

The following trial balance was extracted from the books of V. Leahy on 31/12/2022:

	€	€
Patents (incorporating 2 months investment income)	48,800	
Land and buildings	850,000	
Accumulated depreciation – land and buildings		105,000
Delivery vans	480,000	
Accumulated depreciation – delivery vans		70,000
Equipment at cost	153,500	
Discount (net)		7,700
4% Investments acquired on 01/07/2022	180,000	
Stock 01/01/2022	70,700	
Sales		1,848,900
Purchases	1,193,500	
Salaries and general expenses (incorporating suspense)	136,400	
Advertising	16,000	
Investment income received		2,200
Drawings	45,000	
Rates	42,800	
PAYE, PRSI & USC		4,700
VAT		11,900
Bank		53,600
3% Fixed mortgage (including €50,000 issued on 01/06/2022)		320,000
Mortgage interest paid for the first 4 months	2,300	
Debtors and creditors	67,700	98,600
Bad debts provision		2,100
Capital		<u>762,000</u>
	<u>3,286,700</u>	<u>3,286,700</u>

The following information and instructions are to be taken into account:

(i) Stock at cost on 31/12/2022 was €82,600. This figure includes damaged stock which cost €5,800 but which now has a net realisable value of 75% of cost.

Closing stock €82,600 - €5,800 + €4,350 = €81,150 + €12,500 W2 = €93,650 T, CA

(ii) Goods purchased on credit from a supplier were in transit on 31/12/2022. The invoice for these goods had been received for €15,375 which included VAT at 23%. No record was made in the books in respect of this transaction.

15,375 123% + **Creditors**

12,500 100% + **Purchases , + Closing Stock**

2,875 23% - **Vat**

(iii) Provide for depreciation on delivery vans at the annual rate of 20% of cost from the date of purchase to the date of sale. Note: On 30/09/2022 a delivery van which had cost €35,000 on 30/06/2018 was traded in against a new van which cost €80,000. An allowance of €3,000 was given on the old delivery van. The bank transfer for the net amount of this transaction was entered correctly in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of these transactions.

80,000 new van - 35,000 old van = **Vans up 45,000**

80,000 new van - 3,000 allowance = **Purchases down 77,000**

35,000 x 20% x 51/12 = 29,750 depreciation on van sold

35,000 (cost) - 29,750 (depreciation) = 5,250 (Van worth)

5,250 (van worth) - 3,000 (allowance) = 2,250 **Loss on sale of van Expense**

Depreciation on Del Vans 480,000 x 20% x 9/12 + 525,000 x 20% x 3/12 = 98,250 **Expense**

Accumulated depreciation 70,000 + 98,250 - 29,750 = 138,500 - **Fixed Asset**

(iv) The suspense figure arises as a result of the incorrect figure for mortgage interest (although the correct entry had been made in the bank account) and discount received of €600 entered only in the discount account.

4 months interest 270,000 x 3% x 4/12 = 2,700 -2,300 Trial Balance figure = 400 suspense

- **Salaries 400 , - Creditors 600 , - Salaries 600**

(v) Patents (incorporating 2 months investment income) are being written off over 10 years which commenced in 2020.

2 months inv income 180,000 x 4% x 2/12 = 1,200

6 months inv income 180,000 x 4% x 6/12 = 3,600 **Gain Investment income**

Investment income due 3,600 - 1,200 - 2,200 = 200 **CA investment income due**

Amend Patent 48,800 + 1,200 = 50,000

Patent written off 50,000/8 = 6,250 **Expense**

Patent 50,000 - 6,250 = 43,750 **Intangible Asset**

(vi) Goods taken by Leahy for his own personal use during the year were not recorded. The goods had a retail value of €3,600 which is cost plus 20%.

Retail price €3,600 120 %

Cost price €3,000 100 % - **Purchases 3,000 , + Drawings 3,000**

(vii) The company revalued the land and buildings at €950,000 on 01/01/2022. The land element of this new value is €200,000. The revaluation has yet to be reflected in the accounts. Buildings are to be depreciated at the rate of 2% of cost per annum.

Depreciation on Buildings 750,000 x 2% = 15,000 **Expense**

Before Revaluation Land & Buildings 850,000 105,000 745,000

After Revaluation **FA** 950,000 0 950,000

Revaluation Reserve 950,000 - 745,000 = 205,000 **Financed By**

(viii) The figure for the bank account in the trial balance had been taken from the firm's own records. However, a bank statement dated 31/12/2022 has arrived showing a bank overdraft of €50,300. A comparison of the bank account and the bank statement has revealed the following discrepancies:

1. A credit transfer for €1,500 had been received on 31/12/2022 in respect of a debt of €1,700 previously written off as bad. The debtor has agreed to pay the remainder within 2 months. No entry was made in the books to record this transaction.

1,700 Bad debt recovered Gain

200 + Debtors

2. A cheque for €1,800 issued to a director had not yet been presented for payment.

<u>Our Records</u>	<u>Bank Records</u>
53,600 OD	50,300 OD
<u>(1,500)</u>	<u>+1,800</u>
52,100 OD CL	52,100 OD

(ix) Provision should be made for the following:

1. Investment income due and mortgage interest due. (Note: 20% of mortgage interest for the year refers to the private section of the building.)

Interest $270,000 \times 3\% \times 5/12 + 320,000 \times 3\% \times 7/12 = 8,975 \times 20\% = 1,795$ **Drawings**

$8,975 \times 80\% = 7,180$ **Expense**

Interest due $8,975 - 2,700$ (interest paid) = **6,275 CL**

2. Provision for bad debts to be adjusted to 6% of debtors.

New Provision $67,700 + 200$ (W8) = $67,900 \times 6\% = 4,074$ **-Debtors**

$4,074$ (new provision) - $2,100$ (old provision) = **1,974 Increase in bad debt provision Expense**

3. Equipment to be depreciated at 10% of cost per annum.

$153,500 \times 10\% = 15,350$ **Depreciation on Equipment Expense**

Required: (a) Prepare a trading and profit and loss account for the year ended 31/12/2022. (75) (b) Prepare a balance sheet as at 31/12/2022. (45) (120 marks)

2023 Q1 (A) Solution 120 Marks

Trading Profit and Loss Account of V. Leahy for the year ended 31/12/22 [1]

	€	€	€
Sales			1,848,900 [3]
<u>Less cost of sales</u>			
Opening stock		70,700 [3]	
Purchases W2,3,6		1,126,000 [9]	
Less closing stock W1		<u>(93,650) [7]</u>	<u>(1,103,050) [3]</u>
Gross profit			745,850
Less Expenses			
<u>Distribution Costs</u>			
Loss on sale of delivery van W3	2,250 [4]		
Depreciation delivery vans W3	98,250 [4]		
Increase in BDP W9	1,974 [4]		
Advertising	<u>16,000 [3]</u>	118,474	
<u>Administration Expenses</u>			
Depreciation - buildings W7	15,000 [3]		
Salaries and general exp. W4	135,400 [7]		
Patent written off W5	6,250 [5]		
Dep. on equipment W9	15,350 [2]		
Rates	<u>42,800 [3]</u>	<u>214,800</u>	<u>(333,274)</u>
			412,576
<u>Operating income</u>			
Bad debt recovered W8		1,700 [3]	
Discount		<u>7,700 [2]</u>	<u>9,400</u>
Operating profit			421,976
Investment income W5			3,600 [4]
Mortgage interest W9			<u>(7,180) [5]</u>
Net profit			418,396 [3]

