# 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 Account | | | |
|---|---|---|---|
| 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

| Debtors Control 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

| Creditors Control 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 | €5,500 |
| Total interest payable for year | €7,500 |
| -Drawings | €2,500 |
| Profit/Loss | €5,000 |

5. Work out expenses regarding drawings

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

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

| Bank Account | | | |
|---|---|---|---|
| Lodgements (all added) | x | Payments (all added) | x |
| Loan received | x | Premises bought | x |
| | | Investment fund | x |
| | | *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 |

| Working 1 - Debtor's Control Account | | | |
|---|---|---|---|
| Balance b/d | € 26,000.00 | Cash received from debtors | € 45,000.00 |
| *Credit sales | € 55,000.00 | Balance c/d | € 36,000.00 |
| | € 81,000.00 | | € 81,000.00 |
| Total sales = Cash + Credit | 147,400 + 55,000 = 202,400 | | |

| Working 2 - Creditors 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 |
| Total purchases = cash + credit - drawings of stock | | | |
| 67,000 + 41,000 - 5,200 = 102,800 | | | |

| Workings | | | |
|---|---|---|---|
| **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 31/12/02 | € 200.00 |
| | € 31,100.00 | | € 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 31/12/02 | -€ 1,020.00 | Drawings - goods | € 5,200.00 |
| | € 3,780.00 | Cash | € 7,800.00 |
| | | Furniture (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 31/12/02 | € 2,700.00 | **Working 8** | |
| Total interest payable | € 7,200.00 | 1/1/2002 liabilities | € 298,900.00 |
| Less drawings 1/5 | € 1,440.00 | Less assets | -€ 288,720.00 |
| Profit/loss | € 5,760.00 | Goodwill | € 10,180.00 |

| Working 9 - Bank Account | | | |
|---|---|---|---|
| Lodgements | € 93,000.00 | Payments | € 102,580.00 |
| Loan received | € 120,000.00 | Premises purchased | € 80,000.00 |
| | | Investment fund | € 7,200.00 |
| | | *Balance c/d | € 23,220.00 |
| | € 213,000.00 | | € 213,000.00 |

| Trading, Profit and Loss Account for the year ended 31/12/2002 | | | |
|---|---|---|---|
| **Sales [W1]** | | € 202,400.00 | |
| Less Cost of sales | | | |
| Opening stock 1/1/2002 | € 22,000.00 | | |
| Purchases [W2] | € 102,800.00 | | |
| | € 124,800.00 | | |
| Less Closing stock 31/12/2002 | € 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 | |

| Balance Sheet as at 31/12/2002 | | | |
|---|---|---|---|
| **Intangible Fixed Assets** | | | |
| Goodwill [W8] | | | € 10,180.00 |
| | | | |
| **Tangible Fixed Assets** | | | |
| Premises (240,000+80,000) | | € 320,000.00 | |
| Equipment | | € 27,000.00 | |
| Furniture (20,000-5,000) | | € 15,000.00 | € 362,000.00 |
| | | | |
| **Financial Assets** | | | |
| Investments (7,200+120) | | | € 7,320.00 |
| | | | € 379,500.00 |
| **Current Assets** | | | |
| Closing stock | | € 25,000.00 | |
| Debtors | | € 36,000.00 | |
| Bank [W9] | | € 23,220.00 | |
| Cash | | € 600.00 | |
| Insurance prepaid | | € 1,020.00 | |
| | | € 85,840.00 | |
| | | | |
| Creditors: Amounts due 1yr | | | |
| Creditors | € 23,000.00 | | |
| Interest due [W7] | € 2,700.00 | | |
| Electricity due | € 200.00 | € 25,900.00 | |
| Working Capital | | | € 59,940.00 |
| Total Net Assets | | | € 439,440.00 |
| | | | |
| **Financed By** | | | |
| **Creditors: Amounts due after 1yr** | | | |
| Loan | | | € 120,000.00 |
| | | | |
| Capital | € 280,000.00 | | |
| Add Capital introduced (div.) | € 8,000.00 | | |
| Add Net Profit | € 52,930.00 | | |
| | € 340,930.00 | | |
| Less Drawings [W6] | € 21,490.00 | | € 319,440.00 |
| Capital 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.

| | |
|---|---|
| Interest paid | €2,000 |
| Interest due at 31/12/00 | €5,500 |
| Total interest payable for year | €7,500 |
| -Drawings | €2,500 |
| Profit/loss | €5,000 |

