**FINAL ACCOUNTS 2:**

**THE PROFIT AND LOSS ACCOUNT**

**And**

**The Appropriation Account**

This chapter is divided into 2 parts- Part A deals with the Profit and Loss Account and Part B deals with the Profit and Loss Appropriation Accounts

**PART A: The Profit and Loss Account**

The Profit and Loss account records all the selling, distribution and administration expenses involved in the running of a business as well as any gains received from non-trading activity.

**Gross Profit - Expenses = Net Profit**

**What are Gains?**

Gains are any income a business receives apart from income relating to the sale of goods. Examples include rent received from leasing part of your premises, commission received from the selling on of goods by a third party or agent and interest received from money resting in a bank.

**Gains are positive** for a business as they bring money into the company.

**What are Expenses?**

**Expenses are the regular, ongoing payments made by a business.**

**Examples include:**

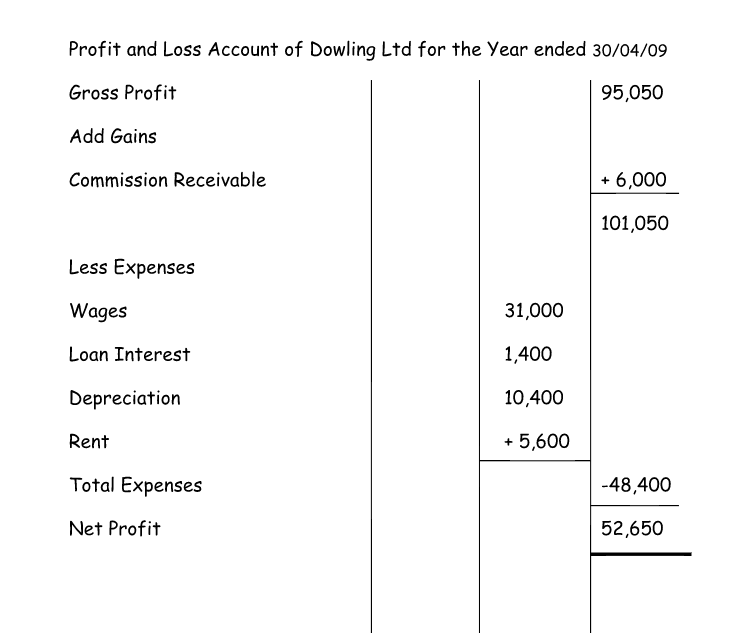
**Wages and Salaries Depreciations**

**Commission Paid Carriage Outwards**

**Light and Heat Water Charges**

**Sample Question for Dowling LTD**

|  |  |
| --- | --- |
| Gross Profit | 95,050 |
| Commission Received | 6,000 |
| Wages | 31,000 |
| Depreciation on Van | 10,400 |
| Loan Interest | 1,400 |
| Rent and Rates | 5,600 |



Sample Questions to Practice

Calculate Net Profit Using the following figures:

|  |  |
| --- | --- |
| Gross Profit | 6,000 |
| Commission Recieved | 400 |
| Office Expenses | 1,000 |
| Travel Expenses | 2,000 |
| Tax | 700 |

|  |  |
| --- | --- |
| Gross Profit | 204,000 |
| Commission Recieved | 2,000 |
| Interest Recieved | 13,000 |
| Wages | 96,000 |
| Depreciation on Van | 2,000 |
| Carriage Outwards | 1800 |
| Rent and Rates | 14,000 |
| Postage | 6,000 |
| Cleaning | 6,000 |

|  |  |
| --- | --- |
| Gross Profit | 150,000 |
| Commission Recieved | 1,600 |
| Office Expenses | 30,000 |
| Wages | 80,000 |
| Depreciation on Machine | 16,000 |
| Carriage Outwards | 800 |
| Tax | 25,000 |
| Postage | 11,100 |
| Stationary | 7,500 |
| Bank Interest Paid | 1,000 |
| Bank Interest Received | 600 |

**Now you will be asked to combine both the Trading Account and Profit and Loss Account of a question. -Textbook pg. 383, Question 15.**

