

SECTION 1 (120 marks) New Format 2021 exam.
Answer Question 1 (A or B)
 OR
 any **TWO** other questions

1. Answer (A) OR (B)

(A) Sole Trader – Final Accounts

The following trial balance was extracted from the books of A. Kenny on 31/12/2020:

	€	€
Land and buildings (cost €900,000)	795,000	
Delivery vans (cost €380,000)	310,000	
Equipment at cost	178,800	
Discount (net)		4,700
5% Fixed Mortgage (including €50,000 issued on 31/03/2020)		280,000
3% Investments acquired on 01/08/2020	210,000	
Stock 01/01/2020	68,700	
Sales		1,797,300
Purchases	1,105,000	
Salaries and general expenses	135,800	
Advertising (incorporating suspense)	36,000	
Investment interest received		2,200
Drawings	60,000	
Rates	43,200	
PAYE, PRSI, USC		3,875
VAT		29,900
Bank		52,100
Mortgage interest paid for the first three months	2,375	
Debtors and creditors	97,300	68,600
Bad debts provision		3,500
Capital	_____	<u>800,000</u>
	<u>3,042,175</u>	<u>3,042,175</u>

The following information and instructions are to be taken into account:

- (i) Stock at cost on 31/12/2020 was €72,100. This figure includes damaged stock which cost €12,400 but which now has a net realisable value of 25% of cost.
- (ii) Goods were sent to a customer on a 'Sale or Return' basis on 31/12/2020. These goods were recorded in the books as a credit sale of €28,000 which is a mark-up on cost of 25%.
- (iii) Provide for depreciation on delivery vans at the annual rate of 20% of cost from the date of purchase to the date of sale.

Note: On 31/03/2020 a delivery van which had cost €42,000 on 30/09/2016 was traded in against a new van which cost €67,000. An allowance of €11,000 was given on the old van. The cheque for the net amount of this transaction was entered in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of this transaction.

- (iv) During 2020 a storeroom which cost €75,000 and stock which cost €24,000 were destroyed by fire. The insurance company has agreed to contribute €90,000 in compensation for the fire damage. No entry had been made in the books in respect of the fire.

A new storeroom was built by the business's own employees. The cost of their labour €44,000 had been treated as a business expense and the materials costing €38,000 were taken from existing stock. No entry had been made in the books in respect of the new storeroom.

- (v) Buildings are to be depreciated at the rate of 2% of cost per annum (land at cost was €400,000). It was decided to revalue the land and buildings at €1,100,000 on 31/12/2020.
- (vi) The suspense figure arises as a result of the incorrect figure for mortgage interest (although the correct entry had been made in the bank account) and a payment of €2,900 to creditors entered only in the bank account.
- (vii) The figure for bank in the trial balance has been taken from the business bank account. However, a bank statement dated 31/12/2020 has arrived showing an overdraft of €29,200. A comparison of the bank account and the bank statement revealed the following discrepancies:
 - 1. A credit transfer for €1,800 had been received on 31/12/2020 in respect of a debt of €2,500 previously written off as bad. The debtor has agreed to pay the remainder within two months. No entry was made in the books to record this transaction.
 - 2. A cheque for €18,700 issued to a supplier had been entered in the books (cash book and ledger) as €17,800.
 - 3. A cheque for €4,800 issued to a supplier had been returned. This had not been entered in the books.
 - 4. A cheque for advertising €17,200 has not been presented for payment.
- (viii) Provision should be made for the following:
 - 1. Investment income due and mortgage interest due.
(Note: 20% of mortgage interest for the year refers to the private section of the building.)
 - 2. Provision for bad debts is to be adjusted to 6% of debtors.

Required:

- (a) Prepare a trading and profit and loss account for the year ended 31/12/2020. (75)
- (b) Prepare a balance sheet as at 31/12/2020. (45)

(120 marks)