at the end of the year
- 7. Find drawings

Total drawings = cash drawings + stock drawings + expenses drawings + college fees

Let's take a look at an example:

Q15.1

On 1/1/2002 M. Smith purchased a business for €280,000 consisting of the following tangible assets and liabilities: premises, €240,000; stock €22,000; debtors €26,000; three months premises insurance prepaid €720; trade creditor's €18,000 and wages due €900.

During 2012 Smith did not keep a full set of accounts but was able to supply the following information on 31/12/2012.

Cash payments:

Lodgements €40,000, general expenses €32,000, purchases €67,000

Bank Payments:

Equipment €27,000, light and heat €8,000, annual premises insurance premium €4,080, creditors €36,000, interest €4,500, covenant for charitable organisation €3,000 and furniture €20,000



Bank Lodgements:

Debtors €45,000, cash €40,000 and dividends €8,000

- Each week, Smith took from stock goods to the value of €100 and cash of €150 for household expenses
- Walsh borrowed €120,000 on 1/04/2002, part of which was used to purchase an adjoining premises costing €80,000. It was agreed that Smith would pay interest on the last day of each month at the rate of 8% per annum. The capital sum to be repaid in the year 2014 and to provide for this the bank was to transfer €800 on the last day of each month from Smith's bank account into an investment fund
- Smith estimated that 25% of furniture and light and hear as well as 20% of interest payable for the year should be attributed to the private section of the premises
- Included in the assets and liabilities of the firm on 31/12/2002 were stock,
 €25,000, debtors €36,000, trade creditors €3,000, cash €600, electricity due
 €200 and €120 interest earned by the fund to date/

You are asked to show with workings:

- a) The trading, profit and loss account for the year ended 31/12/2002
- b) The balance sheet as at 31/12/2002

	Working 1 -	Cash Account	
*Cash sales	€ 147,400.00	Payments (add all payments)	€ 139,000.00
		Cash drawings	€ 7,800.00
		Balance c/ d	€ 600.00
	€ 147,400.00		€ 147,400.00

Wo	king 1 - Debtor's	Control Account	
Balance b/ d	€ 26,000.00 Cas	sh received from debtors	€ 45,000.00
*Credit sales	€ 55,000.00 Bal	lance c/ d	€ 36,000.00
	€ 81,000.00		€ 81,000.00
Tot al sales = Cash + Credit	147,400 + 5	55,000 = 202,400	

Wor	king 2 - Credit	ors Control Account	
Cash paid	€ 36,000.00	Balance b/d	€ 18,000.00
Balance c/ d	€ 23,000.00	*Credit purchases	€ 41,000.00
	€ 59,000.00		€ 59,000.00
Tot al purchases = $cash + credent $	lit - drawings of	st ock	
67,000 + 41,000 - 5,200	= 102,800		

		Wo	rkings		
Working 3			Working 4		
General expenses	€	32,000.00	Light and Heat	€	8,000.00
less wages due 1/1/02	-€	900.00	Add due 3 1/ 12 / 0 2	€	200.00
	€	3 1, 10 0 . 0 0		€	82,003.00
			Less drawings (25%)	€	2,050.00
Working 5				€	6,150.00
Insurance	€	4,080.00			
Add prepaid 1/1/02	€	720.00	Working 6		
Less prepaid 3 1/ 12 / 0 2	-€	1,020.00	Drawings - goods	€	5,200.00
	€	3,780.00	Cash	€	7,800.00
			Furnit ure (25%)	€	5,000.00
Working 7			Light and heat (25%)	€	2,050.00
Interest 8% x 120,000			Interest (20%)	€	1,440.00
x9 / 12	€	7,200.00		€	21,490.00
Paid	€	4,500.00			
Due at 3 1/12/02	€	2,700.00	Working 8		
Tot al int erest payable	€	7,200.00	1/ 1/ 2 0 0 2 liabilit ies	€ 2	298,900.00
Less drawings 1/5	€	1,440.00	Less asset s	-€	288,720.00
Profit / loss	€	5,760.00	Goodwill	€	10,180.00

	Working 9 -	Bank Account	
Lodgement s	€ 93,000.00	Payment s	€ 102,580.00
Loan received	€ 120,000.00	Premises purchased	€ 80,000.00
		Invest ment fund	€ 7,200.00
		*Balance c/ d	€ 23,220.00
	€ 213,000.00		€ 213,000.00