(b) Balance Sheet of V. Leahy as at 31/12/2022	Cost €	Acc. Dep €	NBV €
<u>Intangible Fixed Assets</u>			
Patent W5			43,750 [2]
<u>Tangible Fixed Assets</u>			
Land and buildings W7	950,000 [1]	15,000 [1]	935,000
Delivery vans W3	525,000 [3]	138,500 [3]	386,500
Equipment W9	<u>153,500 [1]</u>	<u>15,350 [1]</u>	<u>138,150</u>
	1,628,500	168,850	1,459,650
<u>Financial Assets</u>			
4% Investments			<u>180,000[1]</u>
			1,683,400
<u>Current Assets</u>			
Closing stock W1		93,650[2]	
Debtors W 8	67,900 [3]		
Less Bad Debts Provision W9	<u>(4,074) [1]</u>	63,826	
Investment income due W5		<u>200 [2]</u>	
		157,676	
<u>Creditors: amounts falling due within 1 year</u>			
Creditors W2, 4	113,375 [7]		
VAT W2	9,025 [3]		
Bank W8	52,100 [3]		
Mortgage interest due W9	6,275 [2]		
PAYE, PRSI, USC	<u>4,700 [1]</u>	<u>(185,475)</u>	<u>(27,799)</u>
			1,655,601
Financed by			
<u>Creditors: amounts falling due after 1 year</u>			
3% Mortgage			320,000[1]
Capital		762,000[1]	
Revaluation reserve W 7		205,000[3]	
Net profit		418,396	
Drawings W 6,9		<u>(49,795)[3]</u>	<u>1,335,601</u>
Capital employed			1,655,601

East Elm Ltd has an authorised capital of €1,400,000 divided into 900,000 ordinary shares of €1 each and 500,000 4% preference shares of €1 each. The following trial balance was extracted from its books at 31/12/2022:

	€	€
Land and buildings at cost	950,000	
Accumulated depreciation – land and buildings		120,000
Office equipment (cost €65,000)	32,000	
Delivery vans (cost €175,000)	135,000	
Stock on hand 01/01/2022	55,400	
Patent (incorporating 5 months investment income)	53,300	
Profit and loss balance 01/01/2022	59,000	
Discount (net)		5,100
Purchases and sales	758,000	1,150,000
Directors fees	23,300	
Debtors and creditors	92,300	65,200
Bank		33,400
Bad debts provision		6,200
Advertising	6,700	
3% Investments acquired on 01/02/2022	124,000	
Salaries and general expenses (incorporating suspense)	232,400	
Rent received		18,000
Debenture interest paid for the first 4 months	6,400	
6% Debentures (including €60,000 issued on 01/06/2022)		280,000
VAT	2,300	
Dividends paid	45,000	
PAYE, PRSI & USC		48,200
Capital reserve		39,000
Ordinary share capital		730,000
4% Preference share capital		<u>80,000</u>
	<u>2,575,100</u>	<u>2,575,100</u>

The following information and instructions are to be taken into account:

(i) Stock at cost on 31/12/2022 was €95,200. This figure includes damaged stock which cost €7,200 but now has a net realisable value of 25% of cost.

$€95,200 - €7,200 + €1,800 = €89,800 + €16,000 \text{ W3} = €105,800 \text{ T, CA}$

(ii) Patents (incorporating 5 months investment income) are being written off over a 6 year period which commenced in 2021.

5 months Inv Income $124,000 \times 3\% \times 5/12 = 1,550$

11 months Inv Income $124,000 \times 3\% \times 11/12 = 3,410$ **Investment income Gain**

6 Months Inv Income $124,000 \times 3\% \times 6/12 = 1,860$ **Investment Income due CA**

Amend Patent $53,300 + 1,550 = 54,850$

$54,850/5 = 10,970$ **Patent written off Expense**

$54,850 - 10,970 = 43,880$ **Patent Intangible Asset**

(iii) No record has been made in the books for 'goods in transit' on 31/12/2022. The invoice for these goods had been received for €19,680 including VAT at 23%

19,680 123% + **Creditors**

16,000 100% + **Purchases, + Closing Stock**

3,680 23% + **Vat**

(iv) Goods with a retail selling price of €12,000 were returned to a supplier. This was correctly entered in the books. The retail selling price was cost plus 25%. The supplier issued a credit note showing a restocking charge of 10% of cost price. No entry was made in respect of the restocking charge.

12,000 125% Selling Price

9,600 100% Cost Price

960 10% restocking charge + **Purchases , + Creditors**

(v) Provide for depreciation on delivery vans at the annual rate of 15% of cost from the date of purchase to the date of sale. Note: On 30/04/2022 a delivery van which cost €36,000 on the 30/06/2019 was traded in against a new van which cost €45,000. An allowance of €18,000 was given on the old van. The bank transfer for the net amount of this transaction was entered correctly in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of these transaction.

€45,000 - €36,000 = €9,000 **Vans up**

€45,000 - €18,000 = € 27,000 **Purchases down**

€36,000 x 15% x 34/12 = 15,300 depreciation on Van sold

€36,000 (cost) - €15,300(depreciation) = € 20,700 Van Worth

€20,700(worth) - €18,000 (allowance) = €2,700 **Loss on sale of Van Expense**

Depreciation on Vehicles €175,000 x 4/12 x 15% + €184,000 x 8/12 x 15% = 27,150 **Expense**

Accumulated Depreciation 40,000 + 27,150 - 15,300 = 51,850 - **Fixed Asset**

(vi) The suspense figure arises as a result of the incorrect figure for debenture interest (although the correct entry was made in the bank account) and a payment of €4,500 for PAYE, PRSI & USC entered on the incorrect side of the PAYE, PRSI & USC account, (the correct entry was made in the bank account).

4 months interest 220,000 x 6% x 4/12 = 4,400 , 6,400 Trial balance - 4,400 = 2,000 Suspense

+ **2,000 Salaries, -9,000 Paye , - 9,000 Salaries**

(vii) The company revalued the land and buildings at €1,100,000 on 01/01/2022. The land element of this new value is €300,000. The revaluation has yet to be reflected in the accounts. Buildings are depreciated at the rate of 2% of cost per annum.

Before Revaluation Land & Buildings 950,000 120,000 830,000

After Revaluation Land & Buildings 1,100,000 0 1,100,000

Revaluation Reserve 1,100,000 - 830,000 = 270,000 **Financed By**

Depreciation on Buildings 800,000 x 2% = 16,000 **Expense**

(viii) The figure for bank in the trial balance has been taken from the firm's own records. However, a bank statement dated 31/12/2022 has arrived showing a bank overdraft figure of €31,200. A comparison of the bank account and the bank statement has revealed the following discrepancies:

1. A credit transfer of €900 had been paid directly to the firm's bank account on behalf of a debtor who has recently been declared bankrupt. This represents a first and final payment of 30c in the €.

