

# SOLUTIONS MANUAL

# Frank Wood's Business Accounting 1 & 2

ELEVENTH EDITION

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and

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# Preface

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This solutions manual contains answers to all the questions not already answered in *Business Accounting 1* and *Business Accounting 2*. It can be seen that there are a considerable number of questions in both textbooks. About one-half of these have the answers at the back of the relevant textbook, while the remainder of the answers are contained in this manual.

The result of this is to give a high degree of flexibility in the use of the textbooks. To illustrate the contents of each chapter, the questions can be used which have answers in the textbook. Any students who are absent can be told what they have missed and can look up the answers themselves. Students who arrive late on the course can also be told what work to do and they can check their own progress against the answers as given. However, quite obviously work must be set, either in class or for homework, for which answers are not available to students. This manual can therefore be used to check such work.

Whilst every endeavour has been made to show workings quite fully, it must be appreciated that there are often different ways of getting to the same answer. This manual would be unduly lengthy and complicated if every version of arriving at the answer were to be shown. The methods chosen are therefore those judged to be the best from a teaching point of view.

Frank Wood and Alan Sangster

By writing on letterheaded paper of the institution where you teach, giving details of the course for which you use *Business Accounting 1* or *Business Accounting 2* with your classes, you can obtain complimentary copies of this manual. This manual is not available for students, nor is it in any way available for sale to the general public. It is also available on the lecturer's password-protected section of the Frank Wood website at [www.pearsoned.co.uk/wood](http://www.pearsoned.co.uk/wood)

# **PART 1 BUSINESS ACCOUNTING 1**



# Students and examination success

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Experienced teachers and lecturers know just as much as we do about this topic. There will, however, be quite a lot of people reading this who are new to teaching, and who have little experience in understanding how the examiner views things. If we have anything to offer, it is simply that we have, between us, been concerned with accounting education for many years and have been examiners for several external examining bodies.

The Notes for Students at the start of both *Business Accounting 1* and *Business Accounting 2* deal with examination techniques. Make certain the students read these. Go through these with them. If we all tell students that what these say is true, then they are more likely to believe us.

## How students lose marks

1 Lack of knowledge (obviously) but they *throw* away marks unnecessarily for all of the following reasons:

- (a) Untidy work, including columns of figures not lined up.
- (b) Bad handwriting. Do not make it difficult for the examiner to read and mark.
- (c) Lack of headings, dates, sub-totals, etc. in accounting statements.
- (d) Not submitting proper workings.

You can only get them to rectify everything under this heading by insisting on them correcting (a), (b), (c) and (d) from early on in the course. Do not wait until a few weeks before the examination to insist upon properly laid out and neatly constructed work.

2 Students very often do not follow the rubric on the examination paper. If it asks for two questions only from Section A, then it means just that. A remarkably high percentage do not follow the instructions per the rubric.

3 Students fail to answer the questions as set. If, for example, an examiner wants a *list*, students will lose marks by giving *explanations* instead. Students must tackle the question in the prescribed way and not do it differently. The percentage of students passing examinations would rise dramatically if only we could correct this failing. A good plan is to get them to highlight the instruction that shows how the examiner wants the question to be answered, e.g.

*List* the ways by which . . .

*Describe* the ways by which . . .

Write a *report* to the managing director about the ways by which . . .

*Discuss* how the ways by which . . .

*Explain* how the ways by which . . .

Then, get them to underline the key words in the rest of the question.

They need as much practice as possible in doing this, especially for essay-type questions.

Practice is even more essential for students for whom English is not their first language.

At the end of this section are 20 essay questions in which we have already highlighted the instruction and underlined the key words. See if your students can do the same.

4 Poor technique with essay questions. *Business Accounting 2*, Notes for students, the section headed 'Answering essay questions' covers this point. Discuss this with your students who have to tackle essay questions.

5 Not tackling the required number of questions. I have always found it very difficult to convince students to get hold of the idea that they will get more marks for five uncompleted questions than they will for four completed questions, when the examiner has asked for five to be attempted. Time planning is essential.

6 By not tackling the easiest questions first. Years ago, we did quite a lot of research into the results of students who had followed this advice, compared with those who ignored it. Following the advice produced better results.

7 By simply regurgitating the contents of a textbook in essay answers. For instance, when an examiner set a question on, say, materiality. Most of the answers simply gave exactly the same examples, word for word sometimes, that we have given in *Business Accounting 1*.

Examiners are looking for originality and imagination. Students will get excellent marks if they give their own examples. A good idea is that, for each of the concepts and conventions, they think up their own examples *before* the examination. There are going to be more and more questions on these things in the years ahead.

- 8 Examiners like to see answers where students realise that all accounting is not found in textbooks, but exists for the use of businesses. Get them to use examples in essay questions based on what they have observed in the businesses around them.

For example, a question on ratios and interpretation will often be answered by students just using figures. They should also say *why* the figures have changed; what possible causes there might have been.

In their life outside their studies, they should observe how accounting is carried out. They all go at one time or another to refectories, restaurants, shops, department stores, clothes shops, travel on buses and trains, etc. They should observe how the money is calculated and collected, what sort of bills or tickets are given out, how fraud or errors could occur, and so on. They can give this flavour of the real world in their answers. Believe us, they will get better marks.

## Essay questions – how not to misunderstand them

- 1 List the various pieces of information which should be shown on a sales invoice.
- 2 Describe what is meant by an imprest system.
- 3 Accounting based on historical costs can be misleading. Discuss.
- 4 The bookkeeper has said that if an error does not affect trial balance agreement then it cannot affect anything else very much. You are to write a report to the managing director stating whether or not you agree with the bookkeeper.
- 5 Give five examples of different compensating errors and explain why they cancel each other out.
- 6 Explain the differences between the straight line and reducing balance methods of depreciation.
- 7 Briefly describe the benefits to be gained from maintaining control accounts.
- 8 List six instances of errors which could cause the trial balance totals to disagree.
- 9 Name three methods of inventory valuation, and briefly describe any one of them.
- 10 'Without the use of accounting ratios, much of the accounting work already performed would be wasted.' Discuss the amount of truth in this statement.
- 11 How can retail stores use accounting ratios to help them to plan future inventory levels?
- 12 Assess the benefits of double entry as compared with single entry methods of bookkeeping.
- 13 Define depreciation and describe how the annual charge is worked out using the straight line method.
- 14 For a firm buying goods on credit, how can it calculate the figure of purchases even though a Purchases Journal has not been kept?
- 15 List the differences between the income and expenditure account of a club and the income statement of a trading concern.
- 16 'It is unsatisfactory for the treasurer of a club to prepare and present to the members only the receipts and payments account as a summary of the records of the club's activities for the year.' Why is this true? What is the better thing to do?
- 17 You are to give your advice to the managing director of a company on the best manner of constructing departmental income statements.
- 18 How do the financial statements of a partnership vary from those of a sole trader, and why?
- 19 Consider the view that if profit was not calculated at all until the business was closed down, then such a calculation would be a simple and straightforward affair.
- 20 You are to write a letter to a friend explaining in simple terms why profit does not necessarily mean that you have cash in the bank.

## Practice on past full examination papers

If students have not tackled past papers, under as near examination conditions as possible, they will often get quite a shock when they first sit an accounting examination.

This very often is due to two main reasons:

- (a) There is such a lot to do in such a short time.
- (b) Even though there is so much to do, in professional examinations in particular, many of the questions are quite difficult with some complicated calculations or adjustments.

If students can attempt, say, at least two such papers and then have their attempts marked and criticised, they will normally learn a lot from the experience.

## Examination questions and marking schemes

We had originally intended to put here some typical examination questions and their marking schemes. However, after some considerable thought, we decided against doing so. There is no one precise mode of marking and any suggestions that we might make could perhaps create more arguments and consequent misunderstandings.



In front of a group of people, it would be possible to do this, as we could deal with all the comments from the group and arrive at a consensus of opinion. However, the books sell world-wide and practices can vary.

It can, however, be said that:

- (a) By and large, marking is 'positive', i.e. marks are awarded for what a student gets right, rather than being deducted for what a student gets wrong.
- (b) However, marks *are* deducted for untidy work, lack of headings, dates, sub-totals, etc.
- (c) An incorrect part of an answer, with no workings attached to it, will get *nil* marks.
- (d) Extra, unnecessary answers, resulting from students failing to follow the rubric, will not be marked.
- (e) Not following the examiner's instructions will lose marks. For example, marks will be lost if, when asked for a 'report', a student gives a 'list'; or if asked to 'discuss', a student gives only one side of the argument; or if asked to 'define', a student gives an 'explanation'. Some examiners will award zero marks, even though the answers given by the student show good knowledge of the topic. Others (including ourselves) would be kinder than that.
- (f) An error which repeats itself through an answer *should* lose only one set of marks. For instance, an error in the trading account will also affect balances in the profit and loss account, appropriation account and balance sheet. In cases of this type, only one set of marks should be lost.
- (g) Guessing by students is not normally penalised. The one exception that may arise concerns multiple choice questions where wrong answers may be penalised as an incentive to prevent students guessing. In this case, the examining body would make this information known well in advance of the examination date.
- (h) The easiest marks to get, especially in an essay question, are the first few marks.
- (i) Good handwriting and well displayed answers will often (although theoretically they should not) get higher marks than they deserve. This is simply because examiners are human beings with human failings, and work that can be easily marked makes them feel generous.

Frank Wood and Alan Sangster

# Answers

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## Answer to Question 1.2A BA 1

(a) 38,100      (b) 51,600      (c) 7,600      (d) 104,100  
(e) 26,000      (f) 159,000

## Answer to Question 1.4A BA 1

Liabilities:      Accounts payable for inventory  
                    Owing to bank  
                    Loan from D Jones  
Assets:          Motor vehicles  
                    Premises  
                    Inventory  
                    Accounts receivable  
                    Cash in hand  
                    Machinery

## Answer to Question 1.6A BA 1

Wrong: Accounts payable, Capital, Machinery, Motor vehicles.

## Answer to Question 1.8A BA 1

Fixtures 1,200 + Van 6,000 + Inventory 2,800 + Bank 200 + Cash 175 = Total Assets 10,375.  
Loan 2,500 + Accounts payable 1,600 + Capital (difference) 6,275.

## Answer to Question 1.10A BA 1

<b>M Kelly</b>		
<i>Balance Sheet as at 30 June 2006</i>		
<i>Non-current assets</i>		
Equipment		3,400
<i>Current assets</i>		
Inventory	3,600	
Accounts receivable	4,500	
Cash at bank	<u>2,800</u>	
	10,900	
<i>Less Current liabilities</i>		
Accounts payable	<u>4,100</u>	<u>6,800</u>
		<u>10,200</u>
Capital		<u>10,200</u>

### Answer to Question 1.12A BA 1

<i>Assets</i>	<i>Liabilities</i>	<i>Capital</i>
(a) +Van	+Accounts payable	
(b) –Cash	–Loan from P Smith	
(c) +Inventory		
–Bank		
(d) +Cash		+Capital
(e) +Inventory		
–Accounts receivable		
(f) +Inventory	+Accounts payable	
(g) –Cash		–Capital
(h) –Bank	–Accounts payable	

### Answer to Question 1.14A BA 1

#### J Hill

*Balance Sheet as at 7 December 2009*

<i>Non-current assets</i>		
Equipment	6,310	
Car	<u>7,300</u>	13,610
<i>Current assets</i>		
Inventory	8,480	
Accounts receivable	3,320	
Bank	9,510	
Cash	<u>485</u>	
		<u>21,795</u>
		35,405
<i>Current liabilities</i>		
Accounts payable		<u>1,760</u>
		<u>33,645</u>
Capital		<u>33,645</u>

### Answer to Question 2.2A BA 1

<i>Debited</i>	<i>Credited</i>	<i>Debited</i>	<i>Credited</i>
(a) Lorry	Cash	(b) T Lake	Bank
(c) Loan from P Logan	Cash	(d) Cash	Lorry
(e) Office machinery	Ultra Ltd	(f) Cash	A Hill
(g) Bank	J Cross	(h) Bank	Capital
(i) Cash	Loan from L Lowe	(j) D Lord	Cash

To save time and space, the months are omitted in the Ledger accounts which follow. The day of the month is shown in brackets.

