

Note: Higher level questions are marked with an asterisk*

4. Russells

The trial balance of Russells as at 31 December 2022 is shown below:

	Debit €	Credit €
Sales		220,360
Freehold premises ¹	67,500	
Plant and equipment ²	39,000	
Fixtures and fittings ²	15,000	
Trade receivables ³	11,750	
Bank balance	4,200	
Trade payables		15,100
Inventories at 1 January 2022	7,800	
Purchases ⁴	92,000	
Motor expenses	4,450	
Electricity ⁵	8,000	
Wages ⁶	43,600	
Bad debts	110	
Other business expenses	3,050	
Drawings	24,000	
Capital as at 1 January 2022		85,000
	<u>320,460</u>	<u>320,460</u>

Notes:

1. No depreciation is to be charged on freehold premises.
2. All depreciation is to be provided on the straight-line basis. Plant and equipment is to be depreciated at 30% per annum and fixtures and fittings at 20% per annum.
3. A provision for doubtful debts of 4% of trade receivables is to be established.
4. Inventories held at 31 December 2022 were valued at €8,200.
5. Electricity owing at the year-end amounted to €1,200.
6. Wages due to staff at 31 December 2022 amounted to €4,800.

REQUIRED:

Prepare the statement of profit or loss for Russells for the year ended 31 December 2022 and a statement of financial position as at that date.

5. Ella

Ella started a jewellery business in Brussels at the beginning of July 2021. She sells her goods at fairs, markets, and from stalls set up in office foyers and shopping malls. Her trial balance as at 30 June 2022 is as follows:

	DEBIT	CREDIT
	€	€
Capital introduced		17,000
Motor van	18,000	
Display equipment	4,000	
Trade payables		4,460
Bank overdraft		1,100
Sales		97,300
Purchases	54,140	
Rent – stall licenses	18,900	
Insurance	4,040	
Motor expenses	3,150	

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Other expenses	2,750	
Drawings	14,880	
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	119,860	119,860

Additional information:

1. Inventory at 30 June 2022 was valued at €7,120.
2. The van is to be depreciated at the rate of 25% per annum on the straight-line basis.
3. The display equipment is to be depreciated at the rate of 20% per annum on the straight-line basis.
4. Insurance includes a payment of €1,110 made on 1 June 2022 for the three months to 31 August 2022.

REQUIRED:

- a) Prepare Ella's statement of profit or loss for the year ended 30 June 2022.
- b) Prepare Ella's statement of financial position as at 30 June 2022.
- c) Ella is surprised at the profit figure for the year and can see that depreciation charges are relatively high. She cannot understand why depreciation should have to be charged in this way, given that she plans to keep all her non-current assets for some years.

Explain why it is necessary to charge depreciation on Ella's non-current assets.

***6. Kerry**

Kerry runs a business in Sydney, Australia, which runs daytime sightseeing tours of the city. A draft statement of profit or loss has been prepared for the year ended 30 November 2022, along with a statement of financial position as at that date. Some of the key figures from those draft accounts are as follows:

	AU\$'000
Net profit for the year	450
Motor vehicles (coaches)	
Cost	3,000
Accumulated depreciation to 1 Dec 2009	1,900
Current assets	670
Current liabilities	240
Long term liabilities – loan	750
Capital at 30 November 2022	1,860

It has now become clear that certain things were not taken into account when the financial statements were prepared:

1. The loan attracts interest at the rate of 6% and no interest was paid during the year to 30 November 2022. (The amount of the loan remained unchanged throughout the year.)
2. One of the business's credit customers, Red Hotels, owed the business AU\$10k at the year end and their balance is included in trade receivables. Kerry was aware that the hotel had closed down during the year and that she is extremely unlikely to receive any payment from them in the future.
3. No depreciation has been provided on the coaches for the last financial year. It is usually charged at the rate of 40% per annum on the reducing balance basis.

4. Kerry usually pays her tour guides monthly in arrears and November's wages of AU\$8k were paid in December 2022.

REQUIRED:

- a) Explain how each of the above items (1 to 4) should be accounted for.
- b) What will be the revised profit figure for the year ended 30 November 2022?

***7. Teo Tyres**

Teo Tyres sells and fits tyres and exhausts from three sites in Beijing. The business was started three years ago by Teo and he is keen to grow the business more rapidly in the future. For the first two years, he rented the premises and equipment which the business used but, during the last financial year, he has taken out a loan and bought and equipped two of his business premises.

The trial balance at 31 March 2023, after the gross profit has been arrived at, is given below:

	DEBIT Yuan	CREDIT Yuan
Capital		1,308,000
Property	2,300,000	
Equipment	640,000	
Loan		1,400,000
Inventory as at 31 March 2023	172,000	
Trade receivables	25,000	
Trade payables		213,000
Bank balance	14,000	
Gross profit		1,710,000
Wages	903,000	
Loan interest	62,000	
Rent	131,000	
Insurance	67,000	

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Other expenses	161,000	
Drawings	156,000	
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	4,631,000	4,631,000
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Teo, the owner of Teo's Tyres provides the following additional information:

1. All interest due has been paid on the loan.
2. Teo estimates that approximately 4% of his trade receivables are likely to be irrecoverable.
3. The property is to be depreciated at 2% per annum on the straight-line basis.
4. He is undecided as to which method to adopt for depreciating the equipment. It could be depreciated on the straight-line basis at the rate of 20% per annum. Or it could be depreciated using the reducing-balance basis at the rate of 35% per annum.

REQUIRED:

- a) Advise Teo as to which method should be adopted for depreciating the equipment if he wants to arrive at the highest possible profit for the year to 31 March 2023.
- b) Prepare Teo Tyre's statement of profit or loss for the year ended 31 March 2023, starting with the gross profit figure and using the depreciation method which will give the highest possible profit figure.
- c) What would be the net profit for the year if the alternative depreciation method was chosen?

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