900 30%

3,000 100% - **Debtors**

2,100 70% **Bad Debt Expense**

2. A cheque issued for €1,300 to a director had not yet been presented for payment.

<u>Our Records</u>	<u>Banks Records</u>
33,400 OD	31,200 OD
<u>(900)</u>	<u>1,300</u>
32,500 OD CL	32,500 OD

(ix) The directors recommend that:

1. Provision be made for investment income due and debenture interest due.

Debenture interest $220,000 \times 6\% \times 5/12 + 280,000 \times 6\% \times 7/12 = 15,300$ **Expense**

Interest due $15,300 - 4,400$ (paid) = $10,900$ **CL**

2. Equipment is to be depreciated by 10% per annum on a reducing balance basis.

Depreciation on Equipment $32,000 \times 10\% = 3,200$ **Expense**

3. Provision for bad debts to be adjusted to 6% of debtors.

New Provision $92,300 - 3,000$ (W8) = $89,300 \times 6\% = 5,358$ - **Debtors**

Decrease in provision for Bad debt $6,200 - 5,358 = 842$ **Gain**

4. Provision should be made for corporation tax of €35,000.

35,000 **Expense , CL**

Required: (a) Prepare a trading and profit and loss account for the year ended 31/12/2022. (75)

(b) Prepare a balance sheet as at 31/12/2022. (45) (120 marks)

2023 Q1 (B) Solution 120 Marks

(a) Trading Profit and Loss Account of East Elm Ltd for the year ended 31/12/2022 [1]

	€	€	€
Sales			1,150,000[3]
<u>Less Cost of Sales</u>			
Opening stock		55,400 [3]	
Purchases W3,4,5		747,960 [9]	
Less closing stock W1		<u>(105,800) [4]</u>	<u>(697,560)</u>
Gross Profit			452,440
Less Expenses			
<u>Distribution Costs</u>			
Bad Debts written off W8	2,100 [4]		
Loss on sale of delivery van W5	2,700 [4]		
Advertising	6,700 [3]		
Depreciation on delivery vans W5	<u>27,150 [4]</u>	38,650	
<u>Administration Expenses</u>			
Patents written off W2	10,970 [5]		
Depreciation equipment W9	3,200 [2]		
Salaries & general expenses W6	225,400 [7]		
Depreciation buildings W7	16,000 [3]		
Directors fees	<u>23,300 [2]</u>	<u>278,870</u>	<u>(317,520)</u>
			134,920
<u>Add Operating Income</u>			
Discount		5,100 [2]	
Rent received		18,000 [2]	
Decrease in bad debt provision W9		<u>842 [4]</u>	<u>23,942</u>
Operating Profit			158,862
Investment Income W2			<u>3,410 [3]</u>
			162,272
Less Debenture Interest W9			<u>(15,300)[4]</u>
Net Profit before Taxation			146,972
Taxation W9			<u>(35,000)[1]</u>
Net Profit after Taxation			111,972
Less Dividends paid			<u>(45,000)[1]</u>
Retained profit			66,972
P&L balance 01/01/2022			<u>(59,000)[1]</u>
P&L balance 31/12/2022			7,972 [3]

(b) Balance Sheet of East Elm Ltd. as at 31/12/2022	Cost	Acc Dep	NBV
<u>Intangible Fixed Assets</u>			
Patents W2			43,880 [2]
<u>Tangible Fixed Assets</u>			
Land & Buildings W7	1,100,000 [1]	16,000 [1]	1,084,000
Delivery Vans W5	184,000 [3]	51,850 [3]	132,150
Equipment W9	<u>65,000 [1]</u>	<u>36,200 [2]</u>	<u>28,800</u>
	1,349,000	104,050	1,244,950
<u>Financial Assets</u>			
3% Investments			<u>124,000 [1]</u>
			1,412,830
<u>Current Assets</u>			
Closing Stock W1		105,800 [1]	
Debtors W8	89,300 [3]		
Less Bad debts provision W9	<u>(5,358) [1]</u>	83,942	
Investment Income due W2		1,860 (2)	
VAT W3		<u>5,980 [2]</u>	
		197,582	
<u>Creditors: amounts falling due within 1 year</u>			
Creditors W3 ,4	85,840 [4]		
Bank W8	32,500 [3]		
Debenture Interest due W9	10,900 [2]		
PAYE & PRSI & USC W6	39,200 [2]		
Taxation due W9	<u>35,000 [1]</u>	(203,440)	<u>(5,858)</u>
			1,406,972
Financed By			
<u>Creditors: amounts falling due after 1 year</u>			
6% Debentures			280,000 [2]
<u>Share Capital</u>			
	<u>Authorised</u>	<u>Issued</u>	
Ordinary shares @ €1 each	900,000 [1]	730,000 [1]	
4% Preference shares @ €1 each	<u>500,000 [1]</u>	<u>80,000 [1]</u>	
	1,400,000	810,000	
Revaluation Reserve W7		270,000 [2]	
Capital Reserve		39,000 [1]	
Profit & Loss Balance		<u>7,972 [1]</u>	<u>1,126,972</u>
			1,406,972

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)

W1 Sales Credit $46,000 + 43,000 - 73,200 = 15,800$
 Cash $196,000 + 12,500 + 84,000 + 9,360 + 430 - 300 = 301,990$
 Total Sales $15,800 + 301,990 = 317,790$
 W2 Purchases Credit $37,000 + 55,400 - 57,700 = 34,700$
 Cash $84,000$ Less drawings of stock $(6,240)$
 Total Purchase $34,700 + 77,760 = 112,460$
 W3 Gen. expenses $12,500 + 81,000 + 1,400 - 1,700 - 820 = 92,380$
 W4 Light and heat $20,700 - 500 + 700 - 3,135(\text{drawings}) = 17,765$
 W5 Rates $6,000 \times 11/12 = 5,500 + 450 = 5,950$
 W6 Increase in bad debt provision $43,000 \times 4\% = 1,720$
 W7 Dep Equipment $70,000 \times 10\% + 24,000 \times 10\% \times 8/12 = 8,600$
 W8 Dep. Premises $300,000 \times 2\% + 150,000 \times 2\% \times 5/12 = 7,250$
 W9 Dep. Motor Vehicles (W9) $35,000 \times 20\% = 7,000$
 W10 Interest $150,000 \times 7\% \times 5/12 = 4,375 - 875 \text{ drawings} = 3,500$

2023 Question 2 Incomplete Records 60 marks**52 Marks**

Trading profit and loss account for year ended 31/12/2022

	€	€
Sales (W1)		317,790 [9]
<u>Less cost of sales</u>		
Opening stock	63,000 [2]	
Purchases (W2)	<u>112,460 [7]</u>	
	175,460	
Less closing stock	<u>(40,200) [2]</u>	<u>(135,260)</u>
Gross profit		182,530
<u>Less Expenses</u>		
General expenses (W3)	92,380 [6]	
Light and heat (W4)	17,765 [5]	
Rates (W5)	5,950 [4]	
Increase in Bad debt provision (W6)	1,720 [2]	
Depreciation on equipment (W7)	8,600 [2]	
Depreciation on premises (W8)	7,250 [2]	
Depreciation on vehicles (W9)	<u>7,000 [1]</u>	<u>140,665</u>
		41,865
<u>Add Operating Income</u>		
Interest on fund		<u>150 [2]</u>
		42,015
Less Interest (W10)		<u>(3,500) [4]</u>
Net profit		38,515 [4]

(b) (i) Additional Information **8 Marks**

- General/Nominal Ledger
- Trial Balance
- Total Sales figure
- Total Purchases figure
- Bank balance
- Capital/Drawings
- Expenses(Bad debts/Discount allowed etc.)
- Incomes(Discount received/Rent received etc.)

