

Note: Higher level questions are marked with an asterisk*

3. Maggie

a)

	AU\$
Draft net profit for the year	99,900
Wages owing – accrual needed	(6,000)
Insurance – no adjustment needed	-
Rent owing – accrual needed	(4,300)
Revised net profit for the year	<u>89,600</u>

b)

Maggie		
Statement of financial position as at 30 June 2022		
	AU\$	AU\$
ASSETS		
Non-current assets		
Motor vehicle		18,000
Equipment		<u>71,000</u>
		89,000
Current assets		
Inventory	2,300	

Carey & Knowles: Accounting - A Smart Approach
 Chapter 3 - Balancing the Basics
 Solutions to practice questions

Bank balance	5,500	
		<u>7,800</u>
Total assets		<u>96,800</u>
CAPITAL AND LIABILITIES		
Capital at the beginning of the year		53,000
Add: Profit for the year		89,600
Less: Drawings		<u>(62,000)</u>
Capital at the year-end		80,600
Current liabilities		
Trade payables	5,900	
Accruals (£6,000 + 4,300)	<u>10,300</u>	
		<u>16,200</u>
Total capital and liabilities		<u>96,800</u>

4. Antiquus

- a) A non-current asset is an asset that the business intends to keep for long-term use in the business and a current asset is an asset which will only remain in the business in the short-term. 'Long-term' is judged as being periods of over a year.

- b)** Over the last year, the business's bank account has fallen by £15k from a positive bank balance of £8k at the previous year end to an overdraft of £7k at 31 January 2023.
- c)** Inventory comprises goods held by the business that are intended for resale. In the case of Antiquus, the inventory will comprise antiques that Peter has bought, which he hopes to sell at a profit. Over the year to 31 January 2023, the value of antiques held has increased markedly from £32k to £50k.
- d)** Prepayments arise where a business has paid for one of its expenses in advance. The business will have paid the amount due but not yet had the benefit of the service paid for. Because the prepayment will save the business having to pay out that amount in the following financial year, it is recognized as an asset of the business on the statement of financial position.
- e)** Trade payables represent amounts owed to suppliers who have supplied goods, in this case antiques, to the business on credit.
- f)** Over the course of the last year, the statement of financial position shows that Peter's capital balance fell by £3k despite the business making a profit of £40k. This means that Peter's drawings exceeded the profit for the year by £3,000 and must have amounted to £43k.
- g)** In order for the business to be in a position to start repaying Emma's loan next year, Emma could advise Peter to:
- reduce the level of drawings that he makes from the business
 - reduce the amount of inventory held.

***5. Eric**
a)

Eric		
Statement of profit or loss for the year ended 31 December 2023		
	€	€
Sales		559,130
Less: Cost of sales		
Purchases	469,080	
Less closing inventory	64,440	
		404,640
Gross profit		154,490
Less: Expenses		
Wages (40,700 + 1,600)	42,300	
Rent	30,000	
Electricity	14,290	
Insurance (3,750 – 750)	3,000	
Other expenses	30,350	
		119,940
Net profit		34,550

b)

Eric		
Statement of financial position as at 31 December 2023		
TOTAL ASSETS	€	€
Non-current assets		

	Equipment		78,550
	Current assets		
	Inventories	64,440	
	Trade receivables	19,810	
	Prepayment	750	
	Bank	10,940	
			95,940
	Total assets		174,490
CAPITAL AND LIABILITIES			
	Capital at the beginning of the year		125,300
Add	Profit for the year		34,550
Less	Drawings		(31,040)
	Capital at the end of the year		128,810
Current liabilities			
	Trade payables	44,080	
	Accrual	1,600	
			45,680
	Total capital and liabilities		174,490

- c) Closing inventories should have been €3,600 greater and hence cost of sales should have been €3,600 lower. This will result in the profit increasing by €3,600 when the error is corrected.

The profit for the year will increase to $€34,550 + €3,600 = €38,150$.

- d)** Eric's profit for the year was €38,150, after the adjustment to inventories, and he made drawings of €31,040.
- He is withdrawing 81% of the profit made and leaving 19% in the business. Reinvested profits are what will enable the business to grow in the future and to only reinvest 19% will restrict the future growth of the business. Eric should plan to reduce his level of drawings and to reinvest a greater proportion of profits made in the business, in future years.

***6. High Lo Sounds**
a)

High Lo Sounds		
Statement of profit or loss for the year ended 31 December 2022		
	HK\$'000	HK\$'000
Sales		1,813
Less: Cost of sales		
Opening inventory	291	
Purchases	1,100	
Less closing inventory	(450)	
Gross profit		941
Less: Expenses		
Wages (238 + 20)	258	
Rent (122 -12)	110	

Electricity	41	
Insurance	<u>48</u>	457
Net profit		<u><u>415</u></u>

b)

High Lo Sounds		
Statement of financial position as at 31 December 2022		
TOTAL ASSETS	HK\$'000	HK\$'000
Non-current assets		
Fixtures and fittings		198
Equipment		<u>145</u>
		343
Current assets		
Inventories	450	
Trade receivables	14	
Prepayment	12	
Bank	<u>36</u>	
		<u>512</u>
Total assets		<u><u>855</u></u>
 CAPITAL AND LIABILITIES		
Capital at the beginning of the year		565
Add Profit for the year		415
Less Drawings		<u>(210)</u>

Capital at the end of the year		770
Current liabilities		
Trade payables	65	
Accrual	<u>20</u>	
		<u>85</u>
Total capital and liabilities		<u><u>855</u></u>

c) There are a number of reasons why the statement of financial position does not usually provide a reasonable basis on which to value a business:

- The statement of financial position will include assets at their historical cost to the business. Whilst this is a very objective valuation, it does not usually reflect the true value of non-current assets.
- Assets that cannot be objectively valued cannot be placed on the statement of financial position and hence intangible assets that may exist within the business will not be evident from that financial statement. For example, the reputation of a business or the value of a well-trained and motivated workforce will not be included as assets.
- The value placed upon a business will reflect all of its assets but any purchaser will be primarily concerned with the likely future profitability of the business. This is not revealed by the statement of financial position.