### Answer to Question 2.5A BA 1

<i>Bank</i>		<i>Cash</i>	
(1) Capital	16,000	(2) Van	6,400
(25) Cash	400	(12) Cash	180
		(19) Carton Cars	7,100
		(30) Office fixtures	480
<i>Office Fixtures</i>		<i>Vans</i>	
(5) Old Ltd	900	(2) Bank	6,400
(15) Cash	120	(8) Carton Cars	7,100
(30) Bank	480	<i>Old Ltd</i>	
		(5) Office fixtures	
		900	
<i>Capital</i>		<i>Carton Cars</i>	
(1) Bank	16,000	(19) Bank	7,100
		(8) Van	7,100
		<i>Loan from Berry</i>	
		(21) Cash	
		500	

### Answer to Question 2.6A BA 1

<i>Bank</i>		<i>Cash</i>	
(1) Capital	9,000	(1) Capital	750
(2) Loan Blane	2,000	(8) Bank	200
		(3) Computer	600
		(24) Loan Blane	250
		(17) Clearcount	420
<i>Loan: B Blane</i>		<i>Computer</i>	
(15) Bank	500	(3) Cash	600
(24) Cash	250	(2) Bank	2,000
<i>Display Equipment</i>		<i>Clearcount Ltd</i>	
(5) Clearcount	420	(17) Bank	420
		(5) Display eqt	420
<i>Capital</i>		<i>F Jones</i>	
(1) Cash	750	(31) Printer	200
(1) Bank	9,000	<i>Printer</i>	
		(31) F Jones	
		200	

### Answer to Question 3.2A BA 1

<i>Debited</i>	<i>Credited</i>	<i>Debited</i>	<i>Credited</i>
(a) Purchases	T Morgan	(b) Returns in	J Thomas
(c) L Jones Ltd	Machinery	(d) Purchases	Cash
(e) Van	D Davies Ltd	(f) I Prince	Returns out
(g) Bank	D Picton	(h) Purchases	Bank
(i) B Henry	Bank	(j) J Mullings	Sales

### Answer to Question 3.4A BA 1

<i>Cash</i>				<i>Bank</i>	
(1) Capital	7,400	(2) Bank	7,000	(2) Cash	7,000
(19) Sales	54	(7) Purchases	362	(24) F Holmes (Loan)	1,500
<i>Purchases</i>					
(4) J Watson	410			(5) Van	4,920
(7) Cash	362			(29) J Watson	368
<i>Returns Outwards</i>				(31) Firelighters Ltd	820
		(12) J Watson	42	<i>Sales</i>	
				(10) L Less	218
				(19) Cash	54
<i>J Watson</i>				<i>Fixtures</i>	
(12) Returns	42	(4) Purchases	410	(22) Firelighters Ltd	820
(29) Bank	368			<i>Van</i>	
<i>L Less</i>				(5) Bank	4,920
(10) Sales	218			<i>F Holmes (Loan)</i>	
				(24) Bank	1,500
				<i>Firelighters Ltd</i>	
		(31) Bank		820	(22) Fixtures 820
				<i>Capital</i>	
				(1) Cash	7,400

### Answer to Question 3.6A BA 1

<i>Bank</i>				<i>Purchases</i>	
(1) Capital	18,000	(21) Printer	620	(2) B Hind	1,455
(18) Cash	250	(29) B Hind	1,373	(3) G Smart	472
<i>Cash</i>				(8) G Smart	370
(5) Sales	210	(18) Bank	250	<i>Sales</i>	
(12) Sales	305			(5) Cash	210
<i>B Hind</i>				(10) P Syme	483
(6) Returns Out	82	(2) Purchases	1,455	(12) Cash	305
(29) Bank	1,373			(22) H Buchan	394
<i>G Smart</i>				<i>Returns Inwards</i>	
(28) Returns Out	47	(3) Purchases	472	(23) P Syme	160
		(8) Purchases	370	(25) H Buchan	18
<i>P Syme</i>				<i>Returns Outwards</i>	
(10) Sales	483	(23) Returns In	160	(6) B Hind	82
<i>H Buchan</i>				(28) G Smart	47
(22) Sales	394	(25) Returns In	18	<i>Machinery</i>	
<i>A Cobb</i>				(31) A Cobb	419
(31) Machinery	419			<i>Printer</i>	
<i>Capital</i>				(21) Bank	620
(1) Bank	18,000				

### Answer to Question 4.3A BA 1

July		Dr	Cr
1	Bank	5,000	
	Cash	1,000	
	Capital		6,000
2	Stationery	75	
	Bank		75
3	Purchases	2,100	
	T Smart		2,100
4	Cash	340	
	Sales		340
5	Insurance	290	
	Cash		290
7	Computer	700	
	J Hott		700
8	Expenses	32	
	Bank		32
10	C Biggins	630	
	Sales		630
11	T Smart	55	
	Returns Out		55
14	Wages	210	
	Cash		210
17	Rent	225	
	Bank		225
20	Bank	400	
	C Biggins		400
21	J Hott	700	
	Bank		700
23	Stationery	125	
	News Ltd		125
25	F Tank	645	
	Sales		645
31	News Ltd	125	
	Bank		125

## Answer to Question 4.4A BA 1

		<i>Bank</i>				<i>Purchases</i>	
(1) Capital	11,000	(5) Stationery	62	(2) J Biggs		830	
(24) K Fletcher	250	(16) Business rates	970	(2) D Martin		610	
(28) Business rates	45	(19) Rent	75	(2) P Lot		590	
		(28) J Biggs	830	(3) Cash		370	
		(28) D Martin	415				
		(28) B Black	6,100				
		<i>Cash</i>				<i>Sales</i>	
(1) Capital	1,600	(3) Purchases	370			(6) D Twigg	370
		(4) Rent	75			(6) B Hogan	290
		(7) Wages	160			(6) K Fletcher	410
		(11) Rent	75			(15) T Lee	205
		(18) Insurance	280			(15) F Sharp	280
		(21) Motor exps	24			(15) G Rae	426
		(23) Wages	170				
		<i>Capital</i>				<i>Returns Outwards</i>	
		(1) Bank	11,000			(10) D Martin	195
		(1) Cash	1,600				
		<i>Rent</i>				<i>Returns Inwards</i>	
(4) Cash	75			(13) B Hogan		35	
(11) Cash	75						
(19) Bank	75						
		<i>Wages</i>				<i>B Black</i>	
(7) Cash	160			(28) Bank	6,100	(20) Van	6,100
(23) Cash	170						
		<i>Stationery</i>				<i>J Biggs</i>	
(5) Bank	62			(28) Bank	830	(2) Purchases	830
		<i>Business rates</i>				<i>D Martin</i>	
(16) Bank	970	(28) Bank	45	(10) Returns Out	195	(2) Purchases	610
		<i>Insurance</i>		(28) Bank	415		
(18) Cash	280						
		<i>Motor Expenses</i>				<i>P Lot</i>	
(21) Cash	24					(2) Purchases	590
		<i>Van</i>				<i>D Twigg</i>	
(20) B Black	6,100			(6) Sales	370		
						<i>B Hogan</i>	
				(6) Sales	290	(13) Returns In	35
						<i>K Fletcher</i>	
				(6) Sales	410	(24) Bank	250
						<i>T Lee</i>	
				(15) Sales	205		
						<i>F Sharp</i>	
				(15) Sales	280		
						<i>G Rae</i>	
				(15) Sales	426		

## Answer to Question 4.6A BA 1

- (A) Goods bought on credit £27,000.  
 (B) Borrowed £35,000 and immediately spent it on land and buildings £35,000.  
 (C) Sold goods costing £20,000 for £30,000 on credit.  
 (D) Debtors paid £13,000.  
 (E) Debtors paid £2,000: this amount taken by proprietors.  
 (F) Took £5,000 drawings by cheque and paid off £3,000 accrued expenses by cheque.  
 (G) Equipment costing £30,000 sold for £21,000; paid by cheque.  
 (H) Goods taken for own use £1,000.  
 (I) Took £6,000 cash as drawings. Could have been £6,000 cash stolen – thus reducing cash and causing a loss.

## Answer to Question 5.6A BA 1

<i>G Wood</i>				<i>T Sim</i>			
(1) Sales	310	(19) Bank	310	(15) Returns	15	(2) Purchases	190
(21) Sales	90	(31) Balance c/d	90	(28) Bank	175		
	<u>400</u>		<u>400</u>		<u>190</u>		<u>190</u>
(1) Balance b/d	90						
<i>K Hughes</i>				<i>J Leech</i>			
(1) Sales	42	(31) Balance c/d	633	(31) Balance c/d	278	(2) Purchases	63
(8) Sales	161				<u>278</u>	(9) Purchases	215
(21) Sales	430						<u>278</u>
	<u>633</u>		<u>633</u>			(1) Balance b/d	278
(1) Balance b/d	633						
<i>F Dunn</i>				<i>P Tidy</i>			
(1) Sales	1,100	(10) Returns	31	(28) Bank	180	(2) Purchases	210
(8) Sales	224	(19) Bank	750	(31) Balance c/d	30		
	<u>1,324</u>	(31) Balance c/d	543		<u>210</u>		<u>210</u>
			<u>1,324</u>			(31) Balance b/d	30
(1) Balance b/d	543						
<i>M Lyons</i>				<i>F Rock</i>			
(1) Sales	309	(10) Returns	82	(15) Returns	21	(2) Purchases	190
		(12) Cash	227	(28) Bank	100	(9) Purchases	164
	<u>309</u>		<u>309</u>	(31) Returns	18		
				(31) Balance c/d	215		
					<u>354</u>		<u>354</u>
						(1) Balance b/d	215

Wood, Hughes and Dunn are debtors. Leech, Tidy and Rock are creditors.



## Answer to Question 5.7A BA 1

2008		<i>G Wood</i>		
		<i>Dr</i>	<i>Cr</i>	<i>Balance</i>
May 1	Sales	310		310 Dr
May 19	Bank		310	0
May 21	Sales	90		90 Dr
2008		<i>K Hughes</i>		
		<i>Dr</i>	<i>Cr</i>	<i>Balance</i>
May 1	Sales	42		42 Dr
May 8	Sales	161		203 Dr
May 21	Sales	430		633 Dr
2008		<i>F Dunn</i>		
		<i>Dr</i>	<i>Cr</i>	<i>Balance</i>
May 1	Sales	1,100		1,100 Dr
May 8	Sales	224		1,324 Dr
May 10	Returns		31	1,293 Dr
May 19	Bank		750	543 Dr
2008		<i>M Lyons</i>		
		<i>Dr</i>	<i>Cr</i>	<i>Balance</i>
May 1	Sales	309		309 Dr
May 10	Returns		82	227 Dr
May 12	Bank		227	0
2008		<i>T Sim</i>		
		<i>Dr</i>	<i>Cr</i>	<i>Balance</i>
May 2	Purchases		190	190 Cr
May 15	Returns	15		175 Cr
May 28	Bank	175		0
2008		<i>J Leech</i>		
		<i>Dr</i>	<i>Cr</i>	<i>Balance</i>
May 2	Purchases		63	63 Cr
May 9	Purchases		215	278 Cr
2008		<i>P Tidy</i>		
		<i>Dr</i>	<i>Cr</i>	<i>Balance</i>
May 2	Purchases		210	210 Cr
May 28	Bank	180		30 Cr
2008		<i>F Rock</i>		
		<i>Dr</i>	<i>Cr</i>	<i>Balance</i>
May 2	Purchases		190	190 Cr
May 9	Purchases		164	354 Cr
May 15	Returns	21		333 Cr
May 28	Bank	100		233 Cr
May 31	Returns	18		215 Cr

## Answer to Question 6.3A BA 1

<i>Bank</i>			
(1) Capital	15,000	(6) Rent	175
(28) T Potts	71	(7) Business rates	130
(28) J Field	42	(23) J Small	272
(30) Capital	900	(23) F Brown	1,200
		(23) T Rae	500
		(25) Van	6,200
		(30) Balance c/d	<u>7,536</u>
	<u>16,013</u>		<u>16,013</u>
(1) Balance b/d	7,536		
<i>Cash</i>			
(5) Sales	610	(17) Wages	290
(26) Loan from B Bennet	750	(30) Balance c/d	1,070
	<u>1,360</u>		<u>1,360</u>
(1) Balance b/d	1,070		
<i>Purchases</i>			
(3) J Small	290	(30) Balance c/d	3,225
(3) F Brown	1,200		
(3) R Charles	530		
(3) T Rae	610		
(19) R Charles	110		
(19) T Rae	320		
(19) F Jack	165		
	<u>3,225</u>		<u>3,225</u>
(1) Balance b/d	3,225		
<i>Sales</i>			
(30) Balance c/d	2,383	(5) Cash	610
		(11) T Potts	85
		(11) J Field	48
		(11) T Gray	<u>1,640</u>
	<u>2,383</u>		<u>2,383</u>
(1) Balance b/d	2,383		
<i>Returns Outwards</i>			
(30) Balance c/d	45	(18) J Small	18
		(18) R Charles	<u>27</u>
	<u>45</u>		<u>45</u>
(1) Balance b/d	45		
<i>Returns Inwards</i>			
(20) J Field	6	(30) Balance c/d	20
(20) T Potts	14		
	<u>20</u>		<u>20</u>
(1) Balance b/d	20		
<i>Capital</i>			
(30) Balance c/d	15,900	(1) Bank	15,000
		(30) Bank	900
	<u>15,900</u>		<u>15,900</u>
(1) Balance b/d	15,900		
<i>Van</i>			
(21) Turnkey Motors	4,950	(30) Balance c/d	11,150
(25) Bank	6,200		
	<u>11,150</u>		<u>11,150</u>
(1) Balance b/d	11,150		
<i>Rent</i>			
(6) Bank	175	(30) Balance c/d	175
(1) Balance b/d	175		