Trading, Profit and Lo	ss Account for th	e year ended 3 1/ 12 / 2 0 0 2
Sales [W1]		€ 202,400.00
Less Cost of sales		
Opening st ock 1/1/2002	€ 22,000.00	
Purchases [W2]	€ 102,800.00	
	€ 124,800.00	
Less Closing st ock 3 1/ 12 / 2002	€ 25,000.00	
Cost of Sales		€ 99,800.00
Gross Profit		€ 102,600.00
Add Income from investment f.		€ 120.00
		€ 102,720.00
Less Expenses		
General expenses [W3]	€ 31,100.00	
Light and heat [W4]	€ 6,150.00	
Insurance [W5]	€ 3,780.00	
Covenant	€ 3,000.00	
Interest [W7]	€ 5,760.00	€ 49,790.00
Net Profit		€ 52,930.00



						6
				Hom)e	Sch
Balance	She	et as at 31/	12 / 2	2002		
Intangible Fixed Assets	1					
Goodwill [W8]					€	10,180.00
Tangible Fixed Assets						
Premises (240,000+80,000)			€	320,000.00		
Equipment			€	27,000.00		
Furnit ure (20,000-5,000)			€	15,000.00	€	362,000.00
Financial Assets						
Invest ment s $(7,200+120)$					€	7,320.00
	-				€	379,500.00
Current Assets						577,500.00
Closing st ock			€	25,000.00		
Debt ors			€	36,000.00		
Bank [W9]			€	23,220.00		
Cash			€	600.00		
Insurance prepaid	-		€	1,020.00		
			€	85,840.00	-	
Creditors: Amounts due lyr						
Credit ors	€	23,000.00				
Interest due [W7]	€	2,700.00				
Elect ricit y due	€	200.00	€	25,900.00		
Working Capit al					€	59,940.00
Tot al Net Asset s					€	439,440.00
Financed By						
Creditors: Amounts due after 1yr						
Loan	-				€	120,000.00
						120,000.00
Capit al	€	280,000.00				
Add Capit al introduced (div.)	€	8,000.00				
Add Net Profit	€	52,930.00				
	€	340,930.00				
Less Drawings [W6]	€	21,490.00			€	3 19,440.00
Capit al Employed					€	439,440.00



Type B Balance Sheet/Net Worth Method

When using this method, the profit is found by using the Balance Sheet. The Net Worth of the business is equal to Total Assets - Outside Liabilities. When capital introduced and drawings are taken into account, changes in the Net Worth from one year to another can be associated with a profit or loss for that year.

This method does have some drawbacks however;

- A full Profit and Loss account is not prepared
- The business is basically relying on estimates
- Revenue earned and expenses incurred are not shown

When answering in this format follow this sequence:

- 1. Find opening capital or goodwill
 - Add the assets at the beginning and subtract liabilities
- 2. Work out loan interest

Interest on Loan

Example: 10% on loan of €100,000 taken out on 1/4/00. Drawings are one third of interest payable and interest paid is €2,000

Interest payable = 10% of 100,000 for 9 months = €7,500. Therefore our drawings are €2,500.

Tutonast noid	£2 000
Interest paid	€2,000
Interest due at 31/12/00	€5,500
Total interest payable for year	€7,500
-Drawings	<u>€2,500</u>
Profit/loss	€5,000

3. Work out expenses regarding drawings

Used Method			Paid Method
Rent paid	Х	Rent paid	Х
Add Due (at end yr)	Х	Less Drawings (1 st)	<u>(X)</u>
Less Prepaid (end yr	<u>(X)</u>		Х
	Х	Add Due (at end yr)	Х
Less Drawings (last)	<u>X</u>	Less Prepaid (end yr	<u>X</u>
Profit/loss	Х	Profit/loss	Х

4. Work out drawing

Total drawings = cash drawings + stock drawings + expenses drawings
 + college fees

Note:

- If you are required to find drawings on interest payable or on rent payable then apply the "used" method
- Wages due at the beginning of the year are always deducted from general expenses
- Stock of fuel is light/heat prepaid
- Covenant for charity is an expense
- College fees for family members are drawings
- Dividends are usually capital introduced and are added to capital in the Balance Sheet
- Interest earned on the investment fund is added to gross profit
- Investment fund + investment interest go into financial assets in the balance sheet i.e. assuming the investment interest is due at the end of year



- 5. Prepare a closing Balance Sheet
 - The balancing figure is the net profit or net loss
- 6. Prepare a trading, profit and loss account

Lay out a trading, profit and loss account, putting in the figures given and leaving other figures such as sales and purchases blank.

Start at the bottom i.e. net profit and add on expenses to get gross profit. If given investment fund interest, this must be subtracted from expenses to get gross profit.

