

Resource Sheet – Accounting

Incomplete Accounts - Student Activity Answers

(Q1) State how each of the following are dealt with in the accounts:

- (a) Purchase price includes the following tangible assets and liabilities**
- (b) Rates prepaid 1/1 (8 months)**
- (c) Wages due 1/1**
- (d) Goods taken from the business**
- (e) Cash taken from the business**
- (f) Personal funds used to purchase premises**
- (g) Loan due 31/12**
- (h) Loan instalments due 31/12**
- (i) EU Capital Grant**
- (j) Investment interest due 31/12**
- (k) Loan interest due 31/12**
- (l) Rates for 12 months**
- (m) Drawings based on rates, light and heat and interest for the year**
- (n) Set up a provision for bad debts**
- (o) Charge depreciation on a fixed asset**
- (p) Stock (which includes a stock of heating oil €400)**
- (q) Electricity due 31/12**

(a) Purchase price includes tangible ...	Price – (Assets – Liabilities) = Goodwill
(b) Rates prepaid 1/1 (8 months)	Add to the Rates paid figure
(c) Wages due 1/1	Subtract from the Wages and Gen. Exps. paid figure
(d) Goods taken from the business	Drawings and subtract from Purchases
(e) Cash taken from the business	Drawings
(f) Personal funds to purchase premises	Capital Introduced – Balance Sheet
(g) Loan due 31/12	Long Term Liability – Balance Sheet
(h) Loan instalments due 31/12	Current Liability and subtract from the Loan due
(i) EU Capital Grant	Capital Introduced – Balance Sheet
(j) Investment interest due 31/12	Current Asset – Balance Sheet
(k) Loan interest due 31/12	Current Liability – Balance Sheet
(l) Rates for 12 months	Current Asset – Balance Sheet (8 months)
(m) Drawings on figures for the year	Use figures payable or used to calculate drawings
(n) Set up a provision for bad debts	Expense and subtract from Debtors
(o) Charge depreciation on a fixed asset	Expense and subtract from Fixed Asset Cost
(p) Stock (including heating oil €400)	Subtract €400 from Stock, L + H and show as CAs
(q) Electricity due 31/12	Current Liability and add to the Light and Heat paid

(Q2) State how to work backwards through the Trading, Profit and Loss Account.

- (a) Net Profit
- (b) – Investment Interest
- (c) + Loan Interest
- (d) + Expenses
- (e) Gross Profit
- (f) Sales
- (g) Cost of Sales
- (h) + Closing Stock
- (i) Cost of Goods Available for Sale
- (j) – Opening Stock
- (k) Net Purchases
- (l) + Stock Drawings
- (m) Purchases

(Q3) What advice you would give in relation to the information given above?

Keep a detailed Cash Book and General Ledger supported by appropriate subsidiary Day Books. This would allow an accurate Trading, Profit and Loss Account to be prepared without relying on estimates.

(Q4) What advice would you give in relation to record keeping?

Keep a detailed Cash Book and General Ledger supported by appropriate subsidiary Day Books. This would allow an accurate Trading, Profit and Loss Account to be prepared without relying on estimates.

(Q5) Additional information available if ‘double entry’ used to record financial transactions.

- (a) General Ledger Accounts.
- (b) Trial Balance.
- (c) Bank figure.
- (d) Capital and Drawings figures.
- (e) Total Purchases and Total Sales figures.
- (f) Expenses due and prepaid figures.

(Q6) Explain the importance of double entry bookkeeping.

- (a) Shows the financial position more accurately due to using the matching principle.
- (b) Uses the Accruals Concept to record income and expenses.
- (c) Reduces errors by providing checks and balances.
- (d) Reduces fraud by tracing transactions.
- (e) Used in the preparation of financial statements.

(Q7) (i) Explain the ‘Accruals Concept’ and why it is fundamental to Accounting practice.

Income and expenses are shown when due and not when paid e.g. electricity due at the end of a year is included in the accounts of that year. If income and expenses are included in the correct period, profit figures and asset values will be accurate.

(ii) Explain the (a) ‘Consistency Concept’ (b) ‘Going Concern Concept’

- (a) **Consistency Concept:** Accounting treatment should be consistent from one period to another to allow comparisons.
- (b) **Going Concern Concept:** The business will continue in its present format for the foreseeable future.

(Q8) Explain why records should keep be kept of the amounts taken out as drawings.

- (a) To control how much is taken from the business.
- (b) To avoid treating drawings as a business expense, resulting in a lower profit figure.