<i>Business rates</i>			
(7) Bank	130	(30) Balance c/d	<u>130</u>
(1) Balance b/d	130		
<i>Wages</i>			
(17) Cash	290	(30) Balance c/d	<u>290</u>
(1) Balance b/d	290		
<i>Loan from B Bennet</i>			
(30) Balance c/d	750	(26) Cash	<u>750</u>
		(1) Balance b/d	750
<i>J Small</i>			
(18) Returns Out	18	(3) Purchases	290
(23) Bank	272		
	<u>290</u>		<u>290</u>
<i>F Brown</i>			
(23) Bank	1,200	(3) Purchases	<u>1,200</u>
<i>R Charles</i>			
(18) Returns Out	27	(3) Purchases	530
(30) Balance c/d	613	(19) Purchases	<u>110</u>
	<u>640</u>		<u>640</u>
		(1) Balance b/d	613
<i>T Rae</i>			
(23) Bank	500	(3) Purchases	610
(30) Balance c/d	430	(19) Purchases	<u>320</u>
	<u>930</u>		<u>930</u>
		(1) Balance b/d	430
<i>F Jack</i>			
(30) Balance c/d	165	(19) Purchases	<u>165</u>
		(1) Balance b/d	165
<i>T Potts</i>			
(11) Sales	85	(20) Returns In	14
		(28) Bank	<u>71</u>
	<u>85</u>		<u>85</u>
<i>J Field</i>			
(11) Sales	48	(20) Returns In	6
		(28) Bank	<u>42</u>
	<u>48</u>		<u>48</u>
<i>T Gray</i>			
(11) Sales	1,640	(30) Balance c/d	<u>1,640</u>
(1) Balance b/d	1,640		
<i>Turnkey Motors</i>			
(30) Balance c/d	4,950	(21) Van	<u>4,950</u>
		(1) Balance b/d	4,950
<i>Trial Balance as at 30 November 2007</i>			
Bank	7,536		
Cash	1,070		
Purchases	3,225		
Sales			2,383
Returns Outwards			45
Returns Inwards	20		
Capital			15,900
Van	11,150		
Rent	175		
Business rates	130		
Wages	290		
Loan from B Bennet			750
R Charles			613
T Rae			430
F Jack			165
T Gray	1,640		
Turnkey Motors			4,950
	<u>25,236</u>		<u>25,236</u>

## Answer to Question 6.4A BA 1

<i>Cash</i>			
(1) Capitals	10,500	(2) Bank	9,000
(21) Sales	145	(3) Purchases	550
(30) Loan: B Barclay	500	(11) Salaries	790
(30) A Tom	614	(30) Balance c/d	1,419
	<u>11,759</u>		<u>11,759</u>
(1) Balance b/d	1,419		
<i>Bank</i>			
(2) Cash	9,000	(8) Rent	220
(16) Loan: B Barclay	2,000	(15) Van	6,500
(29) R Pleat	158	(26) F Hood	900
(29) L Fish	370	(26) M Smith	118
	<u>11,528</u>	(30) Balance c/d	3,790
			<u>11,528</u>
(1) Balance b/d	3,790		
<i>Purchases</i>			
(3) Cash	550	(30) Balance c/d	2,950
(4) T Dry	800		
(4) F Hood	930		
(4) M Smith	160		
(4) G Low	510		
	<u>2,950</u>		<u>2,950</u>
(1) Balance b/d	2,950		
<i>Sales</i>			
(30) Balance c/d	1,783	(6) R Tong	170
		(6) L Fish	240
		(6) M Singh	326
		(6) A Tom	204
		(21) Cash	145
		(24) L Fish	130
		(24) A Tom	410
		(24) R Pleat	158
	<u>1,783</u>		<u>1,783</u>
		(1) Balance b/d	1,783
<i>Returns Outwards</i>			
(30) Balance c/d	72	(14) F Hood	30
		(14) M Smith	42
	<u>72</u>		<u>72</u>
		(1) Balance b/d	72
<i>Returns Inwards</i>			
(18) R Tong	5	(30) Balance c/d	25
(18) M Singh	20		
	<u>25</u>		<u>25</u>
(1) Balance b/d	25		
<i>Capital</i>			
(30) Balance b/d	10,500	(1) Cash	10,500
		(1) Balance b/d	10,500
<i>T Dry</i>			
(30) Balance c/d	800	(4) Purchases	800
		(1) Balance b/d	800
<i>M Smith</i>			
(14) Returns Out	42	(4) Purchases	160
(26) Bank	118		
	<u>160</u>		<u>160</u>
<i>G Low</i>			
(30) Balance c/d	510	(4) Purchases	510
		(1) Balance b/d	510
<i>Buttons Ltd</i>			
(30) Balance c/d	89	(5) Stationery	89
		(1) Balance b/d	89
<i>Stationery</i>			
(5) Buttons Ltd	89	(30) Balance c/d	89
(1) Balance b/d	89		

<i>Rent</i>			
(8) Bank	220	(30) Balance c/d	220
(1) Balance b/d	220		
<i>Salaries</i>			
(11) Cash	790	(30) Balance c/d	790
(1) Balance b/d	790		
<i>Fixtures</i>			
(10) Chiefs Ltd	610	(30) Balance c/d	610
(1) Balance b/d	610		
<i>Van</i>			
(15) Bank	6,500	(30) Balance c/d	6,500
(1) Balance b/d	6,500		
<i>Loan from B Barclay</i>			
(30) Balance c/d	2,500	(16) Bank	2,000
		(30) Cash	500
	<u>2,500</u>		<u>2,500</u>
		(1) Balance b/d	2,500
<i>Chiefs Ltd</i>			
(30) Balance c/d	610	(10) Fixtures	610
		(1) Balance b/d	610
<i>L Fish</i>			
(6) Sales	240	(29) Bank	370
(24) Sales	130		
	<u>370</u>		<u>370</u>
<i>M Singh</i>			
(6) Sales	326	(18) Returns In	20
		(30) Balance c/d	306
	<u>326</u>		<u>326</u>
(1) Balance b/d	306		
<i>A Tom</i>			
(6) Sales	204	(30) Cash	614
(24) Sales	410		
	<u>614</u>		<u>614</u>
<i>R Pleat</i>			
(24) Sales	158	(29) Bank	158
<i>R Tong</i>			
(6) Sales	170	(18) Returns In	5
		(30) Balance c/d	165
	<u>170</u>		<u>170</u>
(1) Balance b/d	170		
<i>F Hood</i>			
(14) Returns Out	30	(4) Purchases	930
(26) Bank	900		
	<u>930</u>		<u>930</u>
<i>Trial Balance as at 31 January 2008</i>			
Cash	1,419		
Bank	3,790		
Purchases	2,950		
Sales			1,783
Returns Outwards			72
Returns Inwards	25		
Capital			10,500
Stationery	89		
Rent	220		
Salaries	790		
Fixtures	610		
Van	6,500		
Loan from B Barclay			2,500
Chiefs Ltd			610
M Singh	306		
R Tong	165		
T Dry			800
G Low			510
Buttons Ltd			89
	<u>16,864</u>		<u>16,864</u>

**Answer to Question 7.3A BA 1****B Morse***Income Statement for the year ending 31 December 2008*

Sales		235,812
Less Cost of goods sold:		
Purchases	121,040	
Less Closing inventory	<u>14,486</u>	<u>106,554</u>
Gross profit		129,258
Less Expenses:		
Salaries	39,560	
Business rates	2,400	
Motor expenses	910	
General expenses	305	
Insurance	<u>1,240</u>	<u>44,415</u>
Net profit		<u>84,843</u>

**Answer to Question 7.4A BA 1****G Graham***Income Statement for the year ending 30 June 2008*

Sales		382,420
Less Cost of goods sold:		
Purchases	245,950	
Less Closing inventory	<u>29,304</u>	<u>216,646</u>
Gross profit		165,774
Less Expenses:		
Salaries and wages	48,580	
Equipment rental	940	
Insurance	1,804	
Lighting and heating	1,990	
Motor expenses	2,350	
Sundry expenses	<u>624</u>	<u>56,288</u>
Net profit		<u>109,486</u>

**Answer to Question 8.3A BA 1****B Morse***Balance Sheet as at 31 December 2008*

<i>Non-current assets</i>		
Premises	53,000	
Car	<u>4,300</u>	57,300
<i>Current assets</i>		
Inventory	14,486	
Accounts receivable	21,080	
Bank	2,715	
Cash	<u>325</u>	<u>38,606</u>
Total assets		<u>95,906</u>
<i>Less Current liabilities</i>		
Accounts payable		<u>11,200</u>
		<u>84,706</u>
<i>Capital</i>		
Balance at 1.1.2008	23,263	
Add Net profit	<u>84,843</u>	
	108,106	
Less Drawings	<u>23,400</u>	<u>84,706</u>

**Answer to Question 8.4A BA 1**

**G Graham**  
*Balance Sheet as at 30 June 2008*

<i>Non-current assets</i>			
Shop	174,000		
Fixtures	4,600		
Lorry	<u>19,400</u>	198,000	
<i>Current assets</i>			
Inventory	29,304		
Accounts receivable	44,516		
Bank	<u>11,346</u>		
		<u>85,166</u>	
		283,166	
<i>Current liabilities</i>			
Accounts payable			<u>23,408</u>
			<u>259,758</u>
<i>Capital</i>			
Balance at 1.7.2007	194,272		
Add Net profit	<u>109,486</u>		
	303,758		
Less Drawings	<u>44,000</u>		
		<u>259,758</u>	

**Answer to Question 8.6A BA 1**

Capital at 1 January 2009	= 18,000 + 4,800 + 24,000 + 760 + 15,600 – 8,000 – 6,000
	<u>= 49,160</u>
Capital at 31 December 2009	= 16,200 + 5,800 + 28,000 + 240 + 4,600 + 16,000 – 11,000 – 2,000
	<u>= 57,840</u>
Increase in capital	= 8,680
Add Drawings (200 × 52)	<u>10,400</u>
	19,080
Less Capital introduced	<u>4,000</u>
Net profit	<u>15,080</u>

**A Trader**  
*Balance Sheet as at 31 December 2009*

<i>Non-current assets</i>			
Fixtures		16,200	
Motor vehicle		<u>16,000</u>	
		32,200	
<i>Current assets</i>			
Inventory	28,000		
Accounts receivable	5,800		
Bank	4,600		
Cash	<u>240</u>		
		38,640	
		<u>70,840</u>	
<i>Current liabilities: Accounts payable</i>			
	11,000		
<i>Non-current liabilities: Loan</i>			
	<u>2,000</u>		
		<u>13,000</u>	
		<u>57,840</u>	
<i>Capital account</i>			
Balance at 1 January 2009		49,160	
Add Capital introduced		4,000	
Net profit		<u>15,080</u>	
		68,240	
Less Drawings		<u>10,400</u>	
		<u>57,840</u>	

**Answer to Question 9.2A BA 1****P Frank***Trading Account part of the Income Statement for the year ending 31 March 2008*

Sales		469,320	
Less Returns in		<u>16,220</u>	453,100
Less Cost of goods sold:			
Purchases	394,170		
Less Returns out	<u>19,480</u>	374,690	
Carriage inwards		<u>2,490</u>	
		377,180	
Less Closing inventory		<u>52,400</u>	324,780
Gross profit			<u>128,320</u>

**Answer to Question 9.5A BA 1****T Owen***Income Statement for the year ending 31 March 2009*

Sales			276,400
Less Cost of goods sold:			
Opening inventory		52,800	
Add Purchases	141,300		
Less Returns out	<u>2,408</u>	138,892	
Carriage inwards		<u>1,350</u>	
		193,042	
Less Closing inventory		<u>58,440</u>	134,602
Gross profit			141,798
Less Expenses:			
Wages and salaries		63,400	
Carriage outwards		5,840	
Business rates		3,800	
Communication expenses		714	
Commissions paid		1,930	
Insurance		1,830	
Sundry expenses		<u>208</u>	77,722
Net profit			<u>64,076</u>

*Balance Sheet as at 31 March 2009*

<i>Non-current assets</i>			
Buildings		125,000	
Fixtures		<u>1,106</u>	126,106
<i>Current assets</i>			
Inventory		58,440	
Accounts receivable		45,900	
Bank		31,420	
Cash		<u>276</u>	136,036
			262,142
<i>Current liabilities</i>			
Accounts payable			<u>24,870</u>
			<u>237,272</u>
<i>Capital</i>			
Balance at 1.4.2008		210,516	
Add Net profit		<u>64,076</u>	
		274,592	
Less Drawings		<u>37,320</u>	
			<u>237,272</u>

## Answer to Question 9.6A BA 1

### F Brown Income Statement for the year ending 30 September 2008

Sales		391,400	
Less Returns in		<u>2,110</u>	389,290
Less Cost of goods sold:			
Opening inventory		72,410	
Add Purchases	254,810		
Less Returns out	<u>1,240</u>	253,570	
Carriage inwards		<u>760</u>	
		326,740	
Less Closing inventory		<u>89,404</u>	237,336
Gross profit			<u>151,954</u>
Less Expenses:			
Wages and salaries		39,600	
Carriage out		2,850	
Motor expenses		1,490	
Rent and rates		8,200	
Telephone charges		680	
Insurance		745	
Office expenses		392	
Sundry expenses		<u>216</u>	54,173
			<u>97,781</u>

### Balance Sheet as at 30 September 2008

<i>Non-current assets</i>			
Van		5,650	
Office equipment		<u>7,470</u>	13,120
<i>Current assets</i>			
Inventory		89,404	
Accounts receivable		38,100	
Bank		4,420	
Cash		<u>112</u>	132,036
			<u>145,156</u>
<i>Current liabilities</i>			
Accounts payable			<u>26,300</u>
			<u>118,856</u>
<i>Capital</i>			
Balance as at 1.10.2007		49,675	
Add Net profit		<u>97,781</u>	
		147,456	
Less Drawings		<u>28,600</u>	118,856