In the trading account:

- a) Sales gross profit = cost of sales (if margin is given)
 Or
 Gross profit + cost of sales = sales (if mark-up is given)
- b) Cost of sales + closing stock opening stock = purchases
- c) Purchases + stock drawings = the original purchases





Please attempt the following question using your notes and check it against the solution

Q15.2

On 1/1/2001 K. Ryan purchased a business for €420,000 consisting of the following tangible assets and liabilities, premises €290,000; stock €38,000; debtors €30,000; three months rates prepaid €460; trade creditors €36,000; wages due €1,000 and 5% investments €60,000.

During 2001 Ryan did not keep a full set of accounts but estimates that gross profit was 20% of sales and was able to supply the following information on 31/12/2001.

Ryan lodged to the business bank account: dividends €10,000; investment interest €2,800.

- Ryan made the following payment from the business bank account during the year: equipment (purchased 1/6/2001) €36,000; light and heat €,000; annual rates €4,080; interest €2,000; wages and general expenses €80,000; delivery van (purchased 1/9/2001) €30,000
- Each week Ryan took stock from goods valued at €100 and cash of €150 for household expenses
- Ryan borrowed €120,000 on 1/8/2001 part of which was used to purchase an adjoining premises costing €40,000. It was agreed that Ryan would pay the interest on the last day of each month at the rate of 6% per annum. The capital sum to be repaid in 20 equal half yearly instalments, the first instalment becomes due on 1/2/2002
- Ryan estimated that 20% of rates payable and 20% of light and heat used as well as 25% of interest payable for the year should be attributed to the private section of the premises
- Ryan has decided to charge depreciation at 15% per annum on the delivery van and 10% on equipment per annum
- Included in the assets and liabilities of the firm on 31/12/2001 were stock €25,500 (which includes a stock of heating oil €200); debtors €36,000; trade creditors €33,000; electricity due €350 and bank overdraft €5,000