(ii) Shepard should keep a detailed cash book and general ledger supported by appropriate subsidiary day books. This would enable Shepard to prepare an accurate trading and profit and loss account and therefore would avoid reliance on rough estimates in order to determine profit.

The financial position of Weber Ltd, a butcher, on 01/01/2022 is shown in the following balance sheet:

Balance Sheet as at 01/01/2022	Cost	Dep. to date	Net
	€	€	€
Fixed Assets			
Land and buildings	820,000	75,000	745,000
Vehicles	<u>86,000</u>	<u>30,500</u>	<u>55,500</u>
	906,000	105,500	800,500
Current Assets			
Stock	38,000		
Debtors (less provision 3%)	<u>66,445</u>	104,445	
Less Creditors: amounts falling due within 1 year			
Creditors	53,700		
Bank	18,650		
VAT	<u>5,230</u>	<u>77,580</u>	<u>26,865</u>
			827,365
Financed by			
<u>Capital and Reserves</u>			
Authorised – 1,000,000 ordinary shares of €1 each			
Issued – 750,000 ordinary shares of €1 each		750,000	
Share premium		10,000	
Profit and loss balance		<u>67,365</u>	<u>827,365</u>
			827,365

The following transactions took place during 2022:

Jan Weber Ltd decided to revalue land and buildings on 01/01/2022 at €950,000. The land element of the new value is €150,000.

Feb Weber Ltd bought an adjoining business on 01/02/2022 which included buildings €126,000, debtors €17,600 and creditors €22,000. The purchase price was discharged by granting the seller 120,000 shares in Weber Ltd at a premium of 20c per share.

April Management decided on 30/04/2022 that the provision for bad debts should be increased to 4% of outstanding debtors.

June Received a bank statement on 30/06/2022 showing a credit transfer received of €3,600 to cover 9 month's rent received in advance from 01/06/2022 and a direct debit of €6,000 to cover rates for the year ended 30/05/2023.

Sept Goods previously sold for €1,845 by Weber Ltd were returned. This figure includes VAT at 23% and a mark-up on cost of 20%. Weber Ltd issued a credit note for €1,650 due to a delay in returning these goods.

Nov A vehicle which cost €25,500 on 01/11/2020 was traded in for a new vehicle which cost €42,000 on 01/11/2022. An allowance of €12,000 was made for the old vehicle. Depreciation on vehicles is calculated from the date of purchase to the date of sale at a rate of 20% of cost per annum.

Dec The depreciation charge for the year on buildings is to be 2% of book value. The depreciation charge is to be calculated from the date of valuation or date of purchase as appropriate. The total depreciation charge on vehicles for the year is €18,550.

Required: Record on a tabular statement the effect each of the above transactions had on the relevant asset and liability and ascertain the total assets and liabilities on 31/12/2022. (60 marks)

Assets	1/1	Jan	Feb	Apr	Jun	Sep	Nov	Dec	Total
Land & Buildings	820,000	130,000 (2)	126,000 (1)						1,076,000
Acc dep	(75,000)	75,000 (2)						(18,310) (2)	(18,310)
Vehicles	86,000						16,500 (2)		102,500
Acc Dep	(30,500)						10,200 (2)	(18,550) (2)	(38,850)
Stock	38,000					1,250 (2)			39,250
Debtors	68,500		17,600 (1)			(1,650) (2)			84,450
Less prov	(2,055)			(1,389) (2)					(3,444) (1)
Goodwill			22,400 (2)						22,400
Rates prepaid					6,000 (2)			(3,500) (2)	2,500 (1)
Total Assets	904,945	205,000	166,000	(1,389)	6,000	(400)	26,700	(40,360)	1,266,496

Liabilities	1/1	Jan	Feb	Apr	Jun	Sep	Nov	Dec	Total
Share Capital	750,000		120,000 (1)						870,000
Share Premium	10,000		24,000 (1)						34,000
Creditors	53,700		22,000 (1)						75,700
Bank	18,650				2,400 (4)		30,000 (2)		51,050 (2)
Vat	5,230					(345) (2)			4,885 (1)
Rent Rec prepaid					3,600 (2)			(2,800) (2)	800
Rev Reserve		205,000 (2)							205,000
P & L	67,365			(1,389) (2)		(55) (2)	(3,300) (2)	(37,560) (4)	25,061 (2)
Total Liabilities	904,945	205,000	166,000	(1,389)	6,000	(400)	26,700	(40,360)	1,266,496

The following figures have been extracted from the final accounts of O'Malley Ltd, a retailer in the fast food industry, for the year ended 31/12/2022.

The company has an authorised capital of €750,000 made up of 550,000 ordinary shares of €1 each and 200,000 4% preference shares of €1 each. O'Malley Ltd has already issued 450,000 ordinary shares and 100,000 4% preference shares.

Trading and P & L a/c for year ended 31/12/2022

Ratios and information for year ended 31/12/2021

Sales	956,000	Earnings per ordinary share	23C
Cost of goods sold	(560,000)	Dividend Cover	2.57 times
Operating expenses for year	(260,000)	Market value of one ordinary share	€1.25
Interest for year	<u>(32,000)</u>	Return on capital employed	14.28%
Net profit for year	104,000	Gearing	35 %
Dividend paid	<u>(40,000)</u>	Interest cover	7.12 times
Retained profit	64,000	Quick Ratio	1.5:1
Profit and loss balance 1/1/2022	<u>14,000</u>	Price earnings ratio	5.43 times
Profit and loss balance 31/12/2022	78,000		

Balance sheet as at 31/12/2022

Fixed Assets		670,000
Investments (market value 31/12/2022, €310,000)		<u>300,000</u>
		970,000
Current Assets (including stock €42,000)	140,000	
<u>Less Creditors: amounts falling due within 1 year</u>		
Trade creditors	(50,000)	
Other creditors	<u>(32,000)</u>	<u>58,000</u>
		1,028,000
Financed by:		
8% Debentures (2026 secured)		400,000
Capital and Reserves		
Ordinary shares of €1 each	450,000	
4% Preference shares of €1 each	100,000	
Profit and loss balance	<u>78,000</u>	<u>628,000</u>
		1,028,000

Market value of one ordinary share on 31/12/2022 is €1.30.

(a) You are required to calculate the following for 2022: (where appropriate calculations should be made to two decimal places).

(i) The opening stock if the rate of stock turnover is 14 based on average stock

(ii) Return on capital employed

(iii) Price earnings ratio

(iv) Dividend cover

(v) Dividend yield. (50)

(b) Indicate whether the debenture holders would be satisfied with the performance, state of affairs and prospects of the company. Use relevant ratios and other information to support your answer. (40)

(c) (i) Distinguish between the terms liquidity and solvency when used in ratio analysis.