## Answer to Question 9.8A BA 1

<i>Capital</i>					
			July 1	Balance b/d	9,700
<i>Inventory</i>					
July 1	Balance b/d	5,000			
<i>OK Ltd</i>					
July	Bank	3,000	July 1	Balance b/d	500
July 31	Balance c/d	<u>1,400</u>		Purchases	<u>3,900</u>
		<u>4,400</u>			<u>4,400</u>
			Aug 1	Balance b/d	1,400

AB Ltd						
July	1	Balance b/d	300	July	Bank	300
		Sales	<u>600</u>	July 31	Balance c/d	<u>600</u>
			<u>900</u>			<u>900</u>
Aug	1	Balance b/d	<u>600</u>			

<i>Equipment</i>					
July 1	Balance b/d	<u>3,700</u>	July 31	Balance c/d	<u>3,700</u>
Aug 1	Balance b/d	<u>3,700</u>			

Bank						
July	1	Balance b/d	1,200	July	OK Ltd	3,000
		Sales	3,200		General expenses	500
		AB Ltd	300	July 31	Balance c/d	1,200
			<u>4,700</u>			<u>4,700</u>
Aug	1	Balance b/d	1,200			

Sales					
July 31	Balance c/d	3,800	July	Bank	3,200
				AB Ltd	600
		<u>3,800</u>			<u>3,800</u>
			Aug 1	Balance b/d	3,800

<i>Purchases</i>					
July	OK Ltd	<u>3,900</u>	July 31	Balance c/d	<u>3,900</u>
Aug 1	Balance b/d	<u>3,900</u>			

General Expenses					
July	Bank	500	July 31	Balance c/d	500
Aug 1	Balance b/d	500			

**Ms Porter**  
*Trial Balance as at 31 July*

	<i>Dr</i>	<i>Cr</i>
Equipment	3,700	
Inventory	5,000	
Bank	1,200	
General expenses	500	
Purchases	3,900	
AB Ltd	600	
OK Ltd		1,400
Sales		3,800
Capital		9,700
	<u>14,900</u>	<u>14,900</u>

**Ms Porter**  
*Income Statement for July*

Sales		3,800
Less Cost of goods sold:		
Opening inventory	5,000	
Purchases	3,900	
	<u>8,900</u>	
Less Closing inventory	6,200	
		<u>2,700</u>
Gross profit		1,100
Less General expenses		500
Net profit		<u>600</u>



*Balance Sheet as at 31 July*

<i>Non-current assets</i>		
Equipment		3,700
<i>Current assets</i>		
Inventory	6,200	
Accounts receivable	600	
Bank	<u>1,200</u>	<u>8,000</u>
		11,700
<i>Current liability: Accounts payable</i>		<u>1,400</u>
		10,300
Capital		<u>9,700</u>
Add Net profit		<u>600</u>
		<u>10,300</u>

**Answer to Question 13.2A BA 1**

<i>Cash Book</i>					
	<i>Cash</i>	<i>Bank</i>		<i>Cash</i>	<i>Bank</i>
(1) Balances b/d	295	4,240	(3) Bank	200	
(2) Sales	310		(5) Postage	80	
(3) Cash		200	(6) Office equipment		310
(4) F Bell		194	(7) L Root		94
(9) Business rates		115	(11) Cash		150
(11) Bank	150		(12) Wages	400	
(13) Sales	430		(14) Motor expenses		81
(16) J Bull (Loan)	1,500		(28) General expenses	35	
(20) K Brown		174	(30) Insurance		320
	<u>2,685</u>	<u>4,923</u>	(30) Balances c/d	<u>1,970</u>	<u>3,968</u>
				<u>2,685</u>	<u>4,923</u>

**Answer to Question 13.4A BA 1**

Cash Book							
	Disct	Cash	Bank		Disct	Cash	Bank
(1) Balances b/d		420	4,940	(5) Rent		340	
(2) S Braga	41		779	(6) M Peters	9		351
(2) L Pine	16		304	(6) G Graham	24		936
(2) G Hodd	22		418	(6) F Bell	10		390
(2) M Rae	52		988	(8) Cash			400
(3) Sales			740	(14) Wages		540	
(8) Bank		400		(16) R Todd	15		295
(10) Sales		1,260		(16) F Dury	12		400
(12) B Age	4		276	(20) Fixtures			4,320
(29) A Line			324	(24) Lorry			14,300
(30) Sales		980		(30) Stationery		56	
(30) Balance c/d			12,623	(30) Balance c/d		2,124	
	135	3,060	21,392		70	3,060	21,392

*Discounts Allowed*

(30) Total for month 135

*Discounts Received*

(30) Total for month 70

## Answer to Question 13.6A BA 1

### Cash Book

	<i>Disct</i>	<i>Cash</i>	<i>Bank</i>		<i>Disct</i>	<i>Cash</i>	<i>Bank</i>
Balance b/d		80	900	Cash c			100
AB	8		192	GH	45		555
CD	20		480	IJ	70		1,330
EF	12		288	Wages		130	
Bank c		100		Balance c/d		50	
Balance c/d			125	Balance b/d			125
	<u>40</u>	<u>180</u>	<u>1,985</u>		<u>115</u>	<u>180</u>	<u>1,985</u>
Balance b/d		50					

### AB

Balance b/d	200	Bank	192
		Discount received	8
	<u>200</u>		<u>200</u>

### CD

Balance b/d	500	Bank	480
		Discount received	20
	<u>500</u>		<u>500</u>

### EF

Balance b/d	300	Bank	288
		Discount received	12
	<u>300</u>		<u>300</u>

### GH

Bank	555	Balance b/d	600
Discount allowed	45		
	<u>600</u>		<u>600</u>

### IJ

Bank	1,330	Balance b/d	1,400
Discount received	70		
	<u>1,400</u>		<u>1,400</u>

## Answer to Question 14.2A BA 1

<i>Sales Day Book</i>			<b>Sales Ledger</b>
(1) I Hood	520		<i>I Hood</i>
(3) S Bell	318	(1) Sales	520
(5) J Smart	64		<i>S Bell</i>
(7) K Byers	165	(3) Sales	318
(16) T Todd	540		<i>J Smart</i>
(23) W Morris	360	(5) Sales	64
(30) F Lock	<u>2,040</u>		<i>K Byers</i>
	<u>4,007</u>	(7) Sales	165
			<i>T Todd</i>
		(16) Sales	540
			<i>W Morris</i>
		(23) Sales	360
			<i>F Lock</i>
		(30) Sales	2,040
<b>General Ledger</b>			
<i>Sales</i>			
(31) Total for month	4,007		

## Answer to Question 14.4A BA 1

(a) Invoice summaries:		(b)	<i>Sales Journal</i>	
<i>A Portsmouth</i>		(1) A Portsmouth		45
22 metres plastic tubing @ £1	22	(5) B Butler		160
6 sheets foam rubber @ £3	18	(11) A Gate		120
4 boxes vinyl padding @ £5	<u>20</u>	(21) L Mackeson		29
	60	(30) M Alison		<u>120</u>
Less Trade discount 25%	<u>15</u>			<u>474</u>
	45		<b>Sales Ledger</b>	
<i>B Butler</i>			<i>A Portsmouth</i>	
50 lengths polythene sheeting @ £2	100	(1) Sales	45	
8 boxes vinyl padding @ £5	40		<i>B Butler</i>	
20 sheets foam rubber @ £3	<u>60</u>	(5) Sales	160	
	200		<i>A Gate</i>	
Less Trade discount 20%	<u>40</u>	(11) Sales	120	
	160		<i>L Mackeson</i>	
<i>A Gate</i>		(21) Sales	29	
4 metres plastic tubing @ £1	4		<i>M Alison</i>	
33 lengths polythene sheeting @ £2	66	(30) Sales	120	
30 sheets foam rubber @ £3	<u>90</u>			
	160	(c)	<b>General Ledger</b>	
Less Trade discount 25%	<u>40</u>		<i>Sales</i>	
	120		(30) Total for month	474
<i>L Mackeson</i>				
29 metres plastic tubing @ £1	<u>29</u>			
<i>M Alison</i>				
32 metres plastic tubing @ £1	32			
24 lengths polythene sheeting @ £2	48			
20 boxes vinyl padding @ £5	<u>100</u>			
	180			
Less Trade discount 33 $\frac{1}{3}$ %	<u>60</u>			
	120			

## Answer to Question 15.2A BA 1

### Workings: Invoices

	<i>F Day</i>
2 sets golf clubs @ £800	1,600
5 footballs @ £40	<u>200</u>
	1,800
Less Trade discount 25%	<u>450</u>
	<u><u>1,350</u></u>

	<i>G Smith</i>
6 cricket bats @ £60	360
6 ice skates @ £35	210
4 rugby balls @ £30	<u>120</u>
	690
Less Trade discount 20%	<u>138</u>
	<u><u>552</u></u>

(a)	<i>Purchases Day Book</i>
(2) F Day	1,350
(11) G Smith	552
(18) F Hope	2,760
(25) L Todd	195
(30) M Moore	<u>384</u>
	<u><u>5,241</u></u>

(b)	<b>Purchases Ledger</b>
	<i>F Day</i>
	(2) Purchases 1,350
	<i>G Smith</i>
	(11) Purchases 552
	<i>F Hope</i>
	(18) Purchases 2,760
	<i>L Todd</i>
	(25) Purchases 195
	<i>M Moore</i>
	(30) Purchases 384

### (c) General Ledger

	<i>Purchases</i>
(30) Total for month	5,241

	<i>F Hope</i>
6 sets golf trophies @ £90	540
4 sets golf clubs @ £900	<u>3,600</u>
	4,140
Less Trade discount 33 <sup>1</sup> / <sub>3</sub> %	<u>1,380</u>
	<u><u>2,760</u></u>

	<i>L Todd</i>
5 cricket bats @ £52	260
Less Trade discount 25%	<u>65</u>
	<u><u>195</u></u>

	<i>M Moore</i>
8 goal posts @ £80	640
Less Trade discount 40%	<u>256</u>
	<u><u>384</u></u>

## Answer to Question 15.4A BA 1

(a) <i>Purchases Day Book</i>				<i>Sales Day Book</i>	
(9) C Clarke	240	(1) M Marshall	45		
(16) A Charles	160	(7) R Richards	200		
(31) M Nelson	<u>50</u>	(23) T Young	<u>160</u>		
	<u>450</u>		<u>405</u>		
(b) <b>Purchases Ledger</b>				<b>Sales Ledger</b>	
<i>C Clarke</i>				<i>M Marshall</i>	
(9) Purchases	240	(1) Sales	45		
<i>A Charles</i>				<i>R Richards</i>	
(16) Purchases	160	(7) Sales	200		
<i>M Nelson</i>				<i>T Young</i>	
(31) Purchases	50	(23) Sales	160		
(c) <b>General Ledger</b>					
<i>Purchases Account</i>					
(31) Total for month	450				
<i>Sales Account</i>					
(31) Total for month	405				

## Answer to Question 16.2A BA 1

<i>Sales Day Book</i>				<b>Sales Ledger</b>	
(1) B Dock	240			<i>B Dock</i>	
(1) M Ryan	126	(1) Sales	240	(10) Returns	19
(1) G Soul	94			<i>M Ryan</i>	
(1) F Trip	107	(1) Sales	126		
(6) P Coates	182			<i>G Soul</i>	
(6) L Job	203	(1) Sales	94		
(6) T Man	99	(6) Sales	99		
(20) B Uphill	1,790			<i>F Trip</i>	
(30) T Kane	<u>302</u>			107 (10) Returns	32
	<u>3,143</u>			<i>P Coates</i>	
				182	
<i>Returns Inwards Day Book</i>				<i>L Job</i>	
(10) B Dock	19	(1) Sales	107	(24) Returns	16
(10) F Trip	32			<i>B Uphill</i>	
(24) L Job	<u>16</u>	(6) Sales	182		
	<u>67</u>			<i>T Kane</i>	
				302	
<b>General Ledger</b>					
<i>Sales</i>		(6) Sales	203		
(30) Total for the month	3,143	(20) Sales	1,790		
<i>Returns Inwards</i>					
(30) Total for the month	67	(30) Sales			

## Answer to Question 16.4A BA 1

### *Sales Day Book*

(3) E Rigby	510
(3) E Phillips	246
(3) F Thompson	356
(8) A Green	307
(8) H George	250
(8) J Ferguson	185
(20) E Phillips	188
(20) F Powell	310
(20) E Lee	420
	<u>2,772</u>

### *Purchases Day Book*

(1) K Hill	380
(1) M Norman	500
(1) N Senior	106
(5) R Morton	200
(5) J Cook	180
(5) D Edwards	410
(5) C Davies	66
(24) C Ferguson	550
(24) K Ennevor	900
	<u>3,292</u>

### *Returns Inwards Day Book*

(14) E Phillips	18
(14) F Thompson	22
(31) E Phillips	27
(31) E Rigby	30
	<u>97</u>

### *Returns Outwards Day Book*

(12) M Norman	30
(12) N Senior	16
(31) J Cook	13
(31) C Davies	11
	<u>70</u>

### **Sales Ledger**

<i>E Rigby</i>			
(3) Sales	510	(31) Returns In	30
<i>E Phillips</i>			
(3) Sales	246	(14) Returns In	18
(20) Sales	188	(31) Returns In	27
<i>F Thompson</i>			
(3) Sales	356	(14) Returns In	22
<i>A Green</i>			
(8) Sales	307		
<i>H George</i>			
(8) Sales	250		
<i>J Ferguson</i>			
(8) Sales	185		
<i>F Powell</i>			
(20) Sales	310		
<i>E Lee</i>			
(20) Sales	420		