Working 1 Liabilities: $4 \pm 20,000.00$ Asset s: 1 ± 3000.00 Capital $6 \pm 20,000.00$ St ock $6 \pm 30,000.00$ Wages due $6 \pm 36,000.00$ Rat es prepaid 6 ± 460.00 $6 \pm 457,000.00$ Invest ment s $6 \pm 60,000.00$ $6 \pm 457,000.00$ "Goodwill $6 \pm 38,540.00$ $6 \pm 457,000.00$ "Goodwill $6 \pm 38,540.00$ $6 \pm 4.080.00$ Working 2 Working 3 Interest 6% of 120 k x 5/12 = 3,000 Rat es paid $6 \pm 4.080.00$ Interest paid $6 \pm 2,000.00$ Less prepaid $1/1/0.1$ $-6 \pm 1,020.00$ $-6 \pm 1,020.00$ Due $3 1/12/0.1$ $6 \pm 3,000.00$ Less Drawings 20% $-6 \pm 7.04.00$ Less Drawings 25% 6 ± 750.00 $6 \pm 5,200.00$ $6 \pm 5,200.00$ P/L 6 ± 350.00 Interst 6 ± 704.00 $6 \pm 7,50.00$ Light and Heat paid $6 \pm 7,000.00$ Rat es $6 \pm 7,800.00$ Light and Heat paid $6 \pm 7,50.00$ Rat es $6 \pm 7,800.00$ Vorking 4 Working 5 Drawings: Light and Heat $6 \pm 3,000.00$ Rat es $6 \pm 7,04.00$ <th></th> <th>Wor</th> <th>kings</th> <th></th>		Wor	kings	
Asset s: Liabilities: Example 1 Premises $\in 290,000,00$ Capit al $\in 420,000,00$ St ock $\in 38,000,00$ Credit ors $\in 36,000,00$ Debt ors $\in 30,000,00$ Wages due $\in 1,000,00$ Rat es prepaid $\in 460,000$ $\in 4457,000,00$ Invest ment s $\in 60,000,000$ $= 448,460,000$ "Goodwill $\in 38,540,000$ $= 448,460,000$ "Working 2 Interest of 0 120 k x 5/12 = 3,000 Rat es paid $\in 4,080,000$ Int erest paid $\in 2,000,000$ Less prepaid 31/12/01 $= 6,020,000$ Uses Drawings 25% $\in 750,000$ $= 6,2,816,000$ $= 2,816,000$ P/L $\in 2,250,000$ $= 6,000,000$ $= 6,000,000$ $= 2,816,000$ P/L $\in 2,250,000$ $= 6,2,816,000$ $= 6,2,816,000$ $= 6,2,816,000$ Add ue 31/12/01 $\in 6,200,000,000$ Rat es $= 6,704,000$ $= 6,7800,000,000$	Working 1			
Stock \notin 38,000.00 Creditors \notin 36,000.00 Debt ors \notin 30,000.00 Wages due \notin 1,000.00 Rat es prepaid \notin 460.00 \notin 457,000.00 Invest ment s \notin 60,000.00 \notin 457,000.00 $%$ Goodwill \notin 38,540.00 $\#$ $%$ Goodwill \notin 457,000.00 $\#$ $Working 2$ W W $\#$ Int erest 6% of 120 k x 5/12 = 3,000 Rat es paid \notin 4,080.00 Int erest paid \notin 2,000.00 Less prepaid 31/12/01 \notin 1,020.00 Due 31/12/01 \notin 1,000.00 Payable \notin 3,520.00 \notin 2,816.00 P/L \notin 2,250.00 \notin 2,816.00 $\#$ $\#$ Uight and Heat paid \notin 7,000.00 Purchases \notin 5,200.00 $\#$ Less Drawings 20% \notin 1,430.00 Light and Heat \notin 1,430.00 Light and Heat \notin 1,430.00			Liabilit ies:	
Stock \notin 38,000.00 Creditors \notin 36,000.00 Debt ors \notin 30,000.00 Wages due \notin 1,000.00 Rat es prepaid \notin 460.00 \notin 457,000.00 Invest ment s \notin 60,000.00 \notin 457,000.00 $%$ Goodwill \notin 38,540.00 $\#$ $%$ Goodwill \notin 457,000.00 $\#$ $Working 2$ W W $\#$ Int erest 6% of 120 k x 5/12 = 3,000 Rat es paid \notin 4,080.00 Int erest paid \notin 2,000.00 Less prepaid 31/12/01 \notin 1,020.00 Due 31/12/01 \notin 1,000.00 Payable \notin 3,520.00 \notin 2,816.00 P/L \notin 2,250.00 \notin 2,816.00 $\#$ $\#$ Uight and Heat paid \notin 7,000.00 Purchases \notin 5,200.00 $\#$ Less Drawings 20% \notin 1,430.00 Light and Heat \notin 1,430.00 Light and Heat \notin 1,430.00	Premises	€290.000.00	Capit al	€420.000.00
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	*Goodwill	· · · · · · · · · · · · · · · · · · ·		
Working 2 Working 3 Int erest 6% of 120 k x 5/12 = 3,000 Rates paid ϵ 4,080.00 Add prepaid 1/1/01 ϵ 460.00 Int erest paid ϵ 2,000.00 Less prepaid 31/12/01 $-\epsilon$ 1,020.00 Due 3 1/12/01 ϵ 1,000.00 Payable ϵ 3,520.00 Total interest payable ϵ 3,000.00 Less Drawings 20% $-\epsilon$ 704.00 Less Drawings 25% ϵ 750.00 ϵ 2,816.00 P/L ϵ 2,250.00 ϵ 7,000.00 Purchases Working 4 ϵ 7,000.00 Purchases ϵ 5,200.00 Less Heating oil $-\epsilon$ 200.00 Cash ϵ 7,800.00 Add due 31/12/01 ϵ 350.00 Interst ϵ 7,04.00 Less Drawings 20% ϵ 1,430.00 Light and Heat ϵ 1,430.00 P/L ϵ 5,720.00 ϵ 15,884.00 ϵ 15,884.00 Working 6 ϵ 33,900.00 ϵ 28,500.00 ϵ 28,500.00 Less Dep 7 mths ϵ 2,100.00 Less Dep. 4 mths ϵ 1,500.00 Less Dep 7 mths ϵ 2,800.00 General expenses ϵ 80,000.00 Morking 8 Morking 9 ϵ	Goodwill			
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Add prepaid $1/1/01$ \notin 460.00 Int erest paid \notin $2,000.00$ Less prepaid $31/12/01$ $- \notin$ $1,020.00$ Due $31/12/01$ \notin $1,000.00$ Payable \notin $3,520.00$ Total int erest payable \notin $3,000.00$ Less Drawings 20% $- €$ 704.00 Less Drawings 25% \notin 750.00 $- €$ $2,816.00$ P/L \notin $2,250.00$ $- €$ $2,816.00$ Working 4Working 5 Drawings: $- €$ $- €$ Light and Heat paid $€$ $7,000.00$ Purchases $€$ $5,200.00$ Add due $31/12/01$ $€$ 350.00 Int erst $€$ $7,800.00$ Add due $31/12/01$ $€$ 350.00 Int erst $€$ 704.00 Less Drawings 20% $€$ $1,430.00$ Light and Heat $€$ $1,430.00$ P/L $€$ $5,720.00$ $€$ $15,884.00$ P/L $€$ $5,720.00$ $€$ $15,984.00$ P/L $€$ $3,900.00$ E $28,500.00$ Less Drawings 20% $€$ $2,100.00$ Less Dep. 4 mths $€$ Light and Heat $€$ $3,000.00$ E $28,500.00$ Working 8 Working 9 $- €$ $28,00.00$ $€$ Norking 8 Morking 9 $- €$ $80,000.00$ Add due, $31/12/01$ $€$ $2,00.00$ Less due $1/1/01$ $€$ $80,000.00$	0	- 2 0 0 0	8	<i>E</i> 100000
