**Tutorial 4 Solutions**

**Question 1 Jock**

**WORKING 1 – RATES**

Rates paid = £300 this equals 15 months therefore the three months to 31 March 20X9 are prepaid.

£300 x 3/15 = £60

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Rates a/c** | |  |  |
|  |  | £ |  |  | £ |
| 31/12/X8 | Bal per TB | 300 | 31/12/X8 | Closing prepayment | 60 |
|  |  |  | 31/12/X8 | P/L a/c | 240 |
|  |  | 300 |  |  | 300 |
|  |  |  |  |  |  |

**WORKING 2- MOTOR CAR DEPRECIATION**

Cost x Rate as straight line

£10,000 x 20% = £2,000

Profit or loss account charge is the £2,000

The allowance for depreciation now changes to £4,000

**WORKING 3 – IRRECOVERABLE RECEIVABLES AND ALLOWANCE FOR IRRECOVERABLE RECEIVABLES**

Write the irrecoverable receivables off first. Then the allowance for discounts is determined and lastly the allowance for irrecoverable receivables.

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| --- | --- | --- | --- | --- | --- |
|  | **Trade receivables a/c** | | | |  |
|  |  | £ |  |  | £ |
| 31/12/X8 | Bal per TB | 5,000 | 31/12/X8 | Irrec. Rec’s a/c | 1,000 |
|  |  |  | 31/12/X8 | Bal c/d | 4,000 |
|  |  | 5,000 |  |  | 5,000 |
|  | Bal b/d | 4,000 |  |  |  |

A profit or loss expense account for irrecoverable receivables of £1,000 has to be included in the trial balance (only one entry) and subsequent statement of profit or loss.

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|  | **Allowance for discounts a/c** | | | |  |
|  |  | £ |  |  | £ |
| 31/12/X8 | Reduction in discounts a/c (P/L a/c) | 100 | 31/12/X8 | Bal b/d | 100 |
|  |  |  |  |  |  |
|  |  | 100 |  |  | 100 |
|  |  |  |  |  |  |

Allowance for irrecoverables is now 10% of closing trade receivables which is the £4,000 x 10% = £400. Therefore, the closing balance on the allowance should be £400. So, an increase of £150 is required.

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|  | **Allowance for Irrecoverable receivables a/c** | | | |  |
|  |  | £ |  |  | £ |
| 31/12/X8 | Bal c/d | 400 | 31/12/X8 | Bal b/d | 250 |
|  |  |  | 31/12/X8 | Inc in allow (P/L) | 150 |
|  |  | 400 |  |  | 400 |
|  |  |  |  | Bal b/d | 400 |

At the end of this, three profit or loss expense accounts have to be posted.

Irrecoverable receivables £1,000

Decrease in the allowance for discounts £100

Increase in the allowance for irrecoverable receivables £150

**Statement of profit or loss account for Jock for the year ended 31 December 20X8**

|  |  |  |
| --- | --- | --- |
|  | £ | £ |
| Sales revenue |  | 10,000 |
| ***Cost of sales*** |  |  |
| Opening inventory | 100 |  |
| Purchases | 2,000 |  |
|  | 2,100 |  |
| Closing inventory | (500) | 1,600 |
| ***Gross profit*** |  | 8,400 |
| ***Less: expenses*** |  |  |
| Rent | 200 |  |
| Rates | 240 |  |
| Motor vehicle depreciation | 2,000 |  |
| Increase in allowance for irrecoverable receivables | 150 |  |
| Reduction in allowance for discounts | (100) |  |
| Irrecoverable receivables | 1,000 | 3,490 |
| ***Profit for the period*** |  | 4,910 |