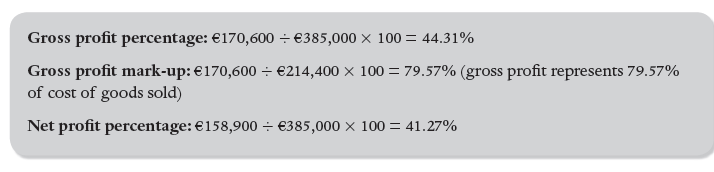
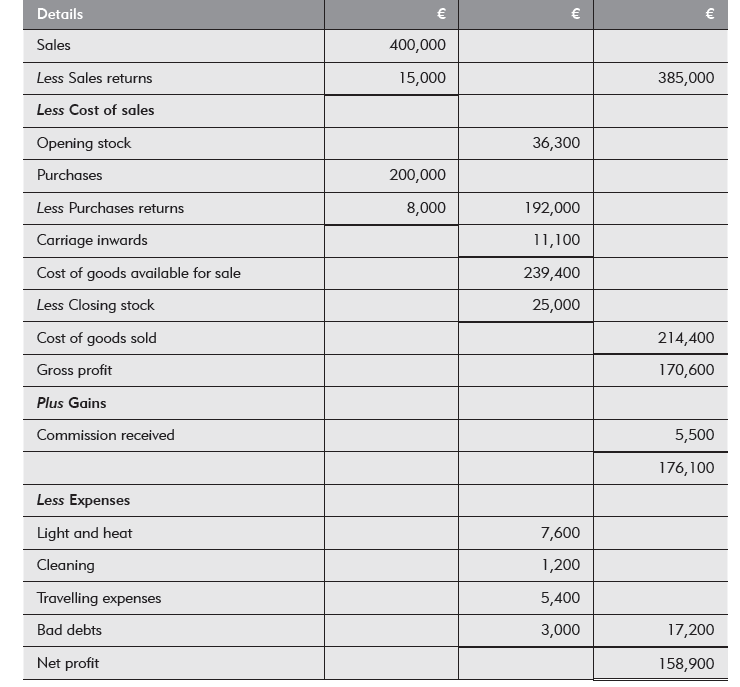
|  |  |
| --- | --- |
| **Details** | **Value** |
| **Sales** | **400,000** |
| **Sales Returns** | **15,000** |
| **Opening Stock** | **36,300** |
| **Purchases** | **200,000** |
| **Purchases Returns** | **8,000** |
| **Carriage In** | **11,100** |
| **Closing Stock** | **25,000** |
| **Commission Received** | **5,500** |
| **Light and Heat** | **7,600** |
| **Cleaning** | **1,200** |
| **Travel Expenses** | **5,400** |
| **Bad Debts** | **3,000** |

**B. Calculate Gross Profit Per-Cent, Gross Profit Mark Up and Net Profit Per-Cent**

**Note- Net Profit Per-Cent = Net Profit**

**Sales x 100**

**(Should be compared with previous year figure to indicate performance)**



**Now attempt your own questions from the textbook.- A Trading Profit and Loss Account**

**The Profit and Loss Appropriation Account**

**The Profit and Loss Appropriation Account is used to show how the Net profit is distributed (shared out). It goes underneath the Net Profit in the Profit and Loss Account.**

**Usually, Net Profit will either:**

* **Be used to pay dividends- this will reduce net profit in the account**
* **Reinvest back into the business- but the investors may not be happy- Why?**
* **Some reinvested, some given to owners**

**Example 1:- O.L. A business has a net profit of €50,000. It also has Issued Share Capital of €100,000 Ordinary Shares of €1 each with a dividend of 10% paid out. (This means investors will get a 10% return on capital invested)**

**100,000 x .1 = 10,000**

**50,000**

**-10,000**

**40,000- Retained Earnings**

**Practice**

* **A business has a net profit of €40,000. It also has Issued Share Capital of €50,000 Ordinary Shares of €1 each with a dividend of 5% paid out. (This means investors will get a 10% return on capital invested)**
* **A business has a net profit of €150,000. It also has Issued Share Capital of €96,000 Ordinary Shares of €1 each with a dividend of 8% paid out. (This means investors will get a 10% return on capital invested)**

**Example 2:**

**Net Profit + Reserves- Dividends= Retained Earnings**

**Are You Well Ltd has €250,000 Ordinary Shares and a Profit and Loss Reserve of €80,000. The net Profit for the year was €100,000. It declared dividends at 10%. Prepare the Profit and Loss Appropriation**

**100,000- Net Profit**

**+80,000 - Reserves**

**=180,000**

**-25,000 (250,000 x 10%) Dividend**

**155,000- Retained Earnings Figure**

**Now attempt your own questions from the textbook.- A Trading Profit and Loss Appropriation Account.**