### **Purchases Ledger**

<i>K Hill</i>			
		(1) Purchases	380
<i>M Norman</i>			
(12) Returns Out	30	(1) Purchases	500
<i>N Senior</i>			
(12) Returns Out	16	(1) Purchases	106
<i>R Morton</i>			
		(5) Purchases	200
<i>J Cook</i>			
(31) Returns Out	13	(5) Purchases	180
<i>D Edwards</i>			
		(5) Purchases	410
<i>C Davies</i>			
(31) Returns Out	11	(5) Purchases	66
<i>C Ferguson</i>			
		(24) Purchases	550
<i>K Ennevor</i>			
		(24) Purchases	900

### **General Ledger**

<i>Sales</i>			
	(31) Sales Day Book	2,772	
<i>Purchases</i>			
(31) Purchases Day Book	3,292		
<i>Returns Inwards</i>			
	(31) Returns In Day Book	97	
<i>Returns Outwards</i>			
	(31) Returns Out Day Book	70	

### Answer to Question 17.2A BA 1

Fixtures	Dr	1,153	:	Bell and Co	Cr	1,153
Drawings	Dr	340	:	Purchases	Cr	340
Purchases	Dr	68	:	Drawings	Cr	68
Computer equipment	Dr	640	:	H Cowes	Cr	640
Bell and Co	Dr	42	:	Fixtures	Cr	42
Bad debts	Dr	124	:	P Lees	Cr	124
Office equipment	Dr	1,710	:	Furniture Today Ltd	Cr	1,710

### Answer to Question 18.3A BA 1

		Petty Cash Book				
Receipts		Total	Office Exps	Motor Exps	Cleaning	Casual Labour
600	(1) Balance b/d					
	(1) F Black	18				18
	(2) Letterheadings	41	41			
	(2) Abel Motors	67		67		
	(3) Cleaning materials	4			4	
	(6) Envelopes	11	11			
	(8) Petrol	22		22		
	(11) P Lyon	16				16
	(12) T Upton	8			8	
	(12) Paper clips	3	3			
	(14) Petrol	19		19		
	(16) Adhesive tape	2	2			
	(16) Petrol	25		25		
	(21) Motor tax	95		95		
	(22) F Luck	19				19
	(23) T Upton	14			14	
	(24) J Lamb	27				27
	(25) Copy paper	8	8			
	(26) Lively Cars	83		83		
	(29) Petrol	24		24		
	(30) F Tred	21				21
		527	65	335	26	101
527	(30) Cash					
	(30) Balance c/d	600				
<u>1,127</u>		<u>1,127</u>				

### Answer to Question 19.2A BA 1

(a)	A Duff Middle Road Paisley	VAT Registration No. 454 366 812 Date: 1 March 2006 Your Order No. 943
INVOICE number <u>1876</u> To: R Wilson 24 Peter Street Loughborough		
20,000 Coils Sealing Tape @ £6.10 per 1,000 =		£ 122.00
40,000 Sheets Bank A5 @ £4.60 per 1,000 =		184.00
24,000 Sheets Bank A4 @ £8.20 per 1,000 =		196.80
		502.80
Add VAT 10%		50.28
		<u>552.88</u>

(b) Books of R Wilson:

	<i>A Duff</i>	
	2006	
Books of A Duff:	Mar 1 Purchases	552.88
	<i>R Wilson</i>	
2006		
Mar 1 Sales	552.88	

## Answer to Question 19.5A BA 1

### *Sales Day Book*

	<i>Net</i>	<i>VAT</i>	<i>Gross</i>
(1) H Impey Ltd	180	18	198
(4) B Volts	410	41	451
(14) L Marion	190	19	209
(28) B Volts	<u>220</u>	<u>22</u>	<u>242</u>
	<u>1,000</u>	<u>100</u>	<u>1,100</u>

### *Purchases Day Book*

	<i>Net</i>	<i>VAT</i>	<i>Gross</i>
(5) G Sharpe and Co	90	9	99
(8) R Hood and Associates	150	15	165
(18) F Tuckley Ltd	130	13	143
(30) R Hood and Associates	<u>350</u>	<u>35</u>	<u>385</u>
	<u>720</u>	<u>72</u>	<u>792</u>

### **Sales Ledger**

	<i>H Impey Ltd</i>
(1) Sales	198
	<i>B Volts</i>
(4) Sales	451
(28) Sales	242
	<i>L Marion</i>
(14) Sales	209

### **Purchases Ledger**

	<i>G Sharpe and Co</i>	
	(5) Purchases	99
	<i>R Hood and Associates</i>	
	(8) Purchases	165
	(30) Purchases	385
	<i>F Tuckley Ltd</i>	
	(18) Purchases	143

### **General Ledger**

	<i>Sales</i>		
	(31) Credit sales per month	1,000	
	<i>Purchases</i>		
(31) Credit purchases for month	720		
	<i>Value Added Tax</i>		
(31) VAT content purchases	72	(31) VAT content sales	100
(31) Balance c/d	<u>28</u>		
	<u>100</u>		<u>100</u>



### Answer to Question 19.7A BA 1

(a)		<i>Sales Day Book</i>			
2007		<i>Invoice No</i>	<i>Net</i>	<i>VAT</i>	<i>Gross</i>
May 25	Laira Brand	3045	1,060.00	159.00	1,219.00
27	Brown Bros	3046	2,200.00	330.00	2,530.00
28	Penfold's	3047	170.00	25.50	195.50
29	T Tyrrell	3048	460.00	69.00	529.00
30	Laira Brand	3049	<u>1,450.00</u>	<u>217.50</u>	<u>1,667.50</u>
			<u>5,340.00</u>	<u>801.00</u>	<u>6,141.00</u>

- (b) Personal accounts in Sales Ledger: debit gross amounts  
 Sales account in General Ledger: credit net total for period  
 VAT account in General Ledger: credit total of VAT column for period

(c)		<i>Laira Brand</i>		
2007		2007		
May 1	Balance b/d	2,100.47	May 21 Bank	2,500.00
15	Sales	680.23	29 Returns In	609.50
25	Sales	1,219.00	31 Balance c/d	2,557.70
30	Sales	<u>1,667.50</u>		
		<u>5,667.20</u>		<u>5,667.20</u>

### Answer to Question 20.4A BA 1

		G Graham					
		Purchases Analysis Book					
		Total	Purchases	Light & Heat	Motor Exps	Stationery	Carriage Inwards
2008							
June	1 J Syme	108	108				
	4 T Hill	210	210				
	7 F Love	195	195				
	8 Topp Garages	265			265		
	9 BT	65		65			
	9 Gilly Shop	19				19	
	17 G Farmer	181	181				
	19 B&T Ltd	13		13			
	21 T Player	222	222				
	22 Overnight Couriers Ltd	46					46
	23 J Moore	12				12	
	24 Topp Garages	364			364		
	25 PowerNorth Ltd	39		39			
	25 H Noone	193	193				
	28 PMP Ltd	38					38
	30 Topp Garages	66			66		
		<u>2,036</u>	<u>1,109</u>	<u>117</u>	<u>695</u>	<u>31</u>	<u>84</u>

### Answer to Question 20.5A BA 1

General ledger: Purchases Dr 1,109; Lighting and heating Dr 117;  
 Motor expenses Dr 695; Stationery Dr 31;  
 Carriage inwards Dr 84.  
 Purchases ledger: Credits in personal accounts should be obvious.

**Answer to Question 21.5A BA 1**

Gross pay		210
Less Income tax	28	
National Insurance	<u>18</u>	<u>46</u>
Net pay		<u><u>164</u></u>

**Answer to Question 21.6A BA 1**

Basic pay		200
Danger money		<u>40</u>
		240
Less Income tax*	35	
National Insurance	<u>19</u>	<u>54</u>
Net pay		<u><u>186</u></u>

\*  $240 - 90 = 150$ . First 50 @ 20% = 10 + (100 @ 25%) 25 = 35

**Answer to Question 21.7A BA 1**

Basic pay		860
Maternity pay		<u>90</u>
		950
Less Income tax*	145	
National Insurance	<u>79</u>	<u>224</u>
Net pay		<u><u>726</u></u>

\*  $950 - 320 = 630$ . First 250 @ 20% = 50 + (380 @ 25%) 95 = 145

**Answer to Question 21.8A BA 1**

Pay		1,500
Sick pay		<u>150</u>
		1,650
Less Superannuation	90	
Income tax*	290	
National Insurance	<u>130</u>	<u>510</u>
Net pay		<u><u>1,140</u></u>

\*  $1,650 - 90 - 350 = 1,210$ . First 250 @ 20% = 50 + (960 @ 25%) 240 = 290

**Answer to Question 24.2A BA 1**

Capital (a) (c) (f).  
Revenue (b) (d) (e) (g).

**Answer to Question 24.4A BA 1**

See text for how to distinguish between capital and revenue expenditure.

- (i) Cost of repairs is always revenue; an extension to an asset is always capital.
- (ii) This is capital expenditure in the same way as buying a van to replace a van is capital expenditure.
- (iii) This is capital expenditure because the asset was improved by the expenditure.

**Answer to Question 24.6A BA 1**

Capital: 2,600 of (a); 600 of (c); 150 of (d); all of (e).  
Revenue: 300 of (a); all of (b); 2,680 of (c); 1,110 of (d).

**Answer to Question 24.8A BA 1**

- |             |             |
|-------------|-------------|
| (a) Revenue | (g) Capital |
| (b) Revenue | (h) Revenue |
| (c) Capital | (i) Revenue |
| (d) Revenue | (j) Capital |
| (e) Capital | (k) Revenue |
| (f) Revenue | (l) Capital |

**Answer to Question 24.10A BA 1**

- |             |             |
|-------------|-------------|
| (a) Capital | (f) Capital |
| (b) Revenue | (g) Revenue |
| (c) Revenue | (h) Revenue |
| (d) Revenue | (i) Capital |
| (e) Capital |             |

**Answer to Question 24.13A BA 1**

(a)		<i>Premises</i>	
Balance b/d	521,100		
Survey fees	1,500		
Legal charges	3,000		
Cost of premises	90,000		
Architect's fees	8,700		
Subcontractors	69,400		
Transfer from wages	11,600		
Inventory of materials used	<u>76,800</u>	Balance c/d	<u>782,100</u>
	<u>782,100</u>		<u>782,100</u>

		<i>Plant</i>	
Balance b/d	407,500		
Vendor of Press A	87,300		
Installation costs (A)	2,310		
Vendor of Press B	105,800		
Installation costs (B)	2,550		
Transport costs (A)	<u>2,900</u>	Balance c/d	<u>608,360</u>
	<u>608,360</u>		<u>608,360</u>

- (b) Cash discount 2% on Press A. Connected with finance not plant. Debenture interest similarly not applicable. The £4,700 demolition cost and £1,400 plus £1,750 cost of hiring lifting gear are not shown separately as they are included in other figures used above.

**Answer to Question 24.15A BA 1**

(a) Computers	7,000	
Cabling	300	
Installation	<u>500</u>	
	7,800	
Less Cash discount (2½%)	<u>195</u>	
		7,605
Printers		375
Software		<u>350</u>
Amount capitalised		<u>8,330</u>
Amount charged to revenue		
Consumables (250 – 50)		200
Training		<u>500</u>
		<u>700</u>

- (b) When an amount is not considered to be material – i.e. it is not of interest to the users of the financial statements – it may be treated as a revenue expense rather than being capitalised. In this case, it might be considered that the cost of the cabling ( $300 - 2\frac{1}{2}\% = 292.50$ ) was not material – the business may, for example, use £300 as the minimum amount that should be capitalised, anything costing less than this being treated as a revenue expense.

### Answer to Question 25.4A BA 1

Note: The answer assumes that the figure for accounts receivable in the question is after deduction of bad debts.

<i>Bad Debts</i>			
2007		2007	
Dec 31 Various accounts receivable	<u>1,240</u>	Dec 31 Profit and Loss	<u>1,240</u>
2008		2008	
Dec 31 Various accounts receivable	<u>2,608</u>	Dec 31 Profit and Loss	<u>2,608</u>
2009		2009	
Dec 31 Various accounts receivable	<u>5,424</u>	Dec 31 Profit and Loss	<u>5,424</u>

<i>Allowance for Doubtful Debts</i>			
2007		2007	
Dec 31 Balance c/d	<u>1,640</u>	Dec 31 Profit and Loss	<u>1,640</u>
2008		2008	
Dec 31 Balance c/d	4560	Jan 1 Balance b/d	1,640
	<u>4,560</u>	Dec 31 Profit and Loss	<u>2,920</u>
			<u>4,560</u>
2009		2009	
Dec 31 Profit and Loss	160	Jan 1 Balance b/d	4,560
Dec 31 Balance c/d	<u>4,400</u>		
	<u>4,560</u>		<u>4,560</u>

<i>Balance Sheet (extracts)</i>						
		2007		2008		2009
Debtors	41,000		76,000		88,000	
Less Allowance for doubtful debts	<u>1,640</u>	39,360	<u>4,560</u>	71,440	<u>4,400</u>	83,600

### Answer to Question 25.6A BA 1

- (a) (i) Prudence. Always provide for probable losses.  
(ii) To match the expense of bad debts with the sales which occasioned the debts.  
(iii) Overall percentage. Percentages using ageing schedule. Flat sum.

