



# Income statement, statement of financial position and assessment of organisations

## Sample questions and solutions

### Income statement and statement of financial position for a private limited company

1. The following trial balance was extracted (taken) from the books of Swan Ltd, a furniture store, on 31 December 2019. The authorised share capital is 350,000 ordinary shares at €1 each.

**Trial balance of Swan Ltd as at 31 December 2019**

	<b>Dr €</b>	<b>Cr €</b>	<b>For student use</b>
Turnover (cash sales)		320,000	
Cash purchases	160,000		
Import duty	6,000		
Opening stock 1/1/2019	14,000		
Loan interest	7,000		
Wages	16,800		
Advertising	12,000		
Reserves		18,000	
Motor vehicles	200,000		
Equipment	230,000		
Cash	2,000		
Bank overdraft		2,800	
Debtors and creditors	6,000	3,000	
Dividends paid	20,000		
14% 40-year loan		50,000	
Issued share capital: 250,00 €1 ordinary shares		280,000	
	673,800	673,800	

- (a) You are required to prepare (i) an income statement of Swan Ltd for the year ending 31 December 2019 and (ii) a statement of financial position as at that date.

You are given the following information as at 31 December 2019:

<b>Closing stock</b>		€17,000
<b>Depreciation</b>	Motor vehicles	10%
	Equipment	8%

- (b) Evaluate the financial position of Swan Ltd under **three** relevant points (see Chapter 33, Example 2).
- (c) Calculate the return on capital employed and compare it to the cost of the rate of interest paid on the loan.

## Solution

- (a) (i)

Income statement of Swan Ltd for year ended 31/12/2019			
	€	€	€
<b>Turnover</b>			320,000
<b>Less cost of sales</b>			
<i>Opening stock 1/1/2019</i>		14,000	
<i>Cash purchases</i>		160,000	
<i>Import duty</i>		6,000	
		180,000	
<b>Less closing stock</b>		17,000	163,000
<b>Gross profit</b>			157,000
<b>Less expenditure</b>			
<i>Administration</i>			
Wages		16,800	
<i>Selling and distribution</i>			
Advertising		12,000	
<i>Loan interest</i>		7,000	
<i>Depreciation:</i> Motor vehicles	20,000		
Equipment	18,400	38,400	74,200
<b>Net profit</b>			82,800
<b>Less dividends</b>			20,000
			62,800
<b>Add opening reserves</b>			18,000
<b>Reserves</b>			80,800

(ii)

**Statement of financial position of Swan Ltd as at 31/12/2019**

	<b>Cost €</b>	<b>Depreciation €</b>	<b>NBV €</b>
<b>Fixed assets</b>			
<i>Motor vehicles</i>	200,000	20,000	180,000
<i>Equipment</i>	230,000	18,400	211,600
<b>Total Fixed Assets</b>	<b>430,000</b>	<b>38,400</b>	<b>391,600</b>
<b>Current assets</b>			
<i>Closing stock</i>	17,000		
<i>Cash</i>	2,000		
<i>Debtors</i>	6,000	25,000	
<b>Less creditors falling due within one year</b>			
<i>Creditors</i>	3,000		
<i>Bank overdraft</i>	2,800	5,800	
<b>Working capital</b>			<b>19,200</b>
<b>Total Net Assets</b>			<b>410,800</b>
<b>Financed by</b>			
<i>Creditors falling due after more than one year</i>			
14% 40-year loan			50,000
<b>Capital and reserves</b>	<b>Authorised</b>	<b>Issued</b>	
300,000 €1 ordinary shares	350,000	280,000	
Add reserves		80,800	360,800
<b>Capital employed</b>			<b>410,800</b>

- (b) (i) The stock level is high and should be kept lower in case of loss or theft.
- (ii) The reserves are now 4.48 times higher than last year.
- (iii) The current ratio is 4.31:1, which is very strong, so the risk to the company is very low. The gearing is 7.21:1, which is very strong, so there is no risk to the company.
- (c) The return on capital employed is 21.85 per cent, which is 7.85 per cent higher than the cost of the loan.

## Income statement and statement of financial position for a not-for-profit organisation

2. The Sport Enjoyment Group (SEG) is a community group that provides opportunities for boys and girls aged 5–11 to take part in different sports. It has four multipurpose playing fields, a gymnasium, indoor facilities and meeting rooms. It owns two minibuses for transporting players to matches.

SEG receives grants from the main sporting bodies and Lotto funding. The group has a mineral shop that helps to fund its various activities, and it receives rent from different schools that use the facilities during school time. Members pay €30 per year for its various activities.

