

### Solution 3.1

***What is the difference between a Profit and Loss Statement for a service provider compared to a product provider?***

The profit and loss account is normally prepared for a period of time showing the summary of revenues and expenses over that period. The presentation of the profit and loss account will differ for businesses that offer a service (consultants, banks, tour operators) to those that sell a product (retailers and publicans).

Profit and Loss account for period ended 30 June <b>SERVICE PROVIDER</b>			Profit and Loss account for period ended 30 June <b>PRODUCT PROVIDER</b>		
	€	€		€	€
<b>Sales</b>		<b>100,000</b>	<b>Sales</b>		130,000
<i>Less expenses</i>			Less the cost of sales		<u>40,000</u>
Rent	18,000		<b>Gross Profit</b>		90,000
Rates	5,000		<i>Less expenses</i>		
Wages and Salaries	40,000		Rent & rates	12,000	
Repairs	3,500		Wages and Salaries	25,000	
Advertising	5,000		Repairs	2,100	
Accountants' fees	2,000		Advertising	3,000	
Solicitors' fees	1,000		Professional fees	4,000	
Insurance	7,000		Office expenses	14,900	
Phone	<u>1,500</u>	<u>83,000</u>	Insurance	<u>4,500</u>	<u>65,500</u>
<b>Net Profit</b>		<b><u>17,000</u></b>	<b>Net Profit</b>		<b><u>24,500</u></b>

The difference between the two profit and loss accounts is that the provider of services does not purchase stock of goods for resale. The product provider purchases stock at one price (cost price) and sells it at another price (selling price). The difference between the two will amount to his gross profit and is shown in a trading account.

## Solution 3.2

### *Distinguish between revenues and expenses with examples*

Revenue is the income generated by the business from the sale (both cash and on credit) of its products or services. Revenue does not include any monies received by means of loans or cash received from selling fixed assets (balance sheet transactions).

Expenses are the costs incurred in running the business on a day to day basis. Expenses do not include the cost of purchasing fixed assets, or repayment of any loans.

Revenue is money coming into to the business (an example being rent received from a tenant) while expenses represent money going out of the business (examples include electricity, wages and telephone costs).

## Solution 3.3

	<b>Account to be debited</b>	<b>Account to be credited</b>
1. Paid electricity by cheque	<b>Electricity a/c</b>	<b>Bank a/c</b>
2. Paid for stationary by cash	<b>Stationary a/c</b>	<b>Cash a/c</b>
3. Paid insurance by cheque	<b>Insurance a/c</b>	<b>Bank a/c</b>
4. Returned stationary for cash refund	<b>Cash a/c</b>	<b>Stationary a/c</b>
5. Paid wages by cheque	<b>Wages a/c</b>	<b>Bank a/c</b>
6. Received rent in cash from a tenant.	<b>Cash a/c</b>	<b>Rent Received a/c</b>
7. Paid motor expenses in cash.	<b>Motor Exps a/c</b>	<b>Cash a/c</b>

## **Solution 3.4**

### ***What four accounts make up the asset of stock and why?***

For businesses buying and selling products the selling price is normally set at a price above the cost price – otherwise the business would not make a profit. Stock is bought at one price, the purchase price, and sold at another (normally higher) price, the selling price. The stock account is divided into four separate accounts as follows.

- Sales account - Detailing all stock sold at selling price
- Sales returns account - detailing all stock returned at selling price
- Purchases account - detailing all stock purchased at cost price.
- Purchases returns account - detailing all purchases returned at cost price

## **Solution 3.5**

### ***How a debit can represent both an asset and an expense***

Assets are like expenses as, to acquire them, involves the outlay of some resource, usually money. Assets, expenses and losses are a cost to the organisation.

Also expenses have the effect of reducing profit and this has the effect of reducing capital. To reduce capital one must debit the account. Thus expenses and assets are represented by debits in double entry accounting.

**Solution 3.6**

	<b>Account to be debited</b>	<b>Account to be credited</b>
1. Stock purchased on credit	<b>Purchases a/c</b>	<b>Irish W/S Ltd a/c</b>
2. Stock purchased by cheque	<b>Purchases a/c</b>	<b>Bank a/c</b>
3. Cash sales	<b>Cash a/c</b>	<b>Sales a/c</b>
4. Credit sales	<b>D&amp;D Ltd a/c</b>	<b>Sales a/c</b>
5. Purchases returns	<b>Irish W/S Ltd a/c</b>	<b>Purchases returns a/c</b>
6. Sales returns	<b>Sales returns a/c</b>	<b>D&amp;D Ltd a/c</b>
7. Paid creditor	<b>Irish W/S Ltd a/c</b>	<b>Bank a/c</b>
8. Debtor paid	<b>Bank a/c</b>	<b>D&amp;D Ltd a/c</b>