Interest paid ε 2,000.00 Less prepaid 31/12/01 $-\varepsilon$ 1,020.00 Due 31/12/01 ε 1,000.00 Payable ε 3,520.00 Total interest payable ε 3,000.00 Less Drawings 20% $-\varepsilon$ 704.00 Less Drawings 25% ε 750.00 ε 2,816.00 P/L ε 2,250.00 ε 7,800.00 Working 4 ε 7,000.00 Purchases ε 5,200.00 Light and Heat paid ε 7,000.00 Purchases ε 5,200.00 Add due 31/12/01 ε 350.00 Interst ε 7,800.00 Less Heat ing oil $-\varepsilon$ 200.00 Cash ε 7,800.00 Add due 31/12/01 ε 350.00 Interst ε 7,04.00 Less Drawings 20% ε 1,430.00 Light and Heat ε 1,430.00 P/L ε 5,720.00 ε 15,884.00 ε 1,500.00 Less Drawings 20% ε 3,6,000.00 Delivery van ε <t< td=""><td>Interest 6% of 120K x 5/</td><td>12 - 3,000</td><td>•</td><td></td></t<>	Interest 6% of 120K x 5/	12 - 3,000	•	
Due 3 1/ 12/01 $€$ 1,000.00 Payable $€$ 3,520.00 Tot al int erest payable $€$ 3,000.00 Less Drawings 20% $-€$ 704.00 Less Drawings 25% $€$ 750.00 $€$ 2,816.00 P/L $€$ 2,250.00 $€$ 2,816.00 Working 4 Working 5 Drawings: $€$ E				
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P/L $\widehat{\mathbb{C}}$ $2,250.00$ Working 4 Working 5 Drawings: Light and Heat paid $\widehat{\mathbb{C}}$ $7,000.00$ Purchases $\widehat{\mathbb{C}}$ $5,200.00$ Less Heat ing oil $-\widehat{\mathbb{C}}$ 200.00 Cash $\widehat{\mathbb{C}}$ $7,800.00$ Add due $31/12/01$ $\widehat{\mathbb{C}}$ 350.00 Int erst $\widehat{\mathbb{C}}$ $7,04.00$ Less Drawings 20% $\widehat{\mathbb{C}}$ $1,430.00$ Light and Heat $\widehat{\mathbb{C}}$ $7,04.00$ Verking 6 Working 7 $\widehat{\mathbb{C}}$ $1,430.00$ Delivery van $\widehat{\mathbb{C}}$ $30,000.00$ Less Dep 7 mt hs $\widehat{\mathbb{C}}$ $2,100.00$ Less Dep. 4 mt hs $\widehat{\mathbb{C}}$ $1,500.00$ Working 8 Working 9 Invest ment int erest rec. $\widehat{\mathbb{C}}$ $2,800.00$ General expenses $\widehat{\mathbb{C}}$ $80,000.00$ Add due, $31/12/01$ $\widehat{\mathbb{C}}$ 20.000 Less due $1/1/01$ $\widehat{\mathbb{C}}$ $1,000.00$			Less Drawings 20%	
Working 4 Working 5 Drawings: Light and Heat paid \in 7,000.00 Purchases \in 5,200.00 Less Heat ing oil $- €$ 200.00 Cash $€$ 7,800.00 Add due 3 1/12/01 $€$ 350.00 Int erst $€$ 704.00 Less Drawings 20% $€$ 1,430.00 Light and Heat $€$ 1,430.00 P/L $€$ 5,720.00 $€$ 15,884.00 Working 6 Working 7 $€$ 33,900.00 $€$ 28,500.00 Less Dep 7 mths $€$ 2,100.00 Less Dep. 4 mths $€$ 1,500.00 Working 8 Working 9 $€$ 200.00 $€$ 200.00 $€$ 200.00 Morking 8 E 2,800.00 E 200.00 E 200.00 E 200.00	•			€ 2,816.00
Light and Heat paid	P/L	€ 2,250.00		
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Add due $3 \frac{1}{12} 0 1$ $€$ 350.00 Int erst $€$ 750.00 Less Drawings 20% $€$ $1,430.00$ Light and Heat $€$ $1,430.00$ P/L $€$ $5,720.00$ Equipment $€$ $36,000.00$ Delivery van $€$ $30,000.00$ Working 6 $€$ $2,100.00$ Less Dep 7 E $1,500.00$ E $28,500.00$ Working 8 $€$ $2,800.00$ General expenses $€$ $80,000.00$ Invest ment int erest rec. $€$ $2,800.00$ General expenses $€$ $80,000.00$	Light and Heat paid	€ 7,000.00	Purchases	€ 5,200.00
	Less Heating oil	-€ 200.00	Cash	€ 7,800.00
Less Drawings 20% $€$ 1,430.00 Light and Heat $€$ 1,430.00 P/L $€$ 5,720.00 $€$ 15,884.00 Working 6 Working 7 $€$ $Ispace Equipment € 36,000.00 Delivery van € 30,000.00 € 30,000.00 € 1,500.00 € 1,500.00 € 28,500.00 € 28,500.00 € 28,500.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 80,000.00 € 1,000.00 € 1,000.00 € 1,000.00 € 1,000.00 € 1,000.00 € 1,000.00 6 1,000.00 E $	Add due 3 1/ 12 / 0 1	€ 350.00	Int erst	€ 750.00
P/L $€$ 5,720.00 $€$ 15,884.00 Working 6 Working 7 Equipment $€$ 36,000.00 Delivery van $€$ 30,000.00 Less Dep 7 mt hs $€$ 2,100.00 Less Dep. 4 mt hs $€$ 1,500.00 Working 8 Working 9 Invest ment interest rec. $€$ 2,800.00 General expenses $€$ 80,000.00 Add due, 31/12/01 $€$ 200.00 Less due 1/1/01 $€$ 1,000.00		€ 7,150.00	Rat es	€ 704.00
Working 6 Working 7 Equipment \in 36,000.00 Delivery van \in 30,000.00 Less Dep 7 mt hs \in 2,100.00 Less Dep. 4 mt hs \in 1,500.00 E 33,900.00 E 28,500.00 E 28,500.00 Working 8 Working 9 E Invest ment interest rec. E 2,800.00 General expenses E 80,000.00 Add due, 31/12/01 E 200.00 Less due 1/1/01 E 1,000.00	Less Drawings 20%	€ 1,430.00	Light and Heat	€ 1,430.00
Equipment $€$ 36,000.00 Delivery van $€$ 30,000.00 Less Dep 7 mt hs $€$ 2,100.00 Less Dep. 4 mt hs $€$ 1,500.00 $€$ 33,900.00 $€$ 28,500.00 Working 8 Working 9 Invest ment interest rec. $€$ 2,800.00 General expenses $€$ 80,000.00 Add due, 31/12/01 $€$ 200.00 Less due 1/1/01 $€$ 1,000.00	P/L	€ 5,720.00		€ 15,884.00
Equipment $€$ 36,000.00 Delivery van $€$ 30,000.00 Less Dep 7 mt hs $€$ 2,100.00 Less Dep. 4 mt hs $€$ 1,500.00 $€$ 33,900.00 $€$ 28,500.00 Working 8 Working 9 Invest ment interest rec. $€$ 2,800.00 General expenses $€$ 80,000.00 Add due, 31/12/01 $€$ 200.00 Less due 1/1/01 $€$ 1,000.00	Working 6		Working 7	
Less Dep 7 mt hs	9	6 26 000 00	0	E 20.000.00
	••		5	
Working 8Working 9Invest ment interest rec. \in 2,800.00General expenses \in 80,000.00Add due, $31/12/01$ \in 200.00Less due $1/1/01$ \in 1,000.00	Less Dep / IIIt IIs		Less Dep. 4 IIIt IIS	
Invest ment interest rec. \notin 2,800.00General expenses \notin 80,000.00Add due, $31/12/01$ \notin 200.00Less due $1/1/01$ \notin 1,000.00		0 33,900.00		£ 20,300.00
Invest ment interest rec. \notin 2,800.00General expenses \notin 80,000.00Add due, $31/12/01$ \notin 200.00Less due $1/1/01$ \notin 1,000.00	Working 8		Working 9	
	Investment interest rec.	€ 2,800.00	General expenses	€ 80,000.00
P/L € 3,000.00 € 79,000.00	Add due, 3 1/ 12 / 0 1	€ 200.00	Less due 1/1/01	€ 1,000.00
	P/L	€ 3,000.00		€ 79,000.00