3. Work out expenses regarding drawings

| **Used Method** | | | **Paid Method** |
|---|---|---|---|
| Rent paid | X | Rent paid | X |
| Add Due (at end yr) | X | Less Drawings ($1^{st}$) | <u>(X)</u> |
| Less Prepaid (end yr | <u>(X)</u> | | X |
| | X | Add Due (at end yr) | X |
| Less Drawings (last) | <u>X</u> | Less Prepaid (end yr | <u>X</u> |
| Profit/loss | X | Profit/loss | X |
| | | | |

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

| Workings | | | |
|---|---|---|---|
| **Working 1** | | | |
| Assets: | | Liabilities: | |
| Premises | €290,000.00 | Capital | €420,000.00 |
| Stock | € 38,000.00 | Creditors | € 36,000.00 |
| Debtors | € 30,000.00 | Wages due | € 1,000.00 |
| Rates prepaid | € 460.00 | | € 457,000.00 |
| Investments | € 60,000.00 | | |
| | € 418,460.00 | | |
| *Goodwill | € 38,540.00 | | |
| | € 457,000.00 | | |
| | | | |
| **Working 2** | | **Working 3** | |
| Interest 6% of 120k x 5/12 = 3,000 | | Rates paid | € 4,080.00 |
| | | Add prepaid 1/1/01 | € 460.00 |
| Interest paid | € 2,000.00 | Less prepaid 31/12/01 | -€ 1,020.00 |
| Due 31/12/01 | € 1,000.00 | Payable | € 3,520.00 |
| Total interest payable | € 3,000.00 | Less Drawings 20% | -€ 704.00 |
| Less Drawings 25% | € 750.00 | | € 2,816.00 |
| P/L | € 2,250.00 | | |
| | | | |
| **Working 4** | | **Working 5 Drawings:** | |
| Light and Heat paid | € 7,000.00 | Purchases | € 5,200.00 |
| Less Heating oil | -€ 200.00 | Cash | € 7,800.00 |
| Add due 31/12/01 | € 350.00 | Interst | € 750.00 |
| | € 7,150.00 | Rates | € 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** | |
| Equipment | € 36,000.00 | Delivery van | € 30,000.00 |
| Less Dep 7 mths | € 2,100.00 | Less Dep. 4 mths | € 1,500.00 |
| | € 33,900.00 | | € 28,500.00 |
| | | | |
| **Working 8** | | **Working 9** | |
| Investment 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 | € 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 | Depreciation | 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** | | | | |
| Investments | | | | € 60,000.00 |
| | | | | €490,940.00 |
| **Current Assets** | | | | |
| Closing stock | | | € 25,300.00 | |
| Stock of heating oil | | | € 200.00 | |
| Debtors | | | € 36,000.00 | |
| Investment interest due | | | € 200.00 | |
| Rates prepaid | | | € 1,020.00 | |
| | | | € 62,720.00 | |
| **Creditors: Amounts** | | | | |
| **due within one year** | | | | |
| Creditors | | € 33,000.00 | | |
| Bank | | € 5,000.00 | | |
| Loan instalment due | | € 12,000.00 | | |
| Interest due [W2] | | € 1,000.00 | | |
| Electricity due | | € 350.00 | € 51,350.00 | |
| Working Capital | | | | € 11,370.00 |
| Total net assets | | | | € 502,310.00 |
| | | | | |
| **Financed By: Creditors** | | | | |
| **Amounts due after 1yr** | | | | |
| Loan | | | | € 108,000.00 |
| | | | | |
| Capital | | | €420,000.00 | |
| Add Capital introduced | | | € 10,000.00 | |
| | | | €430,000.00 | |
| Less Drawings [W5] | | | € 15,884.00 | |
| | | | | € 414,116.00 |
| Add Net Loss* | | | | € 19,806.00 |
| Capital Employed | | | | € 502,310.00 |

| Trading, Profit and Loss Account for year ended 31/12/02 | | |
|---|---|---|
| **Sales** | | €382,900.00 |
| **Less Cost of Sales** | | |
| Opening stock 1/1/2002 | € 38,000.00 | |
| Purchases (293,720 - 5,200) | €288,520.00 | |
| | €326,520.00 | |
| Less Closing Stock 31/12/2002 | € 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 | |
| Rates [W3] | € 2,816.00 | |
| Light and Heat [W4] | € 5,720.00 | |
| Interest [W1] | € 2,250.00 | |
| Depreciation - 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 €100 per week and cash €120 per week for household expenses during the year.

