

Incomplete Records 2003

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J. O'Higgins lodged €350,000 to a business bank account on 1/1/2002 and on the same day purchased a business for €320,000, including the following assets and liabilities: buildings €290,000, stock €16,700, three months rates prepaid €2,400, debtors €32,500, wages due €3,600 and trade creditors €58,000.

O'Higgins did not keep a full set of books during 2002 but estimates that the gross profit was 40% of sales and he was able to supply the following additional information on 31/12/2002:

- (i) Each week O'Higgins took from stock goods to the value of €100 and cash €150 for household expenses.
- (ii) On 1/10/2002 O'Higgins borrowed €300,000, part of which was used to purchase an adjoining premises costing €250,000. It was agreed that O'Higgins would pay interest on the last day of the month at the rate of 6% per annum. The capital sum was to be repaid in one lump sum in the year 2010 and, to provide for this, the bank was instructed to transfer €2,500 on the last day of every month from O'Higgins's business account into an investment fund.
- (iii) During the year, O'Higgins lodged dividends €2,500 to the business bank account and made the following payments: light and heat €7,200, interest €3,000, wages and general expenses €98,000, equipment €16,000, rates for twelve months €10,800 and college fees €4,500.
- (iv) O'Higgins estimated that 25% of the following: equipment, light and heat *used* and interest *payable* should be attributed to the private section of the premises. O'Higgins further estimates that 70% of college fees should be attributed to a family member and the remainder to an employee.
- (v) Included in the assets and liabilities of the firm on 31/12/2002 were stock €17,200, debtors €34,300, trade creditors €29,900, cash at bank €68,462, electricity due €560 and €75 interest earned by the investment fund to date.

You are required to prepare, with workings, a:

- (a) Statement/Balance Sheet showing O'Higgins's profit or loss for the year ended 31/12/2002. (50)
- (b) Trading, Profit and Loss Account, in as much detail as possible, for the year ended 31/12/2002. (40)
- (c) Summary of the advice you would give to O'Higgins in relation to the information given above. (10)

(100 marks)