	Balance Sheet	as at 31/12/	2001	
Intangible Fixed Assets				
Goodwill [W1]				€ 38,540.00
Tangible Fixed Assets	Cost	Depreciat ion	Book Value	
Premises	€330,000.00	-	€330,000.00	
Equipment	€ 36,000.00	€ 2,100.00	€ 33,900.00	
Delivery Vans	€ 30,000.00	€ 1,500.00	€ 28,500.00	
-	€396,000.00	€ 3,600.00	€392,400.00	€392,400.00
Financial Assets				
Invest ment s				€ 60,000.00
				€490,940.00
Current Assets				
Closing st ock			€ 25,300.00	
Stock of heating oil			€ 200.00	
Debt ors			€ 36,000.00	
Investment interest due			€ 200.00	
Rat es prepaid			€ 1,020.00	
			€ 62,720.00	
Creditors: Amounts				
due within one year				
Credit ors		€ 33,000.00		
Bank		€ 5,000.00		
Loan instalment due		€ 12,000.00		
Interest due [W2]		€ 1,000.00		
Elect ricit y due		€ 350.00	€ 51,350.00	
Working Capit al				€ 11,370.00
Tot al net asset s				€ 502,310.00
Financed By: Creditors				
Amounts due after 1yr				
Loan				€ 108,000.00
Capit al			€420,000.00	
Add Capit al int roduced			€ 10,000.00	
1			€430,000.00	
Less Drawings [W5]			€ 15,884.00	
				€ 414,116.00
Add Net Loss*				€ 19,806.00
Capit al Employed				€ 502,310.00
1 1 2				,