**Statement of financial position for Jock as at 31 December 20X8**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **£** | **£** | **£** |
| ***ASSETS*** |  |  |  |
| ***Non-current assets*** | **Cost** | **Depn** | **NBV** |
| Motor Vehicle | 10,000 | 4,000 | 6,000 |
|  | 10,000 | 4,000 | 6,000 |
| ***Current assets*** |  |  |  |
| Inventories |  |  | 500 |
| Trade receivables |  | 4,000 |  |
| Allowance for irrec. Receivables |  | (400) | 3,600 |
| Prepayments |  |  | 60 |
| Bank |  |  | 5,000 |
|  |  |  | 9,160 |
| ***Total assets*** |  |  | 15,160 |
| ***EQUITY AND LIABILITIES*** |  |  |  |
| ***Owners equity capital*** |  |  |  |
| Capital |  |  | 9,250 |
| Profit for the year |  |  | 4,910 |
|  |  |  | 14,160 |
| ***Current liabilities*** |  |  |  |
| Trade payables |  |  | 1,000 |
| Total equity and liabilities |  |  | 15,160 |

**Question 2**

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| **Statement of profit or loss for 'B Good' for the year ended 31 March 20X9** | | | | | |
|  |  |  | **£** | **£** |  |
| Sales revenue |  |  |  | 189,560 |  |
| Returns inward |  |  |  | (560) |  |
|  |  |  |  | 189,000 |  |
| ***Cost of goods sold*** |  |  |  |  |  |
| Opening inventory |  |  | 28,590 |  |  |
| Purchases |  | 125,560 |  |  |  |
| Carriage inwards |  | 200 |  |  |  |
| Returns outward |  | (302) | 125,458 |  |  |
|  |  |  | 154,048 |  |  |
| Closing inventory |  |  | (35,650) | 118,398 |  |
| ***Gross profit*** |  |  |  | 70,602 |  |
| Rent income (200+100) |  |  |  | 300 |  |
|  |  |  |  | 70,902 |  |
| *Less: expenses* |  |  |  |  |  |
| Wages (4580+400) |  |  | 4,980 |  |  |
| Sundry expenses (1090+110) |  |  | 1,200 |  |  |
| Motor expenses |  |  | 569 |  |  |
| Office expenses |  |  | 560 |  |  |
| Telephone |  |  | 1,250 |  |  |
| Rates (1250-250) |  |  | 1,000 |  |  |
| Carriage outward |  |  | 546 |  |  |
| Insurance |  |  | 525 |  |  |
| Rent (2550-500) |  |  | 2,000 | 12,630 |  |
| ***Profit for the year*** |  |  |  | 58,272 |  |

**Statement of financial position for B. Good as at 31 March 20X9**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **ASSETS** |  |  |  |  |  |
| **Non-current assets** |  |  |  | **£** |  |
| Buildings |  |  |  | 230,000 |  |
| Fixtures |  |  |  | 5,365 |  |
| Motor vans |  |  |  | 12,500 |  |
|  |  |  |  | 247,865 |  |
| **Current assets** |  |  |  |  |  |
| Inventories |  |  |  | 35,650 |  |
| Trade receivables |  |  |  | 28,560 |  |
| Prepayment |  |  |  | 750 |  |
| Income receivable |  |  |  | 100 |  |
| Cash |  |  |  | 12 |  |
|  |  |  |  | 65,072 |  |
|  |  |  |  | 312,937 |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **EQUITY AND LIABILITIES** |  |  |  |  |  |
| ***Owners equity*** |  |  |  |  |  |
| Capital |  |  |  | 178,907 |  |
| Profit for the year |  |  |  | 58,272 |  |
|  |  |  |  | 237,179 |  |
| Drawings |  |  |  | (5,562) |  |
|  |  |  |  | 231,617 |  |
| ***Current liabilities*** |  |  |  |  |  |
| Trade payables |  |  |  | 48,560 |  |
| Accrual |  |  |  | 510 |  |
| Overdraft |  |  |  | 32,250 |  |
|  |  |  |  | 81,320 |  |
| ***Total equity and liabilities*** |  |  |  | 312,937 |  |