(ii) A rising liquidity ratio is a sign of prudent management. Briefly discuss. (10) (100 marks)

2023 Q5 Interpretation of Accounts Solution

(a) (i) $\frac{\text{Cost of sales}}{\text{Average stock}} = 14 \quad \frac{560,000}{40,000} = 14$

Average stock $40,000 \times 2 = 80,000$ (total stock) - $42,000$ (closing stock) = $38,000$ (opening stock) **10**

(ii) Return on capital employed

$\frac{\text{Net Profit + Interest} \times 100}{\text{Capital Employed}} = \frac{104,000 + 32,000 \times 100}{1,028,000} = 13.23\% \quad \mathbf{10}$

(iii) Price Earnings Ratio

$\frac{\text{Market Price}}{\text{Earnings Per Share}} = \frac{\text{€}1.30}{22.2\text{C}} = 5.85 \text{ Years} \quad \mathbf{10}$

$\frac{\text{Earnings per share}}{\text{No. Of ordinary shares}} = \frac{\text{Net Profit - Pref dividend} \times 100}{450,000} = \frac{104,000 - 4,000}{450,000} = 22.2\text{Cent}$

(iv) Dividend Cover

$\frac{\text{Net profit - Preference dividend}}{\text{Ordinary dividend}} = \frac{104,000 - 4,000}{36,000} = 2.78 \text{ times} \quad \mathbf{10}$

(v) Dividend Yield

$\frac{\text{Dividend per share} \times 100}{\text{Market price}} = \frac{8 \text{ cent} \times 100}{\text{€}1.30} = 6.15\% \quad \mathbf{10}$

$\frac{\text{Dividend per share}}{\text{No. of ordinary shares}} = \frac{\text{Ordinary dividends} \times 100}{450,000} = \frac{36,000 \times 100}{450,000} = 8 \text{ cent} \quad \mathbf{50 \text{ Marks}}$

(b) Performance

Profitability [7] O'Malley PLC is a profitable company. Its ROCE in 2022 is 13.23%. This has disimproved from 14.28% in 2021. The return is much better than the return from risk free investments of 0-2%. It is also higher than the 8% being paid to debenture holders and the 4% to preference shareholders. The company is making less efficient use of resources this year than last year. The EPS has disimproved slightly from 23c to 22.22c.

Dividend Policy [4] The Dividend Cover has improved from 2.57 times to 2.78 times in 2022. In 2021 38.9% of the company's profits was paid out in dividends. In 2022 35.97% is being paid out. This shows that more money is being retained in the company for repayment of the loan, loan interest and expansion purposes. The Dividend per share has disimproved from 8.95 cent to 8 cent.

State of Affairs

Liquidity [7] O'Malley PLC is a liquid company. The acid test ratio is 1.2:1. This has disimproved since 2021 when it was 1.5:1. It is still greater than the ideal ratio of 1:1. The company has €1.20 in liquid assets to repay every €1 owed in short-term debt. The company should have no problem making interest payments but would be concerned about the disimproving trend. If this trend continues, the ability to pay interest would come under pressure and funds would not be available to invest for the purpose of repaying the loan

Gearing [7] O'Malley plc is a lowly geared company. The gearing has disimproved from 35% in 2021 to 48.64% in 2022(students can use the debt-to-equity ratio here which is 94.7%. The company is financed more by equity than debt but is becoming more reliant on debt. The Debenture is due for repayment in 2026. There is nothing in the accounts to show that provision is being made for this repayment. The Interest cover has disimproved from 7.12 times in 2021 to 4.25 times in 2022. This is a cause for concern as the company is becoming less capable of repaying its loan interest.

Security [7] Debentures are secured on Fixed Assets. Debenture holders would like to question the depreciation policy to ascertain the real value of assets. The value of Fixed Assets is €670,000/€970,000. There is adequate security for the loan of €400,000 due for repayment in 2026. Debenture holders would be satisfied that the investments which were bought for €300,000 are now worth €310,000 . This shows good management of investments by the management of the company.

Prospects

Sector [5] O'Malley is a retailer in the fast-food industry. Short term prospects in this industry are not good as people become more health conscious and move away to healthier foods. Long term prospects are not good as it is a highly competitive industry with many well-known brands to compete against.

[3] Overall the debentures holders would be satisfied with the company. However they would be concerned with the disimproving trends in certain parts of the company such as in profitability, liquidity and gearing. **40 Marks**

(c) Distinguish between the terms liquidity and solvency when used in ratio analysis? 10 Marks

Liquidity measures the ability of the company to pay its short-term debts as they fall due. The acid test ratio is a good indicator of liquidity as it includes only liquid assets i.e. cash and debtors.

Solvency is the ability of a company to pay all of its debts as they fall due for payment . Solvency is the most important indicator of a business's ability to survive in the long term. A business is solvent if its total assets exceeds its outside liabilities. Debt to equity or total debt to total assets are good guides.

A rising liquidity ratio is a sign of prudent management. Discuss briefly?

A rising liquidity ratio can be a sign of prudent management because it indicates that it is easier for the firm to pay its short-term debts on time and so avoid paying interest or help it achieve cash discounts for prompt payment. However, if the ratio is much higher than 1:1 it could mean that the company has too much of its resources tied up in liquid assets when they could be invested in fixed assets enhancing the productive capacity of the business.

Goodwin plc has an authorised share capital of €800,000 divided into 500,000 ordinary shares of €1 each and 300,000 4% preference shares of €1 each.

The following trial balance was extracted from its books on 31/12/2022:

	€	€
Buildings at cost	750,000	
Buildings – accumulated depreciation on 01/01/2022		60,000
Vehicles at cost	510,000	
Vehicles – accumulated depreciation on 01/01/2022		204,000
3% Investments (purchased 01/02/2022)	300,000	
Debtors and creditors	291,000	356,000
Stock 01/01/2022	69,000	
Patent 01/01/2022	95,000	
Administrative expenses	109,000	
Distribution costs	444,000	
Insurance	8,000	
Bad debts	2,500	
Purchases and sales	1,650,000	2,730,000
Rental income		50,000
Profit on sale of land		85,000
Dividends paid	27,000	
Bank	89,000	
VAT		5,000
6% Debentures (2028 secured)		200,000
Profit and loss account 01/01/2022		50,000
Investment income		7,000
Issued capital		
Ordinary shares		300,000
4% preference shares		250,000
Provision for bad debts		23,500
Debenture interest paid	9,000	
Discount		<u>33,000</u>
	<u>4,353,500</u>	<u>4,353,500</u>

The following information is relevant:

- (i) Stock on 31/12/2022 was €90,000.
- (ii) During the year the land adjacent to the company's premises, which had cost €165,000 was sold for €250,000. At the end of the year the company revalued its buildings at €930,000. The company wishes to reflect this valuation in this year's accounts.
- (iii) Provide for debenture interest due, investment income due, auditor's fees €16,000, director's fees €45,000 and corporation tax €99,000.
- (iv) Included in distribution expenses is €14,000 for commission earned.
- (v) Depreciation is to be provided for on buildings at a rate of 2% per annum straight line and is to be allocated 20% to distribution costs and 80% to administrative expenses. There was no purchase or sale of buildings during the year. Depreciation is to be provided for on vehicles at a rate of 20% per annum on a reducing balance basis.
- (vi) The patent was acquired on 01/01/2018 for €171,000. It is being amortised over 9 years in equal instalments. The amortisation is to be included in cost of sales.
- (vii) The company is being sued by a former employee who is claiming unfair dismissal. The former employee is seeking compensation for €72,000 (2 years wages). The company's legal team have advised that as all proper procedures were followed in the course of the dismissal, it is unlikely the compensation will have to be paid to the former employee. The company has received an invoice for legal fees of €9,000.