Trading, Profit and Loss Account	for year ended	1 3 1/ 12 / 0 2
Sales		€382,900.00
Less Cost of Sales		
Opening st ock 1/1/2002	€ 38,000.00	
Purchases (293,720 - 5,200)	€ 288,520.00	
	€326,520.00	
Less Closing Stock 3 1/12/2002	€ 20,200.00	
Cost of Sales		€306,320.00
Gross Profit		€ 76,580.00
Add Investment interest		€ 3,000.00
		€ 73,580.00
Less Expenses		
General Expenses [W9]	€ 79,000.00	
Rat es [W3]	€ 2,816.00	
Light and Heat [W4]	€ 5,720.00	
Interest [W1]	€ 2,250.00	
Depreciat ion - Delivery Van [W6]	€ 1,500.00	
Equipment [W7]	€ 2,100.00	€ 93,386.00
Net Loss		-€ 19,806.00





Homework

Q15.3

7. Incomplete Records

On 01/01/2014, A. Murphy purchased a business for €220,000 consisting of the following tangible assets and liabilities: Premises €180,000; Stock €17,000; Debtors €18,000; 3 months Premises Insurance prepaid €1,200; Trade Creditors €22,500; Wages due €1,800 and Cash €400.

During 2014 Murphy did not keep a full set of accounts but was able to supply the following information on 31/12/2014.

Cash Payments:	Lodgements €110,000, General Expenses €45,800, Purchases €86,200.
Bank Payments:	Creditors €42,100, Light and Heat €6,800, Interest €1,500, annual Premises Insurance Premium €3,800, Standing Order for Charitable Organisation €3,000, Delivery Vans €35,200.
Bank Lodgements:	Debtors €34,000, Cash €110,000, Dividends €4,000.

Murphy took goods from stock to the value of $\in 100$ per week and cash $\in 120$ per week for household expenses during the year.

Murphy borrowed $\in 120,000$ on 01/09/2014, part of which was used to purchase an adjoining showroom costing $\in 90,000$. The remainder of the loan was used to purchase furniture. It was agreed that Murphy would pay interest on the last day of each month at a rate of 5% per annum. The capital sum was to be repaid in a lump sum in the year 2022 and to provide for this the bank was to transfer $\in 1,250$ on the last day of each month from Murphy's business bank account into an investment fund commencing on 30/09/2014.

Murphy estimated that 25% of the furniture, 20% of interest *payable* for the year and 25% of light and heat *used* should be attributed to the private section of the premises.

On the 31/12/2014 goods with a sales value of $\in 6,000$ which had been sold on credit at a mark-up of 20% on cost had not been recorded in the books. An invoice was issued to the debtor on the same date. The goods were still in the warehouse and were included in closing stock.

Included in the assets and liabilities of the firm on 31/12/2014 were: Stock €16,200, Debtors €20,400, Trade Creditors €32,600, Cash €600, Electricity due €380 and €30 Interest earned by the fund to date.

