

# [Income statement for leak-stoppers llc for the year ended 31st december 2013](https://assignbuster.com/income-statement-for-leak-stoppers-llc-for-the-year-ended-31st-december-2013/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

﻿$ $
Revenue (29, 863+3, 418)33, 281
Materials (9600-580)9020
Rent (300/12\*9)225
Salary 3000
Rates (180/16\*12)135
Yard amortization 488
Plumbing equipment depreciation expense (4, 800/5)960
Motor expenses912
Van Depreciation (3, 600/4)900
General expenses (1349 + 295)1644
Insurance premium (800/16\*12)600
Electricity expenses (1122/9\*3) + 11221496
Bad debts w/o (29, 863-25, 613)\* 10%425
Accountancy Fees250
Loan interest300
Total operating expenses20, 355
Net Profit/net income12, 926

Leak-Stoppers LLC
Balance Sheet
As at 31st December 2013
$
Assets
Current Assets
Accounts Receivable (29, 863-25, 613)\*90%3825
Cash at bank 6084
Cash at hand123
Prepaid expenses (rent+ insurance, 200+75)275
Closing inventory/unused materials580
Total current assets10, 887
Non-current Assets
AssetCostAcc. Depreciation/AmortizationBook value
Van 3600900 2700
Plumbing equipment 4800960 3840
Lease 6500488 6, 013
Total non-current assets12, 553
Total Assets23, 439
Liabilities
Current liabilities
Accounts payable714
Interest payable (10%\*4000= 400/12\*9)300
Accountancy fee250
Accrued rates (180/16\*12= 135)135
Accrued electricity (1122/9= 124. 6667\*3= 374)374
Total current liabilities1, 773
Long term liabilities
Loan/borrowings4, 000
Total liabilities5, 773
Owner’s equity17, 666
Total owners equity17, 666

Total liabilities and owners equity23, 439
Notes
Cash Account
Dr
Cr
Balance
Cash takings
3, 418
-
3418
Banked
-
2600
818
Drawings-family grocery
-
400
418
General expenses
-
123
295
Bank Account
Dr
Cr
Balance
Capital
6500
-
6500
Drawings-weekly
4680
1820
Drawings-travel
280
1, 540
Lease-office and yard
6500
(4, 960)
Rent
300
(5, 260)
Loan-uncle Mustafa
4, 000
(1, 260)
Materials
8, 886
(10, 146)
Plumbing equipment
4, 800
(14, 946)
Electricity expenses
1, 122
(16, 068)
Motor expenses
912
(16, 980)
General expenses
1, 349
(18, 329)
Insurance
800
(19, 129)
Salary
3000
(22, 129)
Takings
25, 613
3, 484
Cash banked
2, 600
6, 084

Change in Owner’s Equity
AED
AED
Opening capital-bank
6, 500
Opening capital-van
3, 600
Total opening capital
10, 100
Add; Net profit
12, 926
23, 027
Less; Drawings
Travel
280
Weekly
4, 680
Family grocery
400
5, 360
Closing capital
17, 666
Report
Economic entity concept
Economic entity concept states that the recorded activity of the business must be kept separate from that of the owner and any other business. Mr. Mansoor has not followed this principle to the latter since he has used the business money as a holiday trip for his wife.
Going concern concept
The principle states that the financial statements are prepared with the assumption that the business will continue in operation for the foreseeable future. The acquiring of the lease is a good example that demonstrates the going concern concept that the business will learn for the foreseeable future of more than ten years.
Accrual concept
The accrual concept states that revenue is recognized when it is earned and realized or realizable while expenses are recognized in the period in which the related revenue is earned. In the case of Mr. Mansoor, the insurance premium expenses can only be realized when revenue is earned and therefore the prepaid premium of 200 is subtracted from 800 to obtain premium expense of 600. Also the interest expense for the cash borrowed from Mustafa is an example of accrued expense.
Matching principle
The principle states that a company should report an expense on the income statement in the same period that the related revenue is earned. For instance, the depreciation expenses for the non-current assets such as plumbing equipment and van are only recognized to the current year i. e. at the end of 2013 when they might have earned revenue.
Prudence (conservatism) concept
The prudence concept states that the transactions that the company is uncertain about should not be overstated or understated. Mr. Mansoor has exercised the prudence concept since he has created allowance for the doubtful debts that should be written off i. e. 10% of the accounts receivable.
Performance of the company in regard to the income statement
Since the company was able to record a net profit of $12, 926, this shows that its currents expenses are less than its revenues/income. Therefore, the company is able to meet its short-term financial needs. Additionally, the income statement shows that the company is liquid and can be able to meet its daily/short-term needs.
Balance sheet
The balance sheet reflects a snapshot of the performance of the company on a single date; it’s usually on the last date of the financial year. Judging from the income statement, the company’s financial performance as at 31st Dec 2013, the company’s current ratio i. e. current assets/current liabilities, 10, 887/1, 773= 6. 14 shows that the company is able to pay the bills. Therefore, as at 31st Dec 2013, the company was able to meet its demands.
References
Horngren, C. T., Harrison Jr, W. T., Johnston, J. A. L., Meissner, C. A., & Norwood, P. R. (2013). Accounting, Volume 1. Pearson Education Canada.