

## Chapter 6

### Solution 6.1

The **Income statement** is normally prepared for a period of time showing the summary revenues and expenses over a period of time e.g. a month, six months or a full year. The purpose of the profit and loss account is to show the net profit or loss that was incurred by business during a period of time detailing revenues and costs for the period.

The purpose of the **statement of financial position** is to show what the business owns (assets), and owes (liabilities and capital) at a point in time.

### Solution 6.2

#### Description and purpose of the accruals concept

The purpose of the accruals concept is to ensure that the financial statements reflect accurately what has occurred in the business and that the same principles are adopted by all preparers of financial statements. The key points relating to the accruals concept are

1. When calculating net profit, expenses should be matched against related revenues. When accounting for products purchases are matched against sales on a unit bases. Expenses are matched on a time basis.
2. Net profit is the difference between revenues earned (not necessarily received) and expenses charged (not necessarily paid). For businesses that buy and sell on credit, sales and purchases in the trading account will be a mixture of cash and credit transactions. Also, expenses that relate to a period will be deducted from sales in the calculation of net profit for that period whether or not those expenses have actually been paid. Any unpaid expenses will also be shown in the balance sheet under liabilities.

## Solution 6.3

### Difference between the Trading account and the Profit & Loss account

The trading account is prepared when a business deals in products. It shows the profit or loss made on trading in 'products' i.e. sales less the cost of those sales. The term gross profit (or loss) is used in the trading account. A profit and Loss account calculates the net profit or loss of a business. The net profit is revenue less all expenses.

#### Trading Account for period ended 31 December

	€	€	€
Sales		500,000	
Returns inwards		<u>(30,000)</u>	470,000
<i>Less cost of Goods sold</i>			
Opening inventory		42,000	
Purchases	300,000		
Returns out	(50,000)		
Carriage inwards	<u>20,000</u>	270,000	
Closing inventory		<u>(36,000)</u>	<u>(276,000)</u>
<b>Gross Profit</b>			<b>194,000</b>

## Solution 6.4 – Niall Daly

### Income Statement for year ended 31 January

	€	€	€
Sales			282,233
<i>Less cost of sales</i>			
Opening inventory		10,900	
Purchases	102,763		
+ Carriage in	10,152		
- Returns out	<u>(7,894)</u>	105,021	
Less closing inventory		<u>(12,000)</u>	
Cost of sales			<u>(103,921)</u>
<b>Gross profit</b>			<b>178,312</b>
<i>Less Expenses</i>			
Wages & salaries		78,456	
Motor expenses		12,356	
Rent		59,400	
Rates		12,456	
Insurance		15,000	
Sundry expenses		4,520	
Light and heat		<u>12,564</u>	
			<u>(194,752)</u>
<b>Net loss</b>			<b><u>(16,440)</u></b>

### Statement of Financial position as at 31 January

	€	€	€
<i>Non Current Assets</i>			
Office furniture			56,000
Office equipment			40,000
Plant and equipment			<u>70,120</u>
			166,120
<i>Current Assets</i>			
Inventory		12,000	
Cash		<u>560</u>	<u>12560</u>
			<b><u>178,680</u></b>
<i>Liabilities &amp; Capital</i>			
<i>Current Liabilities</i>			
Creditors		56,120	
Bank		<u>21,300</u>	77,420
<i>Long Term Liabilities</i>			
Loan			40,000
Capital		90,000	
Profit & loss		(16,440)	
Drawings		<u>(12,300)</u>	<u>61,260</u>
			<b><u>178,680</u></b>

## Solution 6.5 – Mike McDonald

### Income Statement for year ended 31 December

	€	€	€
Revenue/Sales			452,728
<i>Less cost of sales</i>			
Opening Inventory		15,600	
Purchases	150,456		
+ Carriage in	8,900		
- Returns out	<u>(12,300)</u>	147,056	
Less closing inventory		<u>(10,250)</u>	
Cost of sales			<u>(152,406)</u>
<b>Gross profit</b>			<b>300,322</b>
<i>Less Expenses</i>			
Wages & salaries		102,763	
Motor expenses		20,000	
Rent		40,152	
Rates		15,689	
Insurance		15,000	
Marketing & sales		4,520	
Office expenses		5,200	
Sundry expenses		<u>2,900</u>	
<b>Net Profit</b>			<b><u>94,098</u></b>