Required:

(a) Prepare the published profit and loss account of Goodwin plc for the year ended 31/12/2022, and the balance sheet as at that date in accordance with the Companies Acts and appropriate accounting standards, showing the following notes:

1. Accounting policy note for tangible fixed assets and stock.
2. Operating profit.
3. Tangible fixed assets.
4. Dividends.
5. Contingent Liability. (90)

(b) (i) Explain what is meant by an audit.

(ii) Outline the factors that an auditor will take into consideration when forming their opinion in order to prepare their report. (10) (100 marks)

Workings:

- 1 Cost of Sales $69,000 + 1,650,000 + 19,000 - 90,000 = 1,648,000$
- 2 Distribution Costs $444,000 + 2,500 + 3,000 + 61,200 + 14,000 = 524,700$
- 3 Administration $109,000 + 8,000 + 16,000 + 45,000 + 12,000 + 9,000 = 199,000$
- 4 Other Operating Income $14,000 + 50,000 + 33,000 = 97,000$
- 5 Investment Income due $300,000 \times 3\% \times 11/12 = 8,250 - 7,000 \text{ paid} = \text{inv inc due } 1,250$
- 6 Interest payable $200,000 \times 6\% = 12,000 - 9,000 \text{ paid} = 3,000 \text{ interest due}$
- 7 Intangible Assets $95,000 - 19,000 = 76,000$
- 8 Debtors $291,000 - 23,500 + 1,250 = 268,750$
- 9 Other Creditors $16,000 + 45,000 + 3,000 + 9,000 = 73,000$
10. Revaluation Reserve If no Revaluation 750,000 75,000 675,000
 Revalued 930,000 0 930,000
 Revaluation Reserve $930,000 - 675,000 = 255,000$

2023 Question 6 Published accounts 100 Marks

<u>Published Profit and Loss Account of Goodwin plc for year ended 31/12/2022</u> 40 marks		€
Turnover		2,730,000 [2]
Cost of sales W1		<u>(1,648,000) [5]</u>
Gross profit		1,082,000
Distribution costs W2		(524,700) [5]
Administration expenses W3		(199,000) [6]
Other operating income W4		<u>97,000 [3]</u>
Operating profit		455,300
Exceptional item		85,000 [2]
Income from financial investments W5		8,250 [3]
Interest payable W6		<u>(12,000) [3]</u>
Profit on ordinary activities before taxation [1]		536,550
Tax on profit on ordinary activities		<u>(99,000) [2]</u>
Profit on ordinary activities after taxation		437,550
Dividends paid		<u>(27,000) [2]</u>
Retained profit		410,550
Profit and loss balance 01/01/2022		<u>50,000 [3]</u>
Profit and loss balance 31/12/2022		460,550 [3]

Balance Sheet of Goodwin plc as at 31/12/2022 26 marks

	€	€
Intangible Fixed Assets W7		76,000 [1]
Tangible Fixed Assets		1,174,800 [2]
Financial Assets		<u>300,000 [1]</u>
		1,550,800
Current Assets		
Closing stock	90,000 [1]	
Debtors W8	268,750 [3]	
Bank	<u>89,000 [1]</u>	
	447,750	
Creditors: amounts falling due within 1 year [1]		
Creditors	356,000 [1]	
Taxation	104,000 [2]	
Other creditors W9	<u>73,000 [4]</u>	
	(533,000)	
Net Current assets		<u>(85,250)</u>
Total assets less current liabilities		1,465,550 [1]
Financed by		
<u>Creditors: amounts falling due after 1 year</u>		
6% Debentures		200,000 [2]
<u>Capital and reserves</u>		
Called up share capital	550,000 [2]	
Revaluation reserve W10	255,000 [3]	
Profit and Loss balance	<u>460,550 [1]</u>	<u>1,265,550</u>
Capital employed		1,465,550 [1]

Accounting Policy Notes. 24 Marks**1. Tangible Fixed Assets and stock. [5]**

Buildings were revalued at the end of this year and have been included in the accounts at their revalued amount. Depreciation is calculated in order to write off the value or cost of tangible fixed assets over their estimated useful economic life, as follows.

Buildings - 2% per annum straight line basis

Delivery vans - 20% per annum on a reducing balance basis

Stocks are valued on a first in first out basis at the lower of cost and net realisable value.

2. Operating Profit [6]

The operating profit is arrived at after charging: €

Depreciation on tangible fixed assets	76,200
Patent amortised	19,000
Directors fees	45,000
Auditors fees	16,000
Legal fees	9,000

3. Tangible Fixed Assets [7]

	Land & Buildings €	Delivery Vans €	Total €
Cost 01/01/2022	915,000	510,000	1,425,000
Disposal	(165,000)		(165,000)
Revaluation Surplus	<u>180,000</u>		<u>180,000</u>
	930,000	510,000	1,440,000
Accumulated depreciation 01/01/2022	60,000	204,000	264,000
Charge for year 31/12/2022	<u>15,000</u>	<u>61,200</u>	<u>76,200</u>
	75,000	265,200	340,200
Transfer to revaluation	<u>(75,000)</u>		<u>(75,000)</u>
	-	265,200	265,200
Net book value 01/01/2022	855,000	306,000	1,161,000
Net book value 31/12/2022	930,000	244,800	1,174,800

4. Dividends [4]

Ordinary dividend Paid 5.67c per share	17,000
Preference dividend Paid 4c per share	10,000

5. Contingent Liability [2] The company is being sued by a former employee who is claiming unfair dismissal and is seeking compensation for €72,000. The company's legal team have advised that as all proper procedures were followed it is unlikely compensation will have to be paid to the former employee. The company has legal fees to pay of €9,000.

(b) (i) Explain what is meant by an Audit. **10 Marks**

An audit is an examination of the financial statements of an enterprise by an auditor, appointed by the ordinary shareholders, who is independent of the business. Auditors will consider the following factors when forming their opinion in order to prepare their report:

- (i) If proper books of account have been maintained
- (ii) If accounting concepts, standards and policies have been correctly applied
- (iii) If they have been given access to all relevant material
- (iv) If accounting policies have been applied consistently from previous years
- (v) If all legal requirements have been met - have the accounts been prepared according to the Companies Acts
- (vi) Are the net assets greater than 50% of the issued share capital
- (vii) Do the financial statements represent a true and fair view of the financial state of affairs the business.

The following were included in the assets and liabilities of All Whites Ltd, a dental clinic on 01/01/2022: Clinic at cost €800,000; equipment at cost €130,000; contract cleaning prepaid €400; stock of dental supplies for use in clinic €7,000; stock of dental products for shop €8,000; creditors for dental supplies to the clinic €3,000; fees due from private patients €2,100; investment interest due €800. The authorised capital of the company was €800,000 and the issued capital was €450,000.

All fixed assets have 3 years accumulated depreciation on 01/01/2022.

