

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

- (i) Stocks on hand at 31/12/2020:
- | | |
|------------------|---------|
| Raw materials | €52,400 |
| Work in progress | €24,900 |
| Finished goods | €64,000 |
- (ii) Included in the figure for sale of scrap materials is €11,000 received from the sale of an old machine in 2020. This machine had cost €24,000 in 2014.
The cost of plant and machinery is to be written off on a straight-line basis over 10 years at the end of which plant and machinery will have a **scrap value of 5% of the original cost**. The policy is to apply a full year's depreciation in the year of acquisition and none in the year of disposal.
- (iii) Finished goods were sent to a customer on 31/12/2020 on a 'Sale or Return' basis. These goods were recorded in the books as a credit sale of €16,000 which is a mark-up on cost of 25%.
- (iv) The suspense figure arises as a result of discount allowed €1,400 entered only in the debtors account and credit purchases of raw materials €11,000 which were entered only in the purchases account.
- (v) The figure for bank in the trial balance has been taken from the firm's own records. However, a bank statement dated 31/12/2020 had arrived showing a balance of €148,300. A comparison of the bank account and the bank statement revealed the following discrepancies:
1. A cheque for €2,000 received from a debtor has been dishonoured. This has not been entered in the books.
 2. A cheque for €7,500 received from a debtor had been entered in the books (cash book and ledger) as €5,700.
 3. A cheque of €2,500 issued to a creditor has not been presented for payment.
- (vi) During the year stock of raw materials which had cost €8,000 were destroyed by fire. The insurance company agreed to pay compensation of 85%.
- (vii) Provision should be made for the following:
1. Investment income due and debenture interest due.
 2. Provision for bad debts to be adjusted to 4% of debtors.
 3. Patents are being written off over a 6 year period which commenced in 2018.
 4. The Sales Director should be paid a bonus commission of 2% on sales greater than €1,000,000, increasing to 3% on any sales above €1,500,000.

Required:

- (a) Prepare a manufacturing, 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)**