

Level 3 Certificate in Bookkeeping and Accounting (RQF)
Study Text Book Model Answers

Lesson 8 – Prepare Financial Statements for a Sole Trader

Question 8.1

Marko Novak trades in the name of Office Products Direct. The following trial balance was extracted from the books of the business as at 31 May 201Y:

**Office Products Direct
Trial Balance at 31 May 201Y**

Account	DR £	CR £
Capital		80,280
Drawings	20,000	
Vehicles (cost)	60,000	
Warehouse fixtures and fittings (cost)	12,000	
Office equipment (cost)	5,000	
Provisions for depreciation at 31 May 201X:		
- Vehicles		21,600
- Warehouse fixtures and fittings		2,400
- Office equipment		1,000
Stock at 31 May 201X	32,320	
Purchases	288,460	
Sales		384,120
Purchase returns		1,450
Sales returns	2,120	
Carriage inwards	500	
Discounts received		1,880
Wages and salaries	38,420	
Warehouse rent and rates	16,800	
Insurance	1,200	
Heat and light	960	
Vehicle expenses	5,880	
General expenses	6,520	
Bad debts	500	
Provision for doubtful debts at 31 May 201X		460
Bank	4,040	
Cash	200	
Sales ledger control (trade debtors)	30,710	
Purchase ledger control (trade creditors)		
Totals	525,630	525,630

Additional information at 31 May 201Y:

- a Warehouse rent and rates of £4,600 are prepaid at 31 May 201Y
- b Heat and light of £320 is accrued due at 31 May 201Y
- c The balance of £210 on the account of a trade debtor is to be written off as a bad debt as at 31 May 201Y. Following which the provision for doubtful debts account balance is to be adjusted to an amount equivalent to 2% of remaining trade debtors
- d Depreciation for the year ended 31 May 201Y is to be provided for as follows:
 - Vehicles – 20% per year using the diminishing balance method
 - Warehouse fixtures and fittings – 10% per year using the straight line method
 - Office equipment – 10% per year using the straight line method
- e Closing stock as at 31 May 201Y was valued at £34,040

REQUIRED:

- A** Prepare the trading and profit and loss account of Office Products Direct at 31 May 201Y.
- B** Prepare the balance sheet of the business at 31 May 201Y

The following are provided for your use in completing the tasks above:

- Trading and profit and loss account
- Balance sheet

**Office Products Direct
Trading and Profit and Loss Account
for the Year Ended 31 May 201Y**

	£	£	£
Sales		384,120	
Less Sales returns		2,120	
Net sales			382,000
Less – Cost of Goods sold			
Opening stock	32,320		
Add Purchases	288,460		
Add Carriage inwards	500		
Less Purchase returns	1,450		
		319,830	
Less Closing stock		34,040	
Cost of sales			285,790
Gross Profit			96,210
Add – Other Income			
Discounts received			1,880
			98,090
Less – Expenses			
Wages and salaries		38,420	
Warehouse rent and rates		12,200	
Insurance		1,200	
Heat and light		1,280	
Vehicle expenses		5,880	
General expenses		6,520	
Bad debts		710	
Provision for doubtful debts adjustment (increase)		150	
Depreciation charge		9,380	
			75,740
Net Profit			22,350

**Office Products Direct
Balance Sheet at 31 May 201Y**

	Cost	Less Dep'n to Date	NBV
Fixed Assets	£	£	£
Vehicles	60,000	29,280	30,720
Warehouse fixtures and fittings	12,000	3,600	8,400
Office equipment	5,000	1,500	3,500
	77,000	34,380	42,620
Current Assets			
Stock	34,040		
Net trade debtors	29,890		
Prepaid expenses	4,600		
Bank	4,040		
Cash	200		
		72,770	
Less Current Liabilities			
Trade creditors	32,440		
Accrued expenses	320		
		32,760	
Working capital			40,010
Total assets less current liabilities			82,630
Financed by:			
Capital	80,280		
Add Net Profit	22,350		
		102,630	
Less Drawings		20,000	
Capital employed			82,630