The treasurer of SEG supplied the following information about the group's financial transactions over the year ending 31/12/2019:

Revenue		
	€	For student use
Reserve fund	593,000	
Buildings and equipment	300,000	
Land (playing fields)	320,000	
Minibuses	68,000	
Opening stock of minerals	500	
30-year loan at 12% interest per year	40,000	

Summary of financial transactions during the year ending 31/12/2019		
Revenue	€	For student
<i>Membership fees</i>	3,300	
<i>Rent received from letting out facilities to local schools</i>	25,000	
<i>Grants from sporting bodies</i>	20,000	
<i>Shop sales</i>	17,800	
<i>Lotto funding</i>	15,000	
<i>Other fundraising events</i>	40,000	
<b>Expenditure</b>		
<i>Insurance</i>	8,000	
<i>Light and heat</i>	4,000	
<i>Diesel</i>	3,800	
<i>Playing field and facilities maintenance</i>	20,000	
<i>Loan interest</i>	4,800	
<i>Coaches' and trainers' expenses</i>	18,000	
<i>Purchase of minerals and other shop items</i>	7,900	

Additional information as at 31/12/2019:

<b>Bank overdraft</b>		€800
<b>Cash balance</b>		€500
<b>Closing stock</b>		€1,200
<b>Debtors</b>		€1,000
<b>Creditors</b>		€1,600
<b>Depreciation</b>	Minibuses	14%
	Equipment	10%

(a) Assume you are the treasurer of the SEG. Prepare:

- (i) A shop account for the year ending 31/12/2019
- (ii) An income statement for the year ending 31/12/2019
- (iii) A statement of financial position as at 31/12/2019

(b) SEG has 110 members and would like to increase its membership to 150. State **three** ways in which it could encourage more people to join.

(c) If SEG gained another 40 members, how much extra revenue would it receive?

## Solution

(a) (i)

Shop account of SEG for year ended 31/12/2019			
	€	€	€
<b>Sales</b>			17,800
<b>Less cost of sales</b>			
<b>Opening stock 1/1/2019</b>		500	
<b>Purchases</b>		7,900	
		8,400	
<b>Less closing stock 31/12/2019</b>		1,200	7,200
<b>Profit</b>			<b>10,600</b>

(ii)

### Income statement of SEG for year ending 31/12/2019

	€	€	€
<b>Revenue</b>			
<i>Shop profit</i>		10,600	
<i>Membership fees</i>		3,300	
<i>Rent received</i>		25,000	
<i>Grants from sporting body</i>		20,000	
<i>Lotto funding</i>		15,000	
<i>Other fundraising events</i>		40,000	113,900
<b>Less expenditure</b>			
<i>Management and general expenses</i>			
Insurance	8,000		
Light and heat	4,000	12,000	
<i>Loan interest</i>		4,800	
<i>Programme expenses</i>			
Coaches' and trainers' expenses	18,000		
Playing fields maintenance	20,000		
Diesel	3,800	41,800	
<i>Depreciation:</i> Minibus	9,520		
Equipment	30,000	39,520	98,120
<b>Surplus of income over expenditure</b>			15,780

(iii)

**Statement of financial position of SEG as at 31/12/2019**

	<b>Cost €</b>	<b>Depreciation €</b>	<b>NBV €</b>
<b>Fixed assets</b>			
<i>Land</i>	320,000	—	320,000
<i>Buildings and equipment</i>	300,000	30,000	270,000
<i>Minibus</i>	68,000	9,520	58,480
<b>Total Fixed Assets</b>	<b>688,000</b>	<b>39,520</b>	<b>648,480</b>
<b>Current assets</b>			
<i>Closing stock</i>	1,200		
<i>Debtors</i>	1,000		
<i>Cash</i>	500	2,700	
<b>Less creditors falling due within one year</b>			
<i>Bank overdraft</i>	800		
<i>Creditors</i>	1,600	2,400	
<b>Working capital</b>			<b>300</b>
<b>Total Net Assets</b>			<b>648,780</b>
<b>Financed by</b>			
<i>Creditors falling due after one year</i>			
30-year loan			40,000
<i>Reserves (accumulated fund)</i>		593,000	
<i>Add surplus</i>		15,780	608,780
<b>Capital employed</b>			<b>648,780</b>

**(b)** Three ways of increasing membership (any three of the following):

- (i) Ask each member to bring one more new member.
- (ii) Visit schools.
- (iii) Use social media.
- (iv) Hold open competitions.

**(c)** €1,200 (40 new members @ €30 each)