

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

4. Russells

<b>Russells</b>		
Statement of profit or loss for the year ended 31 December 2022		
	€	€
<b>Sales</b>		<b>220,360</b>
<b>Less: Cost of sales</b>		
Opening inventories	7,800	
Add: Purchases	<u>92,000</u>	
	99,800	
Less: Closing inventories	<u>8,200</u>	
		<u>91,600</u>
<b>Gross profit</b>		<b>128,760</b>
<b>Less: Expenses</b>		
Wages (43,600 + 4,800)	48,400	
Electricity (8,000 + 1,200)	9,200	
Motor expenses	4,450	
Other business expenses	3,050	
Bad debts	110	
Increase in provision for doubtful debts (4% x 11,750)	470	
Depreciation charge on plant and equipment	11,700	
Depreciation charge on fixtures and fittings	<u>3,000</u>	
		<u>80,380</u>

Carey & Knowles: Accounting - A Smart Approach  
 Chapter 4 - Accounting for Depreciation and Bad Debts  
 Solutions to practice questions

<b>Net profit</b>		<b><u>48,380</u></b>
-------------------	--	----------------------

<b>Russells</b>			
<b>Statement of financial position as at 31 December 2022</b>			
	<b>Cost €</b>	<b>Accum. depn €</b>	<b>NBV €</b>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Freehold premises	67,500	–	67,500
Plant and equipment	39,000	11,700	27,300
Fixtures and fittings	<u>15,000</u>	<u>3,000</u>	<u>12,000</u>
	<u>121,500</u>	<u>14,700</u>	106,800
<b>CURRENT ASSETS</b>			
Inventory		8,200	
Trade receivables	11,750		
Less: provision	<u>470</u>		
		11,280	
Bank balance		<u>4,200</u>	
			<u>23,680</u>
<b>Total assets</b>			<b><u>130,480</u></b>
<b>CAPITAL AND LIABILITIES</b>			
<b>Capital</b>			
Capital at 1 January 2022			85,000

Carey & Knowles: Accounting - A Smart Approach  
 Chapter 4 - Accounting for Depreciation and Bad Debts  
 Solutions to practice questions

Add: profit for the year			<u>48,380</u>
			133,380
Less: drawings			<u>24,000</u>
Capital at 31 December 2022			109,380
<b>CURRENT LIABILITIES</b>			
Trade payables		15,100	
Accruals (electricity + wages)		<u>6,000</u>	
			<u>21,100</u>
<b>Total capital and liabilities</b>			<b><u>130,480</u></b>

5. Ella  
a)

**Ella**  
**Statement of profit or loss for the year ended 30 June 2022**

	€	€	
			97,300
Sales			
Less: Cost of sales			
Purchases	54,140		
Less closing inventories	<u>7,120</u>		
			<u>47,020</u>
<b>Gross profit</b>			<b>50,280</b>
Less: Expenses			
Rent – stall licenses	18,900		

Carey & Knowles: Accounting - A Smart Approach  
Chapter 4 - Accounting for Depreciation and Bad Debts  
Solutions to practice questions

---

Insurance [4,040 – (2/3 x 1,110)]	3,300
Motor expenses	3,150
Other expenses	2,750
Depreciation charge on motor van (€18,000 x 25%)	4,500
Depreciation charge on display equipment (€4,000 x 20%)	800
	<hr/>
	33,400
<b>Net profit</b>	<b><u>16,880</u></b>

b)

Ella

**Statement of financial position as at 30 June 2022**

	€	€	€
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
	<b>Cost</b>	<b>Accum dep'n</b>	<b>NBV</b>
Motor van	18,000	4,500	13,500
Display equipment	4,000	800	3,200
	<u>22,000</u>	<u>5,300</u>	16,700
 <b>CURRENT ASSETS</b>			
Inventory		7,120	
Prepayment		740	
		<u>7,860</u>	<u>7,860</u>
 <b>Total assets</b>			 <b><u>24,560</u></b>
 <b>CAPITAL AND LIABILITIES</b>			
<b>CAPITAL</b>			
Capital introduced			17,000
Add profit for the year			<u>16,880</u>
			33,880
Less drawings			<u>14,880</u>
Capital at 30 June 2022			19,000
 <b>CURRENT LIABILITIES</b>			
Bank overdraft		1,100	
Trade payables		4,460	
		<u>5,560</u>	<u>5,560</u>
 <b>Total capital and liabilities</b>			 <b><u>24,560</u></b>

**c)**

Although Ella's non-current assets (the motor van and the display equipment) will hopefully be used in the business for many years, they will not last forever. Because they will be used in the business for a limited number of years, depreciation is the means whereby the cost of those assets is charged against profits over the likely useful life of each asset. Not to do so would lead to profits being overstated during an asset's life.

**\*6 Kerry**

**a)**

1. The interest due on the loan needs to be accrued for at the year end.

Accrual for interest payable =  $\text{AU\$}750 \times 6\% = \text{AU\$}45\text{k}$ .

The effect of this will be to increase expenses for the year and reduce the net profit for the year. In addition, the accrual will be included as a current liability on the statement of financial position as the payment for interest due will be made during the following year.

2. This trade receivable from Red Hotels should be written off as a bad debt.

A bad debt of AU\$10k should be charged as an expense for the year and the amount of trade receivables, and hence current assets, will reduce by this amount.

3. Depreciation on the coaches needs to be charged for the year ended 30 November 2022.

The depreciation charge for the year

$$= (\text{AU}\$3,000\text{k} - 1,900\text{k}) \times 40\% = \text{AU}\$440\text{k}.$$

This charge will be included as an expense for the year, thereby reducing net profits.

The accumulated depreciation on the coaches will be AU\$2,340k and their net book value will become AU\$660k.

4. The wages due to the tour guides for November 2022 should be accrued for at the year end.

The effect of this will be to increase expenses for the year and reduce the net profit for the year. In addition, the accrual should be included as a current liability on the statement of financial position as the amount is paid in the month after the year end.

b)

	<b>AUS\$'000</b>
Net profit for the year, per draft accounts	450
(1) Less loan interest accrued	(45)
(2) Less bad debt	(10)
(3) Less depreciation on coaches	(440)
(4) Less wages accrual	(8)
	<hr/>
<b>Loss for the year</b>	<b><u>(53)</u></b>

### \*7. Teo Tyres

a) In order to arrive at the highest possible profit figure, the method which leads to the lowest depreciation charge should be used. In this example, the straight-line method at 20% will lead to the lowest depreciation charge for the year.

Depreciation charge for the year on equipment, using the straight-line method

$$= 640,000 \text{ Yuan} \times 20\% = 128,000 \text{ Yuan}.$$

---

(The depreciation charge on equipment using the reducing-balance basis

$$= 640,000 \text{ Yuan} \times 35\% = 224,000 \text{ Yuan.})$$

**b)**

Teo Tyres

**Statement of profit or loss for the year ended 31 March 2023**

	Yuan '000	Yuan '000
<b>Gross profit</b>		<b>1,710</b>
Less: Expenses		
Wages	903	
Loan interest	62	
Rent	131	
Insurance	67	
Provision for doubtful debts (25k x 4%)	1	
Depreciation charge on property (2,300k x 2%)	46	
Depreciation charge on equipment – straight-line basis (640k x 20%)	128	
Other expenses	161	
		1,499
<b>Net profit</b>		<b>211</b>

**c)** If the reducing-balance method of depreciating the equipment had been used, the charge for the year would have been 224k Yuan. This would have increased expenses by 96k Yuan and reduced the net profit for the year to 211 – 96k Yuan = 115k Yuan.