The following is a receipts and payments account for the year ended 31/12/2022:

Receipts and Payments Account of All Whites Ltd for year ended 31/12/2022

	€		€
Balance at bank 01/01/2022	54,000	Light and heat	8,300
Receipts from private patients	198,000	Contract cleaning of clinic	9,200
Receipts from medical card scheme	106,000	Postage	1,500
Interest on 4% investments (4 months)	1,600	Insurance	6,300
Sale of dental products in shop	53,000	Purchases – dental products for shop	23,000
Sale of equipment (cost €15,000)	5,400	Purchases – dental supplies for clinic	31,500
		Telephone and broadband	1,900
		Wages and salaries	72,000
		Equipment	27,500
		Rates	11,600
		Repayment of a bank loan plus 16 months interest at 3% per annum on 01/08/2022	83,200
	418,000	Balance at bank 31/12/2022	142,000
			418,000

The following information and instructions are to be taken into account:

(i) Closing stock at 31/12/2022: dental supplies €1,800; products for sale in shop €6,200; heating oil €400.

(ii) Cleaning is carried out by a contractor payable monthly in advance and includes a payment of €750 for January 2023.

(iii) Fees received from private patients include €4,700 for work to be carried out in 2023. Fees due on 31/12/2022 from private patients and medical card scheme are €1,800 and €2,700 respectively.

(iv) The closing bank balance does not take into account bank charges €90 and a dishonoured cheque €950 which was received from a private patient in respect of fees for work carried out in 2022.

(v) Wages and salaries include €26,000 per annum paid to the secretary, who also runs the shop. It is estimated that 30% of this salary, €1,150 of the insurance, €1,500 of light and heat and €600 of the telephone and broadband are attributable to the shop.

(vi) Creditors for dental supplies at 31/12/2022 were €3,800.

(vii) Depreciation is to be provided as follows: Clinic - 2% of cost per annum. Equipment - 20% of cost per annum. The depreciation policy of the firm for equipment is to charge a full year's depreciation in the year

of acquisition and none in the year of disposal. During the year equipment which cost €15,000 in 2019 was sold for €5,400. On the same day new equipment was purchased for €27,500.

(viii) On 31/12/2022 All Whites Ltd decided to revalue the clinic to €950,000.

- Required: (a) Prepare a statement of the company's reserves (profit and loss balance) on 01/01/2022. (18)
 (b) Calculate the profit/loss from the shop for the year ended 31/12/2022. (Show workings.) (10)
 (c) Prepare a profit and loss account for the year ended 31/12/2022. (38)
 (d) Prepare a balance sheet on 31/12/2022. (24)
 (e) All Whites Ltd is considering increasing fees for its private patients by 10% due to increased running costs. Explain with reference to the accounts the advice you would give to the management of All Whites Ltd in relation to this proposed increase in fees. (10) (100 marks)

Workings

W1 Investments $1,600 \times 12/4 = 4,800$ **Income 4%**

Investments 120,000 100% **Asset , Fin Asset**

Investment income due $4,800 - (1,600 - 800 \text{ due } 1/1) = 4,000$ **CA**

W2 Loan $83,200 = 104\%$

$80,000 = 100\%$ Loan **Liability 1/1**

$3,200 = \text{Interest}$

$3,200 \times 9/16 = 1,800$ **Loan int due Liability 1/1** $3,200 \times 7/16 = 1,400$ **Interest Exp**

W3 Private Patients $198,000 - 2,100 + 1,800 - 4,700 = 193,000$ **Income**

W4 Medical Card Scheme $106,000 + 2,700 = 108,700$ **Income**

W5 Light and Heat $8,300 - 400 - 1,500 = 6,400$ **Exp**

W6 Contract Cleaning $9,200 + 400 - 750 = 8,850$ **Exp**

W7 Insurance $6,300 - 1,150 = 5,150$ **Exp**

W8 Dental Supplies $7,000 + 31,500 - 3,000 + 3,800 - 1,800 = 37,500$ **Exp**

W9 Telephone and Broadband $1,900 - 600 = 1,300$ **Exp**

W10 Wages and Salaries $72,000 - 7,800 = 64,200$ **Exp**

W11 Depreciation Surgery $800,000 \times 2\% = 16,000$ **Exp**

W12 Dep of Equipment $142,500 \times 20\% = 28,500$ **Exp**

W13 If No revaluation Land & Buildings 800,000 64,000 736,000

Revalued Land & Buildings 950,000 0 950,000 **FA**

Revaluation Reserve $950,000 - 736,000 = 214,000$ **FB**

W14 Bank $142,000 - 90 - 950 = 140,960$ **CA**

W15 Depreciation on Equipment sold $15,000 \times 20\% \times 3 = 9,000$

Equipment sold (Cost) $15,000 - (\text{Dep}) 9,000 = (\text{Worth}) 6,000$

(Worth) $6,000 - (\text{sale price}) 5,400 = 600$ **Loss on sale of equipment Exp**

2023 Q7 Service Firm Solution 100 Marks

(a) Statement of Company's Reserves (profit and loss balance) 01/01/2022

18 Marks

Assets	€	€
Surgery	(800,000 - 48,000) 752,000 [2]	
Equipment	(130,000 - 78,000) 52,000 [2]	
Stock – supplies for clinic	7,000 [1]	
Stock – supplies for shop	8,000 [1]	
Cleaning prepaid	400 [1]	
Investment income due	800 [1]	
Investments W1	120,000 [2]	
Fees due from private patients	2,100 [1]	
Bank	<u>54,000</u> [1]	996,300
Liabilities		
Creditors for supplies	3,000 [1]	
Issued Capital	450,000 [1]	
Loan W2	80,000 [1]	
Loan interest due W2	<u>1,800</u> [2]	(534800)
Reserves at 01/01/2022		461,500[1]

(b) Shop Profit/Loss for the year ended 31/12/2022 **10 marks**

Sales		53,000 [1]
<u>less Cost of Sales</u>		
Opening stock	8,000 [1]	
Purchases	<u>23,000</u> [1]	
	31,000	
Closing stock	<u>(6,200)</u> [1]	(24,800)
Gross Profit		28,200
<u>less: expenses</u>		
Light and heat	1,500 [1]	
Wages	7,800 [1]	
Insurance	1,150 [1]	
Telephone	<u>600</u> [1]	(11,050)
Profit from shop		17,150 [2]

(c) Profit & Loss Account for the year ended 31/12/2022

38 Marks

Income		
Profit from shop	17,150	
Private patients' fees W3	193,000[4]	
Medical card scheme W4	108,700[2]	
Investment income W1	<u>4,800[1]</u>	323,650
Expenditure		
Light and Heat W5	6,400 [3]	
Postage	1,500 [1]	
Cleaning W6	8,850 [3]	
Insurance W7	5,150 [2]	
Purchases of supplies W8	37,500 [5]	
Telephone and Broadband W9	1,300 [2]	
Wages and salaries W10	64,200 [2]	
Rates	11,600 [1]	
Loan interest W2	1,400 [1]	
Loss on sale of equipment W15	600 [3]	
Dep: surgery W11	16,000 [1]	
Dep: equipment W12	28,500 [1]	
Bank fees	<u>90 [1]</u>	<u>(183,090)</u>
Net Profit		140,560
Add Reserves 01/01/2022		<u>461,500 [1]</u>
Reserves 31/12/2022		602,060 [4]

(d) Balance Sheet of All Whites Ltd as at 31/12 /2022

24 Marks

	€	€	€
Fixed Assets			
Surgery	950,000 [1]	-	950,000
Equipment	<u>142,500 [2]</u>	<u>97,500 [3]</u>	<u>45,000</u>
	1,092,500	97,500	995,000
4% Investments W1			<u>120,000[1]</u>
			1,115,000
Current Assets			
Stock – supplies		1,800 [1]	
Stock –shop		6,200 [1]	
Stock – oil		400 [1]	
Cleaning prepaid		750 [1]	
Fees due from private patients		2,750 [2]	
Medical card scheme due		2,700 [1]	
Investment interest due W1		4,000 [1]	
Bank W14		<u>140,960 [3]</u>	
		159,560	
Less Creditors: amounts falling due within 1 year			
Creditors for supplies	3,800 [1]		
Fees prepaid	<u>4,700 [1]</u>	<u>(8,500)</u>	<u>151,060</u>
			1,266,060
Financed by			
<u>Capital and Reserves</u>			
Share capital	800,000	450,000 [1]	
Revaluation reserve		214,000 [2]	
Reserves @31/12/2022		<u>602,060 [1]</u>	<u>1,266,060</u>
			1,266,060

(e) 10 Marks

In my opinion it is not advisable to increase the fees due to the danger of losing clients to other dental clinics.

