

17.3 An exercise on profit and changes in net assets

Determine the profit or loss made in the period by each separate business whose assets and liabilities are given below.

1.

Business begins with assets £400 and liabilities £300, and ends with assets £500, liabilities £350. There were no transactions with the owner during the period.

Response

	assets	liabilities	net assets
	£	£	£
beginning	400	(300)	100
ending	500	(350)	150
increase in net assets			50

No transactions with the owner means that the entire increase in net assets must be equal to profit for the period. Profit therefore is £50.

2.

Business begins with assets £950 and liabilities £600, and ends with assets £900, liabilities £500. There were no transactions with the owner during the period.

Response

	assets	liabilities	net assets
	£	£	£
beginning	950	(600)	350
ending	900	(500)	400
increase in net assets			50

No transactions with the owner means that the entire increase in net assets must be equal to profit for the period. Profit therefore is £50.

(Note the increase in *net* assets, even though the value of *gross* assets has fallen in the period.)

3.

Business begins with assets £750 and liabilities £700, and ends with assets £600, liabilities £200. There were no transactions with the owner during the period.

Response

	assets	liabilities	net assets
	£	£	£
beginning	750	(700)	50
ending	600	(200)	400
increase in net assets			350

No transactions with the owner means that the entire increase in net assets must be equal to profit for the period. Profit therefore is £350.

(Note again the increase in *net* assets, even though the value of *gross* assets has fallen in the period.)

4.

Opening assets £250, closing assets £500. Opening liabilities £200, closing liabilities £600.

Response

	assets	liabilities	net assets
	£	£	£
opening	250	(200)	50
closing	500	(600)	(100)
(decrease) in net assets			(150)

Assuming no transactions with the owner, the entire decrease in net assets must be equal to loss for the period. Loss therefore is £150.

(Note here the loss or *decrease* in *net* assets, despite the *increase* in *gross* assets in the period.)

5.

What difference would it make to your answer in (1) above if during the period the owner had taken assets value £30 out of the business?

Response

Original answer to (1):

No transactions with the owner means that the entire increase in net assets must be equal to profit for the period. Profit therefore is £50.

Difference:

With an increase in net assets of £50 even after the owner has taken out £30, the firm must have made a profit of £80.

6.

What difference would it make to your answer in (2) above if during the period the owner had put assets value £200 into the business?

Response

Original answer to (2):

No transactions with the owner means that the entire increase in net assets must be equal to profit for the period. Profit therefore is £50.

Difference:

With an increase in net assets of only £50 after the owner has put in £200, the firm must have made a loss of £150.

7.

What difference would it make to your answer in (3) above if during the period the owner had put assets value £400 into the business, and taken assets value £900 out of the business?

Response

Original answer to (3):

No transactions with the owner means that the entire increase in net assets must be equal to profit for the period. Profit therefore is £350.

Difference:

Putting in assets value £400 and taking out assets value £900 means that the owner has withdrawn a net value of £500.

But with an increase in net assets of £350 even after the owner has taken out a net value of £500, the firm must have made a profit of £850.