### Statement of Financial Position as at 31 December

	€	€	€
<i>Non-Current Assets</i>			
Furniture			85,300
Equipment			80,309
Adventure equipment			<u>167,079</u>
			<b>332,688</b>
<i>Current Assets</i>			
Stock	10,250		
Debtors	40,000		
Cash	1,160		
Bank	<u>45,000</u>		
			<b><u>96,410</u></b>
			<b><u>429,098</u></b>
<i>Liabilities &amp; Capital</i>			
<i>Current Liabilities</i>			
Creditors	<u>70,000</u>		70,000
<i>Long Term Liabilities</i>			
Loan			100,000
<i>Capital</i>			
Capital	200,000		
Profit & loss	94,098		
Drawings	<u>(35,000)</u>		
			<b>259,098</b>
			<b><u>429,098</u></b>

## Solution 6.6 – Tony Smith

### Income statement for year ended 31 October

	€	€	€
Sales		1,973,000	
- Returns in		<u>(39,460)</u>	1,933,540
<i>Less cost of sales</i>			
Opening stock		90,000	
Purchases	1,517,700		
+ Carriage in	25,000		
- Returns out	<u>(45,880)</u>	1,496,820	
Less closing stock		<u>(120,000)</u>	
Cost of sales			<u>(1,466,820)</u>
<b>Gross profit</b>			466,720
<i>Add Other income</i>			
Discount received		15,000	
Rent received		<u>20,000</u>	35,000
<i>Less Expenses</i>			
Advertising		87,562	
Carriage out		12,600	
Communications		9,354	
Discount allowed		7,200	
General expenses		7,310	
Insurance		12,704	
Light and heat		24,000	
Motor expenses		36,000	
Rent payable		80,000	
Wages		<u>290,000</u>	<u>(566,730)</u>
<b>Net loss</b>			<u>(65,010)</u>

### Statement of Financial Position as at 31 October

	€	€	€
<i>Non-current Assets</i>			
Buildings			1,188,000
Furniture & fittings			237,600
Vehicles			<u>100,000</u>
			1,525,600
<i>Current Assets</i>			
Stock	120,000		
Debtors	<u>164,400</u>		<u>284,400</u>
			<u>1,810,000</u>
<i>Capital and Liabilities</i>			
Capital			1,744,570
Profit & loss			(65,010)
Drawings			<u>(71,110)</u>
			1,608,450
<i>Current Liabilities</i>			
Creditors	126,900		
Bank	24,650		
Loan	<u>50,000</u>		<u>201,550</u>
			<u>1,810,000</u>

## Solution Question 6.7

(a) Ledger accounts

### Bank Account

		€			€
1/8	Capital	86,000	2/8	Furniture and fittings	20,000
12/8	Revenues	3,000	2/8	Rent	3,000
15/8	Revenues	2,500	3/8	Equipment	3,500
22/8	Revenues	3,000	7/8	Memorabilia	5,000
26/8	Revenues	1,200	10/8	Wages	7,000
31/8	Revenues	1,500	13/8	Drawings	1,500
			17/8	Electricity	200
			19/8	Advertising	550
			20/8	Wages	5,000
			23/8	C&F	3,000
			27/8	Rates	300
			31/8	<i>Balance c/d</i>	<u>48,150</u>
		<u>97,200</u>			<u>97,200</u>
1/9	Balance b/d	48,150			

### Capital Account

		€			€
31/8	<i>Balance c/d</i>	<u>86,000</u>	1/8	Bank	<u>86,000</u>
			1/9	<i>Balance b/d</i>	<u>86,000</u>