<i>Allowance for Doubtful Debts</i>			
2008		2008	
Dec 31 Balance c/d	600	Jan 1 Balance b/d	500
	<u>600</u>	Dec 31 Profit and loss	<u>100</u>
			<u>600</u>
2009		2009	
Dec 31 Profit and loss	200	Jan 1 Balance b/d	600
Balance c/d	<u>400</u>		
	<u>600</u>		<u>600</u>
2000		2000	
Dec 31 Balance c/d	<u>400</u>	Jan 1 Balance b/d	<u>400</u>

(ii) (Extracts) Profit and Loss Account section of the income statement for the year ending 31 December  
(2008) Allowance for doubtful debts 100

(2009) Reduction in allowance for doubtful debts 200

Note: See textbook Exhibit 25.5 for an alternative layout to adopt on this answer.

- (c) A bad debt is a debt which has proved to be irrecoverable and so is written off.  
Allowance for doubtful debts: the amount of accounts receivable on a certain date which will probably turn out to be bad debts and have to be written off eventually.

(d)	Warren Mair	
2010	2010	
Jan 1 Balance b/d	130	Aug 25 Bank 39
		Aug 25 Bad debts 91
	<u>130</u>	<u>130</u>

### Answer to Question 25.8A BA 1

	<i>Allowance for Doubtful Debts</i>	
2008	2008	
Dec 31 Balance c/d	1,284	Jan 1 Balance b/d 930
		Dec 31 Profit and loss 354
	<u>1,284</u>	<u>1,284</u>

	<i>Provision for Discount on Debtors</i>	
2008	2008	
Dec 31 Balance c/d*	415	Jan 1 Balance b/d 301
		Dec 31 Profit and loss 114
	<u>415</u>	<u>415</u>

	<i>Bad Debts</i>	
2008	2008	
Dec 31 Various debtors	<u>1,110</u>	Dec 31 Profit and loss <u>1,110</u>

	<i>Discounts Allowed</i>	
2008	2008	
Dec 31 Total for year	<u>362</u>	Dec 31 Profit and loss <u>362</u>

	<i>Profit and Loss</i>	
Bad debts	1,110	
Increase in allowance for doubtful debts	354	
Discounts allowed	362	
Increase in provision for discounts on debtors	114	

\* 1% of [42,800 – 1,284] (obviously we do not give discounts on bad debts).

### Answer to Question 25.11A BA 1

(a)	<i>Allowance for Doubtful Debts</i>	
2004	2004	
Dec 31 Balance c/d	1,800	Jan 1 Balance b/d 1,500
		Dec 31 Profit and loss 300
	<u>1,800</u>	<u>1,800</u>

2005	2005	
Dec 31 Profit and loss	1,600	Jan 1 Balance b/d 1,800
Balance c/d	<u>200</u>	
	<u>1,800</u>	<u>1,800</u>

2006	
Jan 1 Balance b/d	200

	<i>Bad Debts</i>	
2003	2003	
Dec 31 Accounts receivable	<u>2,100</u>	Dec 31 Profit and loss <u>2,100</u>
2004	2004	
Dec 31 Accounts receivable	<u>750</u>	Dec 31 Profit and loss <u>750</u>

(b)	<i>B. Roke</i>	
2006	2006	
Jan 1 Balance b/d	<u>70</u>	Dec 31 Bad debts <u>70</u>

		<i>H A Ditt</i>	
2006		2006	
Jun 1 Balance b/d	<u>42</u>	Dec 31 Bad debts	<u>42</u>
		<i>Bad Debts</i>	
2006		2006	
Dec 31 B Roke	70	Dec 31 Profit and loss	112
HA Ditt	<u>42</u>		
	<u>112</u>		<u>112</u>

### Answer to Question 26.4A BA 1

<i>(a) Straight line</i>		<i>(b) Reducing balance</i>	
Photocopier cost	23,000	Photocopier cost	23,000
Yr 1 Depreciation	<u>4,750*</u>	Yr 1 Depn 35% of 23,000	<u>8,050</u>
	18,250		14,950
Yr 2 Depreciation	<u>4,750</u>	Yr 2 Depn 35% of 14,950	<u>5,233</u>
	13,500		9,717
Yr 3 Depreciation	<u>4,750</u>	Yr 3 Depn 35% of 9,717	<u>3,401</u>
	8,750		6,316
Yr 4 Depreciation	<u>4,750</u>	Yr 4 Depn 35% of 6,316	<u>2,211</u>
	<u>4,000</u>		<u>4,105</u>

\* Calculation:

$$\frac{23,000 - 4,000}{4} = \frac{19,000}{4} = 4,750$$

### Answer to Question 26.5A BA 1

<i>(a) Reducing balance</i>		<i>(b) Straight line</i>	
Printer cost	800	Printer cost	800
Yr 1 Depreciation 60%	<u>480</u>	Yr 1 Depreciation	<u>160*</u>
	320		640
Yr 2 Depn 60% of 320	<u>192</u>	Yr 2 Depreciation	<u>160</u>
	128		480
Yr 3 Depn 60% of 128	<u>77</u>	Yr 3 Depreciation	<u>160</u>
	51		320
Yr 4 Depn 60% of 51	<u>31</u>	Yr 4 Depreciation	<u>160</u>
	20		160
Yr 5 Depn 60% of 20	<u>12</u>	Yr 5 Depreciation	<u>160</u>
	<u>8</u>		<u>-</u>
		* Calculation:	
		$\frac{800}{5} = 160$	

### Answer to Question 26.6A BA 1

<i>(a) Reducing balance</i>		<i>(b) Straight line</i>	
Bus cost	56,000	Bus cost	56,000
Yr 1 Depreciation 25%	<u>14,000</u>	Yr 1 Depreciation	<u>9,500*</u>
	42,000		46,500
Yr 2 Depn 25% of 42,000	<u>10,500</u>	Yr 2 Depreciation	<u>9,500</u>
	31,500		37,000
Yr 3 Depn 25% of 31,500	<u>7,875</u>	Yr 3 Depreciation	<u>9,500</u>
	23,625		27,500
Yr 4 Depn 25% of 23,625	<u>5,906</u>	Yr 4 Depreciation	<u>9,500</u>
	<u>17,719</u>		<u>18,000</u>

\* Calculation:

$$\frac{56,000 - 18,000}{4} = \frac{38,000}{4} = 9,500$$

## Answer to Question 26.10A BA 1

- (a) (i) Straight line:  $100,000 - 20,000 = 80,000 \div 4 = 20,000$  depreciation per year.

	<i>Cost/NBV</i>	<i>Depn</i>	<i>NBV</i>
31.12.2003	100,000	20,000	80,000
31.12.2004	80,000	20,000	60,000
31.12.2005	60,000	20,000	40,000

(ii) Reducing balance: Percentage =  $1 - \sqrt[4]{\frac{20,000}{100,000}}$   
 $= 33\%$

	<i>Cost/NBV</i>	<i>Depn</i>	<i>NBV</i>
31.12.2003	100,000	33,000	67,000
31.12.2004	67,000	22,110	44,890
31.12.2005	44,890	14,814	30,076

	<i>Straight line</i>	<i>Reducing balance</i>
Sale proceeds	45,000	45,000
Balance b/d at 1.1.2006	<u>40,000</u>	<u>30,076</u>
Gain on sale	<u>5,000</u>	<u>14,924</u>

- (c) See text. Straight line is more appropriate when the economic benefits of using an asset reduce evenly over its useful economic life, such as in the case of office furnishings which will deteriorate gradually through wear and tear. Reducing balance is more appropriate when the economic benefits of using an asset reduce rapidly from the start, such as in the case of a motor vehicle – the cost of maintaining it, for example, is very low at the start and, generally, higher the longer it is in use.
- (d) Net book value represents an estimate of the remaining economic value of an asset expressed financially on a basis which is usually directly related to its original cost, original estimate of its residual value, and original estimated useful economic life.

## Answer to Question 26.11A BA 1

			<i>Forklift trucks</i>			
			<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>
2003	Bought 1.1.2003		2,400			
	Depreciation 30% for 9 months		<u>540</u>			
			1,860			
2004	Bought 1.5.2004			2,500		
	Depreciation 30% $\times$ 1,860		558			
	30% for 5 months			313		
			<u>1,302</u>	<u>2,187</u>		
2005	Bought 1.10.2004				3,200	
	Depreciation 30% $\times$ 1,302		391			
	30% $\times$ 2,187			656		
	30% for 12 months				<u>640</u>	
			<u>911</u>	<u>1,531</u>	<u>2,560</u>	
2006	Bought 1.4.2006					3,600
	Depreciation 30% $\times$ 911		273			
	30% $\times$ 1,531			459		
	30% $\times$ 2,560				768	
	30% for 6 months					<u>1,080</u>
			<u>638</u>	<u>1,072</u>	<u>1,792</u>	<u>2,520</u>

2006 Total Depreciation Provision =  $273 + 459 + 768 + 1,080 = \underline{\underline{2,580}}$

## Answer to Question 27.3A BA 1

(a)		<i>Machinery</i>	
2005		2005	
Jan 1	Bank	<u>2,800</u>	Dec 31 Balance c/d <u>2,800</u>
2006		2006	
Jan 1	Balance b/d	2,800	Dec 31 Balance c/d 6,300
Oct 1	Bank	<u>3,500</u>	
		<u>6,300</u>	<u>6,300</u>

(b)		<i>Fixtures</i>	
2005		2005	
Jan 1	Bank	290	Dec 31 Balance c/d 910
Jul 1	Bank	<u>620</u>	
		<u>910</u>	<u>910</u>
2006		2006	
Jan 1	Balance b/d	910	Dec 31 Balance c/d 1,040
Dec 1	Bank	<u>130</u>	
		<u>1,040</u>	<u>1,040</u>

(c)		<i>Provision for Depreciation: Machinery</i>	
2005		2005	
Dec 31	Balance c/d	<u>420</u>	Dec 31 Profit and loss <u>420</u>
2006		2006	
Dec 31	Balance c/d	1,302	Jan 1 Balance b/d 420
		<u>1,302</u>	Dec 31 Profit and loss <u>882*</u>
			<u>1,302</u>

$$\begin{aligned}
 * (2,800 - 420) \times 15\% &= 357 \\
 3,500 \times 15\% &= \underline{525} \\
 &\underline{882}
 \end{aligned}$$

		<i>Provision for Depreciation: Fixtures</i>	
2005		2005	
Dec 31	Balance c/d	<u>46</u>	Dec 31 Profit and loss <u>46</u>
2006		2006	
Dec 31	Balance c/d	96	Jan 1 Balance b/d 46
		<u>96</u>	Dec 31 Profit and loss <u>50*</u>
			<u>96</u>

$$\begin{aligned}
 * (910 - 46) \times 5\% &= 43.2 \\
 130 \times 5\% &= \underline{6.5} \\
 &\underline{49.7} \text{ rounded to 50.}
 \end{aligned}$$

(d)		<i>Balance Sheets (extracts)</i>	
31 December 2005			
Machinery at cost		2,800	
Less Depreciation		<u>420</u>	2,380
Fixtures at cost		<u>910</u>	
Less Depreciation		<u>46</u>	864
31 December 2006			
Machinery at cost		6,300	
Less Depreciation to date		<u>1,302</u>	4,998
Fixtures at cost		<u>1,040</u>	
Less Depreciation to date		<u>96</u>	944



## Answer to Question 27.7A BA 1

- (a) Per text.  
 (b) Any three from physical deterioration, economic factors, obsolescence, inadequacy, time, wasting character (e.g. mines).  
 (c) Straight line and reducing balance.  
 (d) Keep consistently to one particular method for an asset.  
 (e) Briefly: otherwise would not be able to calculate figures until asset put out of use, possibly many years hence. Need to calculate profits, allowing for depreciation, even though figures not absolutely accurate.  
 (f) Profits would be overstated. Values per balance sheet also overstated.  
 (g) Prudence concept does not take profits into account until they have been realised. An increase in value, without sale, does not represent realisation.