**Solution 3.7**

	<b>Account to be debited</b>	<b>Account to be credited</b>
1. Credit purchases	<b>Purchases a/c</b>	<b>AA Ltd a/c</b>
2. Paid rent	<b>Rent a/c</b>	<b>Bank a/c</b>
3. Stationery bought	<b>Stationery a/c</b>	<b>Cash a/c</b>
4. Stock purchased	<b>Purchases a/c</b>	<b>Bank a/c</b>
5. Cash sales	<b>Cash a/c</b>	<b>Sales a/c</b>
6. Credit sales	<b>BB Ltd a/c</b>	<b>Sales a/c</b>
7. Purchases returns	<b>AA Ltd a/c</b>	<b>Purchases returns a/c</b>
8. Sales returns	<b>Sales returns a/c</b>	<b>BB Ltd a/c</b>
9. Paid rates	<b>Rates a/c</b>	<b>Bank a/c</b>
10. Paid wages	<b>Wages a/c</b>	<b>Bank a/c</b>
11. Paid cleaning	<b>Cleaning exps a/c</b>	<b>Cash a/c</b>
12. New Equipment	<b>Equipment a/c</b>	<b>Bank a/c</b>
13. Repairs to equipment	<b>Repairs a/c</b>	<b>Cash a/c</b>
14. Cash drawings	<b>Drawings a/c</b>	<b>Cash a/c</b>
15. Stock drawings	<b>Drawings a/c</b>	<b>Purchases a/c</b>

**Solution 3.8**

DR		Capital Account		CR	
May		€		May	€
				1	Bank a/c
					25,000

DR		Bank Account		CR	
May		€		May	€
1	Capital a/c	25,000		2	Equipment a/c
10	Sales a/c	4,000		6	Purchases a/c
25	Rent receivable a/c	280		15	Rent a/c
				16	Stationery a/c
				16	Advertising a/c
				20	Drawings a/c
				22	Jackod a/c
				23	Wages a/c
				26	Travel expenses a/c
				30	AA Motors Ltd
					8,000

DR		Drawings Account		CR	
May		€		May	€
20	Bank a/c	300			
27	Purchases a/c	100			

DR		Equipment Account		CR	
May		€		May	€
2	Bank a/c	5,000			

DR		Vehicles Account		CR	
May		€		May	€
4	AA Motors Ltd	8,000			

DR		Purchases Account		CR	
May		€		May	€
5	Jackod Ltd a/c	2,000		27	Drawings
6	Bank a/c	3,000			100

DR		Purchases Returns Account		CR	
May		€		May	€
				18	Jackod Ltd a/c
					500

<b>DR</b>		<b>Sales Account</b>		<b>CR</b>		
May		€		May	€	
				10	Bank a/c	4,000
				29	G. Dunne a/c	350

<b>DR</b>		<b>Rent Payable Account</b>		<b>CR</b>	
May		€		May	€
15	Bank a/c		1,000		

<b>DR</b>		<b>Stationery Account</b>		<b>CR</b>	
May		€		May	€
16	Bank a/c		400		

<b>DR</b>		<b>Advertising Account</b>		<b>CR</b>	
May		€		May	€
16	Bank a/c		250		

<b>DR</b>		<b>Wages Account</b>		<b>CR</b>	
May		€		May	€
23	Bank a/c		800		

<b>DR</b>		<b>Travel Expenses Account</b>		<b>CR</b>	
May		€		May	€
26	Bank a/c		200		

<b>DR</b>		<b>Rent Receivable Account</b>		<b>CR</b>		
May		€		May	€	
				25	Bank a/c	280

<b>DR</b>		<b>Creditor - AA Motors Account</b>		<b>CR</b>		
May		€		May	€	
30	Bank a/c		8,000	4	Vehicles a/c	8,000

<b>DR</b>		<b>Creditor – Jackod Ltd Account</b>		<b>CR</b>		
May		€		May	€	
18	Purchases returns a/c		500	5	Purchases a/c	2,000
22	Bank a/c		1,500			

<b>DR</b>		<b>Debtor – G. Dunne Account</b>		<b>CR</b>	
May		€		May	€
29	Sales a/c		350		

### **Solution 3.9**

***Explain in your own words the relationship between 'net profit' and 'capital'.***

If a business makes a profit then this profit belongs to the owner and, should the owner decide to keep the profit in the business, then profit increases capital (the amount the owner puts into the business). On the other hand, losses decrease capital. In general most business will retain a lot of profits in the business, as this is an important form of finance to enable the business to expand.

***What do you understand by the term 'drawings'.***

The term 'drawings' represents money or any other asset taken out of a business by the owner for his own use. For example, if the owner of the business withdrew cash or stock for his own use. Drawings is the opposite to capital and, in the balance sheet, drawings is deducted from capital to show the net capital invested by the owner.