### Furniture Account

		€			€
2/8	Bank	20,000			
			31/8	<i>Balance c/d</i>	<u>20,000</u>
		<u>20,000</u>			<u>20,000</u>
1/9	<i>Balance b/d</i>	<u>20,000</u>			

### Rent Account

		€			€
2/8	Bank	<u>3,000</u>	31/8	<i>Balance c/d</i>	<u>3,000</u>
1/9	<i>Balance b/d</i>	3,000			

### Equipment Account

		€			€
3/8	Bank	<u>3,500</u>	31/8	<i>Balance b/d</i>	<u>3,500</u>

1/9	Balance c/d	3,500			

#### Memorabilia Account

		€			€
3/8	Bank	<u>5,000</u>	31/8	Balance b/d	<u>5,000</u>
1/9	Balance c/d	5,000			

#### Purchases Account

		€			€
8/8	C&F	3,000	29/8	Drawing	200
24/8	C&F	<u>900</u>	31/8	Balance c/d	<u>3,700</u>
		<u>3,900</u>			<u>3,900</u>

#### CF Account (creditors)

		€			€
23/8	Bank	3,000	8/8	Purchases	3,000
31/8	Balance c/d	<u>900</u>	24/8	Purchases	<u>900</u>
		<u>3,900</u>			<u>3,900</u>
			1/9	Balance b/d	900

#### Wages Account

		€			€
10/8	Bank	7,000			
20/8	Bank	<u>5,000</u>	31/8	Balance c/d	<u>12,000</u>
		<u>12,000</u>			<u>12,000</u>
1/9	Balance c/d	12,000			

#### Sales Revenue Account

		€			€
			12/8	Bank	3,000
			15/8	Bank	2,500
			22/8	Bank	3,000
			26/8	Bank	1,200
31/8	Balance c/d	<u>11,200</u>	31/8	Bank	<u>1,500</u>
		<u>11,200</u>			<u>11,200</u>

#### Drawings Account

		€			€
13/8	Bank	1,500			

29/8	Purchases	<u>200</u>	31/8	Balance c/d	<u>1,700</u>
		<u>1,700</u>			<u>1,700</u>
1/8	Balance b/d	1,700			

**Electricity Account**

		€			€
17/8	Bank	<u>200</u>	31/8	Balance c/d	<u>200</u>

**Advertising Account**

		€			€
19/8	Bank	<u>550</u>	31/8	Balance c/d	<u>550</u>

**Rates Account**

		€			€
26/8	Bank	<u>300</u>	31/8	Balance c/d	<u>300</u>

**(b) Trial Balance**

	€ DR	€ CR
Bank	48,150	
Capital		86,000
Furniture and fittings	20,000	
Memorabilia	5,000	
Rent	3,000	
Equipment	3,500	
Purchases	3,700	
CF (creditors)		900
Sales revenue		11,200
Wages	12,000	
Drawings	1,700	
Electricity	200	
Advertising	550	
Rates	<u>300</u>	
	<u>98,100</u>	<u>98,100</u>

**(c) Income Statement**

	€	€
Sales		11,200
Less Cost of sales		
Opening inventory	0	
Purchases	3,700	



Closing inventory	<u>(800)</u>	<u>2,900</u>
Gross profit		8,300
Less expenses		
Rent	3,000	
Wages	12,000	
Electricity	200	
Advertising	550	
Rates	<u>300</u>	<u>16,050</u>
Net loss		<u>(7,750)</u>

### Statement of Financial Position

	€	€
<b>Non-current assets</b>		
Furniture and fittings		20,000
Equipment		3,500
Memorabilia		<u>5,000</u>
		28,500
<b>Current assets</b>		
Inventory	800	
Bank	<u>48,150</u>	<u>48,950</u>
		<b><u>77,450</u></b>
<b>Liabilities &amp; Capital</b>		
<b>Current Liabilities</b>		
Accounts Payables		<u>900</u>
<b>Capital</b>		
Opening capital	86,000	
Net loss	(7,750)	
Drawings	<u>(1,700)</u>	<u>76,550</u>
		<b><u>77,450</u></b>