(h)

<i>Machinery</i>			
2007		2009	
Jan 1	Bank	Jan 4	Machinery disposals
	<u>5,000</u>		<u>5,000</u>

(ii)

<i>Provision for Depreciation of Machinery</i>			
2009		2007	
Jan 4	Machinery disposals	Dec 31	Profit and loss
	1,000		500
		2008	
		Dec 31	Profit and loss
	<u>1,000</u>		<u>500</u>
			<u>1,000</u>

(iii)

<i>Machinery Disposals</i>			
2009		2009	
Jan 4	Machinery	Jan 4	Provision for depreciation
	5,000		1,000
		Jan 4	Bank
			3,760
		Dec 31	Profit and loss
	<u>5,000</u>		<u>240</u>
			<u>5,000</u>

### *Profit and Loss (extracts)*

2007	
Dec 31	Provn for depn of machinery
	500
2008	
Dec 31	Provn for depn of machinery
	500
2009	
Dec 31	Machinery disposals (loss)
	240

(iv) (Extracts)

### *Income Statement for the year ending 31 December*

(2007) Provision for depreciation	500
(2008) Provision for depreciation	500
(2009) Loss on sale of machinery	240

## Answer to Question 27.9A BA 1

Workings:

AAT 101	Cost	8,500
	Less Estimated residual value	<u>2,500</u>
	Estimated total depreciation	<u>6,000</u>
	Estimated life 5 years	
	Depreciation charge per year	<u>1,200</u>
	Accumulated depreciation at 1.4.2006	
	2 years 6 months @ 1,200	3,000
	Depreciation 1.4.2006 to 30.6.2006	
	3 months @ 1,200 p.a.	300
	Depreciation to 30.6.2006	<u>3,300</u>
	Cost was	<u>8,500</u>
	Written-down value on disposal	<u>5,200</u>
	Trade-in allowance	<u>5,000</u>
	Loss on disposal	<u>200</u>

DJH 202	Cost	12,000
	<i>Less</i> Estimated residual value	<u>2,000</u>
	Estimated total depreciation	<u>10,000</u>
	Estimated life 8 years	
	Depreciation charge per year	<u>1,250</u>
	Accumulated depreciation at 1.4.2006	
	2 years @ 1,250	2,500
	Remainder of estimated depreciation	7,500
	Adjust to cover 4 years in future: i.e. $7,500 \div 4$ now yearly charge	<u>1,875</u>
	Depreciation for year to 31 March 2007	
AAT 101	As above	300
DJH 202	As above	1,875
KGC 303	Cost 15,000 – residual value 4,000 = $11,000 \div 5$ years = 2,200 p.a. For 9 months 30.6.2006 to 31.3.2007 $2,200 \times \frac{9}{12}$	<u>1,650</u> <u>3,825</u>

(a) (dates omitted)	<i>Journal</i>	<i>Dr</i>	<i>Cr</i>
Motor vehicles		15,000	
Motor vehicle disposals			5,000
Pinot Finance			6,000
Bank			4,000
Purchase of KGC 303			
Motor vehicle disposals		8,500	
Motor vehicles			8,500
Cost of vehicle AAT 101			
Provision for depreciation: Motors		3,300	
Motor vehicle disposals			3,300
Depreciation to date of disposal of AAT 101			
Profit and loss		200	
Motor vehicle disposals			200
Loss on disposal of vehicle AAT 101			
(b) Profit and loss		3,825	
Provision for depreciation: Motor vehicles			3,825
Depreciation on motor vehicles for years to 31 March 2007			
(c) (dates omitted)	<i>Motor Vehicles</i>		
Balance b/d	20,500	Motor vehicle disposals	8,500
Purchase of KGC 303	<u>15,000</u>	Balance c/d	<u>27,000</u>
	<u>35,500</u>		<u>35,500</u>
	<i>Provision for Depreciation: Motor Vehicles</i>		
Motor vehicle disposals	3,300	Balance b/d	5,500
Balance c/d	<u>6,025</u>	Profit and loss	<u>3,825</u>
	<u>9,325</u>		<u>9,325</u>

### Answer to Question 27.11A BA 1

(a) (i)	<i>Depreciation on Machines each year</i>		
	2006	2007	2008
Machine 1 (95% 40,000 @ 10%)	3,800 (12 months)	3,800 (12 months)	3,800 (12 months)
Machine 2 (95% 40,000 @ 10%)	3,800 (12 months)	3,800 (12 months)	3,800 (12 months)
Machine 3 (95% 15,200 @ 10%)	361 (3 months)	1,444 (12 months)	722 (6 months)
Machine 4 (95% 15,200 @ 10%)	361 (3 months)	1,444 (12 months)	1,444 (12 months)
Machine 5 (95% 20,000 @ 10%)			950 (6 months)
Total per year	<u>8,322</u>	<u>10,488</u>	<u>10,716</u>
(ii) Sale proceeds			12,640
Machine 3 cost		15,200	
Depreciation provision (361 + 1,444 + 722)		<u>2,527</u>	
			<u>12,673</u>
Loss on sale of Machine 3			<u>33</u>

- (b) Assuming that the depreciation rate was set to match the estimated useful economic life, it should not matter which depreciation method was used. The overall reported profits during the economic life of the vehicle would be identical. However, the diminishing balance method (or reducing balance method) will result in lower reported profits in the first few years, but higher reported profits in the later years.

### Answer to Question 27.13A BA 1

<i>Accumulated provision for depreciation</i>					
2007	Balance c/d	<u>10,000</u>	2007	Depreciation	<u>10,000</u>
2008	Balance c/d	<u>17,500</u>	2008	Balance b/d	<u>10,000</u>
				Depreciation	<u>7,500</u>
		<u>17,500</u>			<u>17,500</u>
2009	Balance c/d	<u>20,500</u>	2009	Balance b/d	<u>17,500</u>
				Depreciation	<u>3,000</u>
		<u>20,500</u>			<u>20,500</u>

### *Balance Sheet extract as at 31 December*

	2007	
Machine		30,000
	2008	
Machine		22,500
	2009	
Machine		19,500

### Answer to Question 27.15A BA 1

<i>Lorries</i>					
2006			2006		
April 1	Balance b/d	99,600	June 1	Lorry disposal	19,600
June 7	Bank	32,800	August 21	Lorry disposal	31,200
October 30	Bank	39,000	2007		
2007			March 6	Lorry disposal	39,000
March 6	Lorry disposal	<u>37,600</u>	31	Balance b/d	<u>119,200</u>
		<u>209,000</u>			<u>209,000</u>
2007					
April 1	Balance b/d	119,200			

<i>Accumulated depreciation on lorries</i>					
2006			2006		
June 1	Lorry disposal	7,840	April 1	Balance b/d	42,560
August 21	Lorry disposal	24,960	2007		
2007			March 31	Depreciation	23,840
March 31	Balance c/d	<u>33,600</u>			<u>66,400</u>
		<u>66,400</u>			
			2007		
			April 1	Balance b/d	33,600

<i>Lorry disposal</i>					
2006			2006		
June 1	Lorries	19,600	June 1	Accumulated depreciation on lorries	7,840
August 21	Lorries	31,200	1	Bank	10,500
2007					
March 6	Lorries	39,000	August 21	Accumulated depreciation on lorries	24,960
			21	Bank	7,000
			2007		
			March 6	Lorries	37,600
			31	Profit and loss (loss on disposal)	<u>1,900</u>
		<u>89,800</u>			<u>89,800</u>

Bank					
2006			2006		
June 1	Lorry disposal	10,500	June 7	Lorries	32,800
August 21	Lorry disposal	7,000	October 30	Lorries	39,000
Depreciation on lorries					
2007			2007		
March 3	Accumulated depreciation on lorries	23,840	March 31	Profit and loss	<u>23,840</u>

### Answer to Question 27.17A BA 1

<i>Machinery</i>					
2009			2009		
Jan 1	Balance b/d	52,950		Machinery disposal	2,800
	Bank	<u>2,480</u>	Dec 31	Balance c/d	<u>52,630</u>
		<u>55,430</u>			<u>55,430</u>

<i>Machinery disposal</i>					
2009			2009		
	Machinery	2,800		Accumulated provision for depreciation – machinery	1,120
				Bank	800
			Dec 31	Profit and loss (loss on disposal)	880
		<u>2,800</u>			<u>2,800</u>

<i>Accumulated provision for depreciation – machinery</i>					
2009			2009		
	Machinery disposal	1,120	Jan 1	Balance b/d	25,670
Dec 31	Balance c/d	<u>29,813</u>	Dec 31	Depreciation	<u>5,263</u>
		<u>30,933</u>			<u>30,933</u>

Office furniture					
2009			2009		
Jan 1	Balance b/d	2,860	Dec 31	Balance c/d	3,180
	Bank	<u>320</u>			
		<u>3,180</u>			<u>3,180</u>

<i>Accumulated provision for depreciation – office furniture</i>					
2009			2009		
Dec 31	Balance c/d	1,649	Jan 1	Balance b/d	1,490
		<u>1,649</u>	Dec 31	Depreciation	<u>159</u>
					<u>1,649</u>

#### *Balance Sheet extract as at 31 December 2009*

Machinery, at cost	52,630	
Less Accumulated depreciation	<u>29,813</u>	
		22,817
Office furniture, at cost	3,180	
Less Accumulated depreciation	<u>1,649</u>	
		1,531

**Answer to Question 27.19A BA 1**

(a)

**M Jackson***Income Statement for the year ending 30 April 2007*

Sales			18,614
Less Returns inwards			<u>440</u>
			18,174
Less Cost of Sales			
Opening inventory		3,776	
Add Purchases	11,570		
Less Returns outwards	<u>355</u>		
		11,215	
Carriage inwards		<u>234</u>	
		15,225	
Less Closing inventory		<u>4,000</u>	
			<u>11,225</u>
			6,949
Gross profit			
Less Expenses:			
Carriage outwards		326	
Salaries		2,447	
Motor expenses		664	
Rent		576	
Sundry expenses		1,202	
Bad debts		800	
Depreciation: Fixtures and fittings		60	
Motor vehicles		<u>850</u>	
			<u>6,925</u>
Net profit			<u><u>24</u></u>

*Balance Sheet as at 30 April 2007*

<i>Non-current assets</i>			
Fixtures and fittings (600 – 60)			540
Motor vehicles (3,400 – 850)			<u>2,550</u>
			3,090
<i>Current assets</i>			
Inventory	4,000		
Accounts receivable (4,577 – 800)	3,777		
Bank	3,876		
Cash	<u>120</u>		
	11,773		
Less Current liabilities – Accounts payable		<u>3,045</u>	
			<u>8,728</u>
			<u>11,818</u>
<i>Capital account</i>			
Opening balance			13,844
Add Net profit			<u>24</u>
			13,868
Less Drawings			<u>2,050</u>
			<u>11,818</u>

(b) See text Chapters 25 (bad debts) and 27 (depreciation).

## Answer to Question 27.21A BA 1

(a)		<i>Annual Depreciation Charge</i>		
	(i) <i>Straight line</i>		(ii) <i>Diminishing balance</i>	(iii) <i>Units of output</i>
Year 1	450	$60\% \times 1,800$	= 1,080	$35,000/180,000 \times 1,800 =$ 350
Year 2	450	$60\% \times 720$	= 432	$45,000/180,000 \times 1,800 =$ 450
Year 3	450	$60\% \times 288$	= 173	$45,000/180,000 \times 1,800 =$ 450
Year 4	450	$60\% \times 115$	= 69	$55,000/180,000 \times 1,800 =$ 550
	<u>1,800</u>		<u>1,754</u>	<u>1,800</u>
 (b) (Dates omitted)				
Balance b/d		(i) <i>Laser Printer</i>		
		<u>1,800</u>	Assets disposals	<u>1,800</u>
 (ii) <i>Provision for Depreciation: Laser Printer</i>				
Assets disposals		1,720	Balance b/d	1,685
			Profit and loss	35
		<u>1,720</u>		<u>1,720</u>
 (iii) <i>Assets Disposals</i>				
Laser printer		1,800	Provision for depreciation	1,720
Profit and loss		120	Bank	200
		<u>1,920</u>		<u>1,920</u>

## Answer to Question 28.2A BA 1

(a)		<i>Stationery</i>		
2007			2008	
Jul 1 Stock b/d	60		Jun 30 Profit and loss	205
2008			30 Inventory c/d	95
Jun 30 Cash and bank	<u>240</u>			
	<u>300</u>			<u>300</u>
 (b)				
		<i>General Expenses</i>		
2008			2007	
Jun 30 Cash and bank	470		Jul 1 Owing b/d	32
30 Owing c/d	60		2008	
	<u>530</u>		Jun 30 Profit and loss	498
				<u>530</u>
 (c)				
		<i>Rent and Rates</i>		
2008			2007	
Jun 30 Cash and bank	5,410		Jul 1 Owing b/d	
30 Rates owing c/d	393		Rent	220
			Rates	191
			2008	
			Jun 30 Profit and loss	5,022
			30 Rent prepaid c/d	370
	<u>5,803</u>			<u>5,803</u>
 (d)				
		<i>Motor Expenses</i>		
2008			2007	
Jun 30 Cash and bank	1,410		Jul 1 Owing b/d	92
30 Owing c/d	67		2008	
	<u>1,477</u>		Jun 30 Profit and loss	1,385
				<u>1,477</u>
 (e)				
		<i>Commission Receivable</i>		
2007			2008	
Jul 1 Owing b/d	50		Jun 30 Cash and bank	1,100
2008			30 Owing c/d	82
Jun 30 Profit and loss	<u>1,132</u>			
	<u>1,182</u>			<u>1,182</u>

## Answer to Question 28.4A BA 1

		<i>Lighting and Heating</i>		
2006		2006		
Jan 1	Balance b/d	192	Dec 31 Profit and loss	2,259
Dec 31	Bank (electricity)	1,300	31 Inventory c/d	205
	31 Bank (oil)	810		
	31 Owing c/d	162		
		<u>2,464</u>		<u>2,464</u>

		<i>Insurance</i>		
2006		2006		
Jan 1	Balance b/d	1,410	Jun 30 Bank	82
Dec 31	Bank (fire)	1,164	Dec 31 Profit and loss	2,617
	31 Bank (general)	1,464	31 Prepaid c/d *	1,339
		<u>4,038</u>		<u>4,038</u>

\* Prepaid calculated: Fire 5 months  $1,164 @ \frac{5}{12} = 485$   
 General 7 months  $1,464 @ \frac{7}{12} = 854$   
1,339

## Answer to Question 28.6A BA 1

- (1) Expense.
- (2) Revenue.
- (3) Nominal ledger.
- (4) Current assets: Debtors and prepayments.
- (5) Current liabilities: Revenue prepaid.
- (6) The Journal.
- (7) Cheque counterfoil as written up in the bank column of cash book.
- (8) Bank paying-in book, as written up in bank column of cash book.
- (9) £620 Dr.
- (10) £960 Cr.
- (11) Understated £90.
- (12) Overstated £75.

