

**Note: Higher level questions are marked with an asterisk\***

### 3. Maggie

Maggie runs a business that organises children's after school gym and music sessions in Sydney and Melbourne. She employs a team of instructors and one of her friends has drawn up a draft statement of profit or loss for the business for the year ended 30 June 2022. The trial balance for the business, after the draft net profit has been computed, is given:

	<b>DEBIT AU\$</b>	<b>CREDIT AU\$</b>
Draft net profit for the year		99,900
Equipment	71,000	
Motor vehicle	18,000	
Bank balance	5,500	
Inventories as at 30 June 2022	2,300	
Trade payables		5,900
Opening capital		53,000
Drawings	<u>62,000</u>	—
	<b><u>158,800</u></b>	<b><u>158,800</u></b>

Note: Having received the draft statement of profit or loss for the year, Maggie has been made aware that there are probably accruals and prepayments that need to be adjusted for. She notes the following information:

- On 4 July 2022, she paid employee wages of £6,000 for June 2022.
- On 4 July 2022 she paid an insurance premium of £4,500 for the year to 30 June 2017.
- On 5 July 2022, she paid rent for June 2022 amounting to £4,300.

**REQUIRED:**

- a) Calculate Maggie's revised net profit for the year, taking into account the additional information.
- b) Prepare the statement of financial position for the business as at 30 June 2022.

**4. Antiquus**

Peter runs Antiquus, a business based in South East England, which buys and sells antique furniture. He has been in business for many years and has an accountant who prepares his statement of profit or loss and statement of financial position each year. He does not usually pay much attention to these financial statements but his sister, Emma, who has made a loan to the business, is keen to understand them.

Extracts from the statement of financial positions at 31 January 2023 and 2022 are given below:

<b>Antiquus</b>	
<b>Extracts from the statements of financial position as at 31 January 2023 and 2022</b>	
<b>2023</b>	<b>2022</b>

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<b>ASSETS</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Non-current assets</b>		120		127
<b>Current assets</b>				
Inventory	50		32	
Trade receivables	1		1	
Prepayments	3		2	
Bank balance	-		8	
	<u>54</u>		<u>43</u>	
<b>Total assets</b>		<u>174</u>		<u>170</u>
<b>CAPITAL AND LIABILITIES</b>				
Capital		127		130
<b>Non-current liabilities</b>				
Loan from Emma		35		35
<b>Current liabilities</b>				
Trade payables	5		5	
Bank overdraft	7		-	
	<u>12</u>		<u>5</u>	
<b>Total capital and liabilities</b>		<u>174</u>		<u>170</u>

The statement of profit or loss shows that the business made a profit for the year ended 31 January 2023 of £40,000.

**REQUIRED:**

Answer the following questions for Emma:

- a) Explain what is meant by a non-current asset and how it differs from a current asset.
- b) What has happened to the business's bank balance over the last year?
- c) Describe what would be included in inventory and comment on how it has changed over the last year.
- d) Explain what prepayments are and why they are included as an asset.
- e) Explain what is meant by trade payables.

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- f) Emma is keen to know about the level of drawings Peter has made during the year. What can you deduce about his level of drawings?
- g) Emma would like the business to start repaying her loan next year. What steps might she advise Peter to take in order to enable the business to do this?

**\*5. Eric**

Eric has been in business for one year selling washing machines, dishwashers, and tumble dryers. He provides a free home delivery service to customers living within a 25 kilometre distance of the shop. In order to offer this service, he employs an assistant who carries out the deliveries and installations.

The trial balance for the business as at 31 December 2023 was as follows:

	<b>DEBIT</b>	<b>CREDIT</b>
	<b>€</b>	<b>€</b>
Capital at 1 January 2023		125,300
Equipment	78,550	
Trade receivables	19,810	
Trade payables		44,080
Bank balance	10,940	
Sales		559,130
Purchases	469,080	
Wages	40,700	
Rent	30,000	
Insurance	3,750	
Other expenses	30,350	
Electricity	14,290	
Drawings	31,040	
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	<b>728,510</b>	<b>728,510</b>

Additional information:

- Inventories at 31 December 2023 were valued at €64,440.
- Wages owing as at 31 December 2023 amounted to €1,600.

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- Included in insurance is a payment of €1,500 to provide insurance cover for the business for the 6 months ended 31 March 2024.

**REQUIRED:**

- (a) Prepare Eric's statement of profit or loss for the year ended 31 December 2023.
- (b) Prepare Eric's statement of financial position as at 31 December 2023.
- (c) Having prepared the above statement of profit or loss, Eric remembers that the closing inventories figure did not include the value of goods owned by the business but stored in a nearby warehouse. The cost of these goods amounted to €3,600. What effect, if any, will there be on the profit for the year when this error is corrected?
- (d) Eric is concerned as to whether he took an appropriate level of drawings from the business given that it was its first year of trading. Advise Eric on whether you consider the amount of drawings he made to be appropriate.

**\*6. High Lo Sounds**

Jason Lo sells electric guitars and amplifiers from his small rented shop in Hong Kong. He has been in business for three years now and his bookkeeper has recently provided him with his trial balance for the year ended 31 December 2022.

The trial balance is given below:

	<b>DEBIT</b>	<b>CREDIT</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Capital at 1 January 2022		565
Inventories at 1 January 2022	291	
Sales		1,813
Purchases	1,100	

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Wages	238	
Rent	122	
Electricity	41	
Insurance	48	
Fixtures and fittings	198	
Equipment	145	
Bank balance		
Trade payables		65
Trade receivables	14	
Bank balance	36	
Drawings	210	
	<hr/> <b>2,443</b>	<hr/> <b>2,443</b>

**Additional information as at 31 December 2022:**

- i. Inventories held were valued at HK\$450k.
- ii. Wages owing amounted to HK\$20
- iii. Rent is paid quarterly in advance and HK\$36k was paid in October 2022 for the 3 months to 31 January 2023.

**REQUIRED:**

- a) Prepare the statement of profit or loss for High Lo Sounds for the year ended 31 December 2022.
- b) Prepare the statement of financial position for the business as at that date.
- c) Jason is considering selling his business in the next year and is starting to consider how much the business might be worth. Jason has heard that the statement of financial position does not provide a reasonable basis for deciding on the business's value. Explain to him why this is so.