Required:

(a)	Trading and Profit and Loss Account for the year ended 31/12/2014. (Show workings)	(52)
(b)	Balance Sheet as at 31/12/2014. (Show workings)	(40)
(c)	Explain the 'Accruals Concept' and why it is fundamental to Accounting practice.	(8)

(100 marks)



Question 7

Question 7							
(a)						52	
	it and Loss Acco	unt for t	he ve	ar ended 31/1	2/2014		
Trading and Profit and Loss Account for the year ended 31/12/2014 € €							
Sales	W 1				290,840	[9]	
Less Cost of sales					í.		
Opening stock				17,000 [3]			
Purchases (138,400 – 5,200)	W 2			<u>133,200</u> [7]			
				150,200			
Closing stock (16,200 – 5,000)				(11,200) [5]	(139,000)		
Gross Profit					151,840		
Less Administration expenses	100000			and the second second			
General expenses	W 3			44,000 [5]			
Donation	XX7 4			3,000 [2]			
Insurance	W 4			4,050 [7]	(5(125)		
Light and heat	W 6			<u>5,385</u> [7]	<u>(56,435)</u>		
Less Interest	W 5				95,405 (1,600)	[2]	
Less interest	W 5				93,805	[2]	
Add Income from Investment Fu	nd				<u>30</u>	[2]	
Net Profit	iid				93,835	[3]	
1101110111					25,055	[2]	
(b)						40	
(b)						TU	
	Balance Sheet a		2/201				
Intangible Fixed Assets		€		€	€		
Goodwill					27,700	[3]	
Tangible Fixed Assets							
Buildings				270,000 [2]			
Delivery Vans Furniture	XV 7			35,200 [1]	227 700		
Financial Assets	W 7			<u>22,500</u> [2]	327,700		
Investment Fund					5,030	[2]	
mvestment i unu					360,430	L~]	
Current Assets					500,150		
Stock		11,200	[1]				
Debtors	W 8	26,400	[3]				
Bank		50,600	[7]				
Cash		600	[1]				
Prepayments (Insurance)		<u>950</u>	[2]	89,750			
Creditors: amounts falling due w	ithin 1 year		_				
Creditors		32,600	[1]				
Interest due	W 5	500	[2]	(22.122)			
Electricity due		<u>380</u>	[1]	(33,480)	56,270		
Eta an a d Da					<u>416,700</u>		
Financed By Creditors: amounts falling due a	ften mene then ener						
Loan	iter more than one y	ear			120,000	[2]	
Capital				220,000 [2]	120,000		
Capital introduced				4,000 [3]			
Net Profit				_93,835			
na ze henoene kar haastande 72				317,835			
Less Drawings	W 9			(21,135) [5]	296,700		
				1924 (See 1925)	<u>416,700</u>		





(c)

The accruals Concept – The accruals concept matches expenses and gains to a specific period. All expenses incurred and income gained in a particular period must be included in the accounts of that period regardless of whether they are paid/received or not e.g. electricity due for the current year must be included in the accounts, although the bill may not be paid until the following year as the expense refers to the current year. Advertising prepaid should not be included in the current year's accounts as the payment refers to the following year.

Similarly, all revenue income must be included in the accounts of that period whether received or not. Items sold on credit must be treated as income immediately and not when the money is actually received. [4]

Financial Statements are prepared on an accruals rather than on a cash basis. If Financial Statements are not prepared on an accruals basis profits and assets will be overstated or understated for the period covered by the statements because expenses and income included or excluded may refer to a past or future period. [4]

<u>Wo</u> 1.	r <u>kings</u> Sales - credit Sales - cash Total Sales	[34,000 + 26 [110,000 + 4	e 1.5	0)] 00 + 6,240 + 600 - 400]	42,400 <u>248,440</u>	290,840
2.	Purchases	2000 million tal	ter sa citore	_	1	
	Credit purchases Cash purchases Total Purchases	[42,100 + 32	,600 -22,500	Ţ	52,200 <u>86,200</u> 138,400	
	Less drawings of Total purchases	stock			(<u>5,200</u>)	133,200
3.	General Expenses	[45,800 – 1,8	300]			44,000
4.	Insurance	[1,200 + 3,80	00 – 950]			4,050
5.	Interest Interest due	[2,000 - 400 [2,000 - 1,50				1,600 500
6.	Light and heat	[6,800 + 380	- 1,795]		5,385	
7	Furniture	[120,000 - 9	0,000 = 30,0		22,500	
8.	Debtors	[20,400 + 6,0	[000]		26,400	
9.	Drawings	[6,240 + 5,20	0 + 7,500 +	400 + 1,795]		21,135
10	Bank Account					
·	Lodgements – sal	es	110,000	Creditors		2,100
	Debtors Dividends		34,000 4,000	Light and heat Interest		6,800
	Bank		120,000	Insurance		1,500 3,800
	13 61112		120,000	Standing order		3,000
				Delivery van		5,200
				Showroom		0,000
				Furniture		0,000
				Investment fund		5,000
			· <u> </u>	Balance		<u>0,600</u>
			268,000		26	<u>8,000</u>