Question 8.2

The following trial balance was extracted from the books of Fair Trade Foods at 30 April 201Y. The business is owned by Aron Bozec:

Fair Trade Foods Trial Balance at 30 April 201Y

Account	DR £	CR £
Fixtures and Fittings (cost)	10,000	
Vehicles (cost)	40,000	
Provision for depreciation 30/4/201X		2,000
- Fixtures and Fittings		
- Vehicles		14,400
Stock at 30/4/201X	33,750	
Purchases	269,730	
Sales		385,296
Discounts allowed	4,440	
Discounts received		6,230
Purchase returns		4,875
Sales returns	3,280	
Rent, rates and insurances	15,860	
Heat and light	1,830	
Wages and salaries	56,120	
Vehicle expenses	6,340	
Bad debts	1,200	
Provision for doubtful debts at 30/4/201X		320
General expenses	5,640	
Sales ledger control	28,650	
Purchase ledger control		29,133
Capital		70,600
Drawings	28,000	
Bank	7,914	
Cash	100	
Totals	512,854	512,854

Additional information at 30 April 201Y:

- a Stock at 30 April 201Y was valued at £35,160
- b An amount of £610 is accrued due in respect of heat and light bills unpaid at 30 April 201Y
- c Rent, rates and insurances of £6,860 are prepaid at 30 April 201Y

- d General expenses, as at 30 April 201Y, include an amount of £1,200 prepaid. An accrual of £1,600 has also to be made in respect of general expenses unpaid at 30 April 201Y
- e Depreciation for the year ended 30 April 201Y is to be provided for as follows:
- Fixtures and fittings – 10% per year using the straight line method applied on a full year basis
- Vehicles – 20% per year using the diminishing balance method applied on a full year basis
- f The provision for doubtful debts account balance is to be adjusted to represent an amount equivalent to 2% of trade debtors at 30 April 201Y

REQUIRED:

- A** Prepare the trading and profit and loss account of Fair Trade Foods for the year ended 30 April 201Y.
- B** Prepare the balance sheet of Fair Trade Foods at 30 April 201Y.

The following are provided below for your use in completing the tasks above:

- Trading and profit and loss account
- Balance sheet

Fair Trade Foods
Trading and Profit and Loss Account
for the Year Ended 30 April 201Y

	£	£	£
Sales		385,296	
Less Sales returns		3,280	
Net Sales			382,016
Less Cost of Goods Sold			
Opening stock	33,750		
Add Purchases	269,730		
Less Purchase returns	4,875		
		298,605	
Less Closing stock		35,160	
Cost of sales			263,445
Gross Profit			118,571
Add Other Income			
Discounts received			6,230
			124,801
Less Expenses			
Discount allowed		4,440	
Rent, rates and insurances		9,000	
Heat and light		2,440	
Wages and salaries		56,120	
Vehicle expenses		6,340	
Bad debts		1,200	
Provision for doubtful debts adjustment (increase)		253	
General expenses		6,040	
Depreciation charge		6,120	
			91,953
Net Profit			32,848

Fair Trade Foods
Balance Sheet at 30 April 201Y

	£	£	£
Fixed Assets	Cost	Less Dep'n to Date	NBV
Fixtures and fittings	10,000	3,000	7,000
Vehicles	40,000	19,520	20,480
	50,000	22,520	27,480
Current Assets			
Stock	35,160		
Net trade debtors	28,077		
Prepaid expenses	8,060		
Bank	7,914		
Cash	100		
		79,311	
Less Current Liabilities			
Trade creditors	29,133		
Accrued expenses	2,210		
		31,343	
Working capital			47,968
Total assets less current liabilities			75,448
Financed by:			
Capital	70,600		
Add Net profit	32,848		
		103,448	
Less Drawings		28,000	
Capital employed			75,448

Question 8.3

Lauren Jacobs is the proprietor of a business trading in the name of Classic (Wholesale) Fabrics. The following trial balance was extracted from the books of her business at 31 May 201Y:

Classic (Wholesale) Fabrics Trial Balance at 31 May 201Y

Account	DR £	CR £
Capital		115,660
Drawings	32,000	
Bank Loan		25,000
Premises (cost)	80,000	
Fixtures and fittings (cost)	5,000	
Vehicles (cost)	80,000	
Provisions for depreciation (at 31 May 201X)		
- Premises		3,200
- Fixtures and fittings		3,000
- Vehicles		28,800
Stock (at 31 May 201X)	24,500	
Purchases	276,800	
Sales		388,300
Purchase and sales returns	3,260	4,520
Carriage inwards	2,800	
Carriage outwards	3,200	
Discounts allowed	3,860	
Discounts received		4,590
Rates	13,200	
Heat and light	1,650	
Wages and salaries	42,780	
Loan interest	1,500	
Vehicle expenses	5,160	
Bad debts	250	
Provision for doubtful debts (at 31 May 201X)		450
General expenses	6,560	
Sales ledger control		
Purchase ledger control		27,500
Bank		4,200
Cash	100	
Totals	605,220	605,220

Additional information at 31 May 201Y:

- a Stock at 31 May 201Y was valued at £25,800
- b Rates of £7,200 are prepaid at 31 May 201Y.
- c The last heat and light bills paid by the business of £600, were for the quarter ended 31 March 201Y. It is expected that the heat and light bills for the next quarter, ended 30 June 201Y, will be 10% lower than those for the previous quarter and an accrual is to be made for the amount outstanding at the year end 31 May 201Y.
- d General expenses of £1,350 are prepaid at 31 May 201Y.
- e Depreciation for the year ended 31 May 201Y is now to be provided for. It is the policy of the business to depreciate fixed assets as follows:
 - Premises – straight line method at 2% per year
 - Fixtures and fittings – straight line method at 10% per year
 - Vehicles – diminishing balance method at 20% per year
- f The rate of interest on the loan is 8% per year and an accrual is to be made to account for loan interest unpaid at the year-end 31 May 201Y
- g The provision for doubtful debts is to be adjusted to an amount equivalent to 1% of trade debtors at 31 May 201Y.

REQUIRED:

A Prepare the trading and profit and loss account of Classic (Wholesale) Fabrics for the year ended 31 May 201Y.

B Prepare the balance sheet of the business at 31 May 201Y.

NB: The following are provided below for your use in completing the tasks above:

- Trading and profit and loss account
- Balance sheet

**Classic (Wholesale) Fabrics
Trading and Profit and Loss Account
for the Year Ended 31 May 201Y**

	£	£	£
Sales		388,300	
Less Sales returns		3,260	
Net Sales			385,040
Less Cost of Goods Sold			
Opening stock	24,500		
Add Purchases	276,800		
Add Carriage inwards	2,800		
Less Purchase returns	4,520		
		299,580	
Less Closing stock		25,800	
Cost of sales			273,780
Gross profit			111,260
Add Other Income			
Discounts received			4,590
			115,850
Less Expenses			
Carriage outwards		3,200	
Discounts allowed		3,860	
Rates		6,000	
Heat and light		2,010	
Wages and salaries		42,780	
Loan interest		2,000	
Vehicle expenses		5,160	
Bad debts		250	
Provision for doubtful debts adjustment (decrease)		(224)	
General expenses		5,210	
Depreciation charge		12,340	
			82,586
Net Profit			33,264

**Classic (Wholesale) Fabrics
Balance Sheet at 31 May 201Y**

	£	£	£
Fixed Assets	Cost	Less Dep'n to Date	NBV
Property	80,000	4,800	75,200
Fixtures and fittings	5,000	3,500	1,500
Vehicles	80,000	39,040	40,960
	165,000	47,340	117,660
Current Assets			
Stock	25,800		
Net trade debtors	22,374		
Prepaid expenses	8,550		
Cash	100		
		56,824	
Less Current Liabilities			
Trade creditors	27,500		
Accrued expenses	860		
Bank overdraft	4,200		
		32,560	
Working capital			24,264
Total assets less current liabilities			141,924
Financed by:			
Capital	115,660		
Add Net profit	33,264		
		148,924	
Less Drawings		32,000	
			116,924
Long Term Liabilities			
Bank loan			25,000
Capital employed			141,924