

Income statement for leak-stoppers llc for the year ended 31st december 2013

[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-Stopppers 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 equity 17,666

Total liabilities and owners equity 23,439

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 current 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, $\frac{10,887}{1,773} = 6.14$ 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.