Murphy borrowed €120,000 on 01/09/2014, part of which was used to purchase an adjoining showroom costing €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 €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 €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**

**(a)** **52**

**Trading and Profit and Loss Account for the year ended 31/12/2014**

| | | € | | € | |
|---|---|---|---|---|---|
| Sales | W 1 | | | 290,840 | [9] |
| Less Cost of sales | | | | | |
| Opening stock | | 17,000 | [3] | | |
| Purchases (138,400 – 5,200) | W 2 | 133,200 | [7] | | |
| | | 150,200 | | | |
| Closing stock (16,200 – 5,000) | | (11,200) | [5] | (139,000) | |
| Gross Profit | | | | 151,840 | |
| **Less Administration expenses** | | | | | |
| General expenses | W 3 | 44,000 | [5] | | |
| Donation | | 3,000 | [2] | | |
| Insurance | W 4 | 4,050 | [7] | | |
| Light and heat | W 6 | 5,385 | [7] | (56,435) | |
| | | | | 95,405 | |
| Less Interest | W 5 | | | (1,600) | [2] |
| | | | | 93,805 | |
| Add Income from Investment Fund | | | | 30 | [2] |
| Net Profit | | | | 93,835 | [3] |

**(b)** **40**

**Balance Sheet as at 31/12/2014**

| | | € | | € | | € | |
|---|---|---|---|---|---|---|---|
| **Intangible Fixed Assets** | | | | | | | |
| Goodwill | | | | | | 27,700 | [3] |
| **Tangible Fixed Assets** | | | | | | | |
| Buildings | | | | 270,000 | [2] | | |
| Delivery Vans | | | | 35,200 | [1] | | |
| Furniture | W 7 | | | 22,500 | [2] | 327,700 | |
| **Financial Assets** | | | | | | | |
| Investment Fund | | | | | | 5,030 | [2] |
| | | | | | | 360,430 | |
| **Current Assets** | | | | | | | |
| Stock | | 11,200 | [1] | | | | |
| Debtors | W 8 | 26,400 | [3] | | | | |
| Bank | | 50,600 | [7] | | | | |
| Cash | | 600 | [1] | | | | |
| Prepayments (Insurance) | | 950 | [2] | 89,750 | | | |
| **Creditors: amounts falling due within 1 year** | | | | | | | |
| Creditors | | 32,600 | [1] | | | | |
| Interest due | W 5 | 500 | [2] | | | | |
| Electricity due | | 380 | [1] | (33,480) | | 56,270 | |
| | | | | | | 416,700 | |
| **Financed By** | | | | | | | |
| **Creditors: amounts falling due after more than one year** | | | | | | | |
| Loan | | | | | | 120,000 | [2] |
| Capital | | | | 220,000 | [2] | | |
| Capital introduced | | | | 4,000 | [3] | | |
| Net Profit | | | | 93,835 | | | |
| | | | | 317,835 | | | |
| Less Drawings | W 9 | | | (21,135) | [5] | 296,700 | |
| | | | | | | 416,700 | |

**(c)** **8**

**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]**

## Workings

| | | | | |
|---|---|---|---|---|
| 1. | Sales - credit | [34,000 + 26,400 – 18,000)] | 42,400 | |
| | Sales - cash | [110,000 + 45,800 + 86,200 + 6,240 + 600 – 400] | 248,440 | |
| | Total Sales | | | 290,840 |
| 2. | Purchases | | | |
| | Credit purchases | [42,100 + 32,600 -22,500 ] | 52,200 | |
| | Cash purchases | | 86,200 | |
| | Total Purchases | | 138,400 | |
| | Less drawings of stock | | (5,200) | |
| | Total purchases | | | 133,200 |
| 3. | General Expenses | [45,800 – 1,800] | | 44,000 |
| 4. | Insurance | [1,200 + 3,800 – 950] | | 4,050 |
| 5. | Interest | [2,000 – 400] | | 1,600 |
| | Interest due | [2,000 – 1,500] | | 500 |
| 6. | Light and heat | [6,800 + 380 – 1,795] | | 5,385 |
| 7. | Furniture | [120,000 – 90,000 = 30,000 – 7,500] | | 22,500 |
| 8. | Debtors | [20,400 + 6,000] | | 26,400 |
| 9. | Drawings | [6,240 + 5,200 + 7,500 + 400 + 1,795] | | 21,135 |

10. **Bank Account**

| | | | |
|---|---|---|---|
| Lodgements – sales | 110,000 | Creditors | 42,100 |
| Debtors | 34,000 | Light and heat | 6,800 |
| Dividends | 4,000 | Interest | 1,500 |
| Bank | 120,000 | Insurance | 3,800 |
| | | Standing order | 3,000 |
| | | Delivery van | 35,200 |
| | | Showroom | 90,000 |
| | | Furniture | 30,000 |
| | | Investment fund | 5,000 |
| | | Balance | **50,600** |
| | 268,000 | | 268,000 |