

Solution 6.1

The **Profit and Loss Account** 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 **Balance Sheet** 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 for period ended 31 December 2004

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

Solution 6.4 – Niall Daly**Trading and Profit and Loss Account for year ended 31 January 2005**

	€	€	€
Sales			282,233
<i>Less cost of sales</i>			
Opening stock		10,900	
Purchases	102,763		
+ Carriage in	10,152		
- Returns out	<u>(7,894)</u>	105,021	
Less closing stock		<u>(12,000)</u>	
Cost of sales			<u>(103,921)</u>
Gross profit			178,312
<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>
Net loss			<u>(16,440)</u>

Balance sheet as at 31 January 2005

	€	€	€
<i>Fixed Assets</i>			
Office furniture			56,000
Office equipment			40,000
Plant and equipment			<u>70,120</u>
			166,120
<i>Current Assets</i>			
Stock	12,000		
Cash	<u>560</u>	12,560	
<i>Current Liabilities</i>			
Creditors	56,120		
Bank	<u>21,300</u>	(77,420)	(64,860)
<i>Long Term Liabilities</i>			
Loan			<u>(40,000)</u>
			<u>61,260</u>
Financed by			
Capital			90,000
Profit & loss			(16,440)
Drawings			<u>(12,300)</u>
			<u>61,260</u>

Solution 6.5 – Mike McDonald**Trading and Profit and Loss Account for year ended 31 December 2005**

	€	€	€
Sales			452,728
<i>Less cost of sales</i>			
Opening stock		15,600	
Purchases	150,456		
+ Carriage in	8,900		
- Returns out	<u>(12,300)</u>	147,056	
Less closing stock		<u>(10,250)</u>	
Cost of sales			<u>(152,406)</u>
Gross profit			300,322
<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>	<u>(206,224)</u>
Net Profit			94,098

Balance sheet as at 31 December 2005

	€	€	€
<i>Fixed Assets</i>			
Furniture			85,300
Equipment			80,309
Adventure equipment			<u>167,079</u>
			332,688
<i>Current Assets</i>			
Stock	10,250		
Debtors	40,000		
Cash	1,160		
Bank	<u>45,000</u>	96,410	
<i>Current Liabilities</i>			
Creditors	<u>70,000</u>	(70,000)	26,410
<i>Long Term Liabilities</i>			
Loan			<u>(100,000)</u>
			<u>259,098</u>
<i>Financed by</i>			
Capital			200,000
Profit & loss			94,098
Drawings			<u>(35,000)</u>
			<u>259,098</u>

Solution 6.6 – Tony Smith**Trading and Profit and Loss Account for year ended 31 October 2005**

	€	€	€
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>
Gross profit			466,720
<i>Add Gains</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>
Net loss			(65,010)

Balance sheet as at 31 October 2005

	€	€	€
<i>Fixed 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>	284,400	
<i>Current Liabilities</i>			
Creditors	126,900		
Bank	24,650		
Loan	<u>50,000</u>	(201,550)	<u>82,850</u>
			<u>1,608,450</u>
<i>Financed by</i>			
Capital			1,744,570
Profit & loss			(65,010)
Drawings			<u>(71,110)</u>
			<u>1,608,450</u>