An increase in fees to private patients of 10% would bring in an extra €19,300 in revenue.

The clinic is very profitable at the moment with a profit generated in 2022 of €140,560.

They have €140,960 in the bank after paying back a loan plus interest of €83,200 and net non-recurring expenditure on equipment of €22,100 .

They also have investments worth €120,000. Their ROCE is 11.21% which is a very healthy return.

Lupin Ltd is preparing to set up a business on 01/01/2024. Lupin plans to lodge €80,000 into the business bank account.

Lupin Ltd has made the following forecast for the first six months of trading:

	Jan	Feb	March	April	May	June	Total
Sales	€468,000	€544,500	€567,000	€585,000	€594,000	€661,000	€3,419,500
Purchases	€436,000	€320,000	€325,000	€330,000	€335,000	€345,000	€2,091,000

(i) The expected selling price is €50 per unit.

(ii) The cash collection pattern from sales is expected to be as follows: Cash customers: 40% of sales revenue will be for immediate cash and a cash discount of 5% will be allowed. Credit customers: 60% of sales revenue will be from credit customers. These debtors will pay their bills 60% in the month after sale and the remainder in the second month after sale.

(iii) The cash payment pattern for purchases is expected to be: Credit suppliers The purchases will be paid for 50% in the month after purchase when a 2% cash discount will be received. The remaining purchases will be paid for in the second month after purchase.

(iv) Expenses of the business will be settled as follows:

Expected costs Wages €84,500 per month, payable as incurred.

Variable overheads €4 per unit, payable as incurred.

Fixed overheads (including depreciation) €82,000 per month, payable as incurred.

Capital costs Equipment will be purchased on 01/01/2024 costing €36,000 which will have a useful economic life of 5 years and have a scrap value of 5% of the original cost.

To finance this purchase, a loan of €24,000 will be secured on 01/01/2024. Interest will be charged at 8% per annum. The interest for each month is to be paid on the last day of the month based on the amount of the loan outstanding at that date.

The capital sum is to be repaid in 32 monthly instalments commencing on 01/02/2024.

Required: (a) Prepare a cash budget for Lupin Ltd for each of the six months January to June 2024.

(b) Prepare a budgeted trading and profit and loss account for Lupin Ltd for the six months ending 30/06/2024.

(c) (i) What factors should be taken into consideration by Lupin Ltd in arriving at the expected sales figures for the first six months of 2024? (ii) On the basis of the cash budget you have prepared in (a) above, what advice would you give to the management of Lupin Ltd? (80 marks)

2023 Question 9 Solution 80 Marks(a) Cash budget for Lupin LTD for 6 months ending 30/06/2024 **58 Marks**

	Jan	Feb	Mar	Apr	May	Jun
Total Receipts						
Cash Sales	177,840 [1]	206,910 [1]	215,460 [1]	222,300 [1]	225,720 [1]	251,180[1]
Credit Sales - 1 month		168,480 [2]	196,020 [1]	204,120 [1]	210,600 [1]	213,840 [1]
Credit Sales - 2 months			<u>112,320 [1]</u>	<u>130,680 [1]</u>	<u>136,080 [1]</u>	<u>140,400 [1]</u>
	177,840	375,390	523,800	557,100	572,400	605,420
Payments						
Purchases - 1 month		213,640 [2]	156,800 [1]	159,250 [1]	161,700 [1]	164,150 [1]
Purchases - 2 months			218,000 [1]	160,000 [1]	162,500 [1]	165,000 [1]
Wages	84,500 [1]	84,500	84,500	84,500	84,500	84,500
Variable Overheads	37,440[1]	43,560 [1]	45,360 [1]	46,800 [1]	47,520[1]	52,880[1]
Fixed Overheads	81,430 [1]	81,430 [1]	81,430 [1]	81,430 [1]	81,430 [1]	81,430 [1]
Equipment	36,000 [1]					
Capital Payment		750 [1]	750	750	750	750
Interest	<u>160 [1]</u>	<u>155 [1]</u>	<u>150 [1]</u>	<u>145 [1]</u>	<u>140 [1]</u>	<u>135 [1]</u>
Total Payments	239,530	424,035	586,990	532,875	538,540	548,845
Net Cash	-61,690 [1]	-48,645 [1]	-63,190 [1]	24,225 [1]	33,860[1]	56,575[1]
Loan	24,000 [1]					
Opening Cash	80,000 [1]	42,310	-6,335	-69,525	-45,300	-11,440
Closing Cash	42,310	-6,335	-69,525	-45,300	-11,440	45,135[3]

(b) Budgeted Profit & Loss Account for Lupin Ltd for 6 months ending 30/06/2024 **16 Marks**

Sales		3,419,500 [1]
<u>Less Cost of Sales</u>		
Material	2,091,000 [1]	
Wages	507,000 [1]	
Variable Overhead	273,560 [1]	
Fixed Overhead	<u>488,580 [1]</u>	<u>(3,360,140)</u>
Gross Profit		59,360
Less Expenses		
Depreciation-Equipment	3,420 [1]	
Discount Allowed	<u>68,390 [2]</u>	<u>(71,810)</u>
		(12,450)
Discount Received		<u>17,460 [2]</u>
		5,010
Less Interest		<u>(885) [2]</u>
Net Profit		4,125 [4]

(c) 6 Marks

(i) Market research/opinion of sales manager and sales representatives

Trends/State of Economy

Price to be charged/Sales price

Competition

Luxuries versus necessities

Last year's sales from other stores

(ii) There are serious cash shortages in the business in February, March, April and May with a maximum forecast cash deficit, at the end of March of €69,525. This is even taking into consideration the €80,000 invested in the company by the owners at the start of January. So for those months corrective action will need to be taken by increasing cash receipts and reducing cash expenditures.

Lupin Ltd should change the credit terms for debtors to encourage more prompt payment by offering a bigger discount.

Lupin Ltd. should hire equipment instead of buying it to reduce cash expenditure, and spread the payments over the life of the asset which is 5 years instead of the 3 year repayment period for the loan.

The company could also delay the start date for the repayment of loan or repay the loan over a longer period of time.

Agree better credit terms with creditors by negotiating a longer period of credit received.

Examine variable overheads to see if they can be reduced.

Examine the wage bill to see if it can be reduced.

Arrange a maximum bank overdraft of €69,525, which, according to these forecasts, could be repaid very quickly, as by the end of June there is a forecast cash surplus in the business of €45,135.