## Answer to Question 28.7A BA 1

No set answer.

*Note:* Avoid very technical language as it is for a non-accountant. Keep it fairly brief.

(a) 'Assets' means the resources possessed by the business, but there is one important qualification to this statement. That is that the asset must have cost the business something that can easily be measured in monetary terms. Whilst, therefore, your skill and knowledge may be an 'asset' in ordinary everyday language, it cannot be classed as an 'asset' in an accounting sense as it did not cost anything to the business.

(b) The house you live in, we assume, is not used at all for your business. It cannot therefore be included as a business asset. Accordingly the increase in the value is also irrelevant.

If the house is owned by the business it would be included as an asset at £30,000 until a proper revaluation takes place.

(c) Assets are called *non-current assets* when they are of long life, are to be used in the business and were *not* bought with the main purpose of resale. Examples are buildings, machinery, motor vehicles, and fixtures and fittings.

Assets are called *current assets* when they represent cash or are primarily for conversion into cash or have a short life. An example of a short-lived asset is that of the stock of oil held to power the boilers in a factory, as this will be used up in the near future. Other examples of current assets are cash itself, stocks of goods, debtors and bank balances.

(d) Some vehicles may have been bought specifically for resale, and are therefore current assets. Other vehicles, such as a breakdown truck, have been bought for use, not resale, and are consequently non-current assets. See definitions in (c) above.

(e) The profit in the income statement is calculated by matching up sales for the year with those costs that have been incurred in order to achieve the sales. Some of the costs were paid for in a previous year, some items are still owed for. This means that costs do not mean items paid for in the year. Similarly, a lot of sales will still be owed for – see accounts receivable – so that this does not equal cash received in the year.

As many items in the income statement do not equal cash received or paid out, then obviously there is not necessarily any easy comparison between profit and cash and bank balances.

(f) No, that is not true. Depreciation represents the part of the cost used up in the year. As equipment may last for several years, only part will be charged against one year.

The remaining value of the equipment is shown in your balance sheet. The total cost will be charged against your profits, but spread over several years. The total costs will only be charged once against the profits.

## Answer to Question 28.10A BA 1

### J Wright

#### Income Statement for the year ending 31 March 2009

Sales		127,245	
Less Returns in		<u>3,486</u>	123,759
Less Cost of goods sold:			
Opening inventory		7,940	
Add Purchases	61,420		
Less Returns out	<u>1,356</u>	<u>60,064</u>	
		68,004	
Less Closing inventory		<u>6,805</u>	61,199
Gross profit			62,560
Add Discounts received			<u>62</u>
Less Expenses:			62,622
Wages and salaries (39,200 + 3,500)		42,700	
Rent and insurance (8,870 – 600)		8,270	
Carriage outwards		3,210	
General office expenses (319 + 16)		335	
Discounts allowed		2,480	
Allowance for doubtful debts		110	
Depreciation: Fixtures and fittings	190		
Delivery van	<u>1,400</u>	<u>1,590</u>	58,695
Net profit			<u><u>3,927</u></u>

#### Balance Sheet as at 31 March 2009

<i>Non-current assets</i>			
Fixtures and fittings		1,900	
Less Depreciation		<u>190</u>	1,710
Delivery van		5,600	
Less Depreciation		<u>1,400</u>	4,200
<i>Current assets</i>			5,910
Inventory		6,805	
Accounts receivable	12,418		
Less Provision for doubtful debts	<u>740</u>	11,678	
Prepaid expenses		600	
Cash in hand		<u>140</u>	19,223
			25,133
Less Current liabilities			
Accounts payable		11,400	
Expenses owing (3,500 + 16)		3,516	
Bank overdraft		<u>2,490</u>	
			17,406
			<u><u>7,727</u></u>
<i>Financed by:</i>			
<i>Capital</i>			
Balance at 1/4/2008			25,200
Add Net profit			<u>3,927</u>
			29,127
Less Drawings			<u>21,400</u>
			<u><u>7,727</u></u>



## Answer to Question 28.12A BA 1

Mr Yousef

*Income Statement for the year ending 31 May 2006*

Sales		138,078
Less Cost of goods sold		
Inventory 1 June 2005	11,927	
Purchases	82,350	
Carriage inwards	<u>2,211</u>	
	96,488	
Less Inventory 31 May 2006	<u>13,551</u>	<u>82,937</u>
Gross profit		55,141
Less Carriage outwards	2,933	
Salaries and wages	26,420	
Rent, rates and insurance (6,622 + 210 – 880)	5,952	
Postage and stationery	3,001	
Advertising	1,330	
Bad debts	877	
Allowance for doubtful debts	40	
Depreciation	<u>8,700</u>	<u>49,253</u>
Net profit		<u><u>5,888</u></u>

*Balance Sheet as at 31 May 2006*

<i>Non-current assets</i>			
Equipment at cost		58,000	
Less Depreciation to date		<u>27,700</u>	30,300
<i>Current assets</i>			
Inventory		13,551	
Accounts receivable	12,120		
Less Allowance for doubtful debts	<u>170</u>	11,950	
Prepayments		880	
Bank		1,002	
Cash		<u>177</u>	27,560
			57,860
<i>Current liabilities</i>			
Accounts payable		6,471	
Expenses accrued		<u>210</u>	
			<u>6,681</u>
			<u><u>51,179</u></u>
<i>Financed by:</i>			
Capital: Balance at 1 June 2005			53,091
Add Net profit			<u>5,888</u>
			58,979
Less Drawings			<u>7,800</u>
			<u><u>51,179</u></u>

## Answer to Question 29.3A BA 1

(i) FIFO: 15 @ £19 = £285

(ii) LIFO:	Received	Issued	Inventory after each transaction	
Jan	120 @ £16		120 @ £16	1,920
Apr	80 @ £18		120 @ £16	1,920
			80 @ £18	<u>1,200</u>
June		45 @ £16		3,120
		80 @ £18	75 @ £16	1,200
		<u>125</u>		
Oct	150 @ £19		75 @ £16	1,200
			150 @ £19	<u>2,850</u>
Nov		60 @ £16		4,050
		150 @ £19	15 @ £16	240
		<u>210</u>		

(iii) AVCO: Received		Issued	Average cost per unit of inventory	No. of units in inventory	Total value of inventory
Jan	120 @ £16		£16	120	£1,920
Apr	80 @ £18		£16.80	200	£3,360
Jun		125	£16.80	75	£1,260
Oct	150 @ £19		£18.27	225	£4,110
Nov		210	£18.27	15	£274

### Answer to Question 29.4A BA 1

Trading Accounts for the year ended 31 December 2010						
	FIFO	LIFO	AVCO	Sales (All methods)		
Purchases	6,210	6,210	6,210	125 @ £22	2,750	
Less Closing inventory	285	240	274	210 @ £25	5,250	8,000
Cost of goods sold	5,925	5,970	5,936			
Gross profit	2,075	2,030	2,064			
Sales	8,000	8,000	8,000			

### Answer to Question 29.7A BA 1

(a)		Mary Smith	
		Income Statement for the 3 months ending 30 November 2009	
		FIFO	LIFO
Sales		15,840	15,840
Less Cost of sales (note 1)		10,408	11,392
Gross profit		5,432	4,448
Less Overhead expenses	1,520		1,520
Sales commission (note 2)	136		111
Depreciation of lawn mower (note 3)	12	1,668	14
Net profit		3,764	2,803
Note 1			
(FIFO) Closing inventory	10 @ 489	4,890	
	1 @ 350 (net realisable value)	350	
		5,240	
Purchases			16,032
Less Taken for business use		384	
Inventory		5,240	5,624
Cost of sales			10,408
(LIFO) Closing inventory	10 @ 384	3,840	
	1 @ 350 (net realisable value)	350	
		4,190	
Purchases			16,032
Less Taken for business use			450
Inventory			4,190
			4,640
			11,392
Note 2			
Sales commission:	FIFO 2½% @ 5,432 = 135.80		
	LIFO 2½% @ 4,448 = 111.20		
Note 3			
Depreciation:	FIFO ⅛ @ 3 months @ 384 = 12.00		
	LIFO ⅛ @ 3 months @ 450 = 14.06		

(b) Mary Smith's income, 3 months to 31 August 2009:

Salary 3,750 + Interest ( $\frac{1}{4}$  @ 10% @ 7,000) 175 = 3,925

Business: 3 months to 30 November 2009 = 3,764

(c) FIFO: *Advantage*: related to actual movements of goods therefore closing inventory nearer to actual current price levels.

*Disadvantage*: during inflation profits include holding gains.

LIFO: *Advantage*: cost of sales nearer to current price levels.

*Disadvantages*: not related to actual movement of goods, therefore inventory valuations will not match up to current price levels.

## Answer to Question 29.10A BA 1

	£	£	£
(a) Inventory at 9 March 2008	Increase	Decrease	100,600
Sales at cost [w1]	33,400		
Purchases		14,000	
Sales returns [w2]		3,336	
Purchase returns	850		
Office cleaning		600	
Inventory with Marketing [w3]	1,320		
Sale or return [w4]	320		
Free sample		20	
	<u>35,890</u>	<u>(17,956)</u>	<u>17,934</u>
Inventory at 29 February 2008			<u>118,534</u>

### Workings

[1]  $(43,838 \times \frac{100}{105}) \times \frac{100}{125}$

[2]  $4,170 \times \frac{100}{125}$

[3]  $1,650 \times \frac{100}{125}$

[4]  $800 \times \frac{100}{125} = 640$ ;  $\frac{1}{2}$  sold = 320.

(b) Revised Net Profit for the year ending 29 February 2008

	£	£
Draft net profit		249,600
Add: undervaluation of inventory	17,934	
goods sold on sale or return [w5]	<u>400</u>	
		<u>18,334</u>
		267,934
Less: Office cleaning material		<u>600</u>
		<u>267,334</u>

Revised total current assets at 29 February 2008

	£
Draft current assets	300,000
Add: undervalued inventory	<u>17,934</u>
Revised total current assets	<u>317,934</u>

### Workings

[5]  $320 \times \frac{125}{100}$

**Answer to Question 30.2A BA 1**

<i>Cash Book</i>			
Balance b/d	2,740	Bank charges	32
B Barnes	201	Giffy Ltd	98
		Balance c/d	2,816
	<u>2,941</u>		<u>2,941</u>

*Bank Reconciliation Statement as on 31 March 2009*

Bank balance per cash book	2,816
Add Unpresented cheque	131
	<u>2,947</u>
Less Bankings not yet on bank statement	410
Bank balance per bank statement	<u>3,357</u>

**Answer to Question 30.4A BA 1**

<i>D Hogan: Cash Book</i>			
2007		2007	
Jun 1 Balance b/d	1,410	Jun 5 L Holmes	180
7 J May	62	12 J Rebus	519
16 T Wilson	75	16 T Silver	41
28 F Slack	224	29 Blister Disco	22
30 G Baker	582	29 SLM	52
30 Flynn	64	30 Bank charges	43
	<u>2,417</u>	30 Balance c/d	1,560
			<u>2,417</u>

*(b) D Hogan: Bank Reconciliation Statement as on 30 June 2007*

Balance in hand per cash book	1,560
Add unpresented cheque	22
	<u>1,582</u>
Less Bank lodgement not yet entered on bank statement	582
Balance in hand as per bank statement	<u>1,000</u>

**Answer to Question 30.6A BA 1**

*(a) Thomas P Lee*  
*Computation of Bank Balance for Balance Sheet Purposes*  
*as on 31 October 2009*

Balance per cash book		894.68
Add Cheque duplicated	15.10	
Traders' credits not in cash book	210.10	225.20
		<u>1,119.88</u>
Less T Andrews: dishonoured cheque	29.31	
Bank charges not in cash book:		
Bank commission	169.56	
Bank interest	109.10	
Incorrect entry of cheque		
(310.84 – 301.84)	9.00	
Standing order not in cash book	15.00	331.97
Corrected bank balance		<u>787.91</u>

*(b) Thomas P Lee*  
*Bank Reconciliation Statement as on 31 October 2009*

Corrected cash book balance	787.91
Add Unpresented cheques	395.80
	<u>1,183.71</u>
Less Bankings not on bank statements	1,895.60
Overdraft per bank statement	<u>711.89</u>

*(c)* Briefly: helps verify correctness of cash book and bank statement.

**Answer to Question 30.8A BA 1**

(a)	<i>F King: Cash Book</i>			
2007		2007		
Dec 6 P Pan	230	Dec 1 Balance b/d		1,900
20 C Hook	265	10 J Lamb		304
31 W Britten	325	19 P Wilson		261
31 F Ray	102	29 K Coull		37
31 Balance c/d	1,746	30 Tox		94
		31 Bank charges		72
	<u>2,668</u>			<u>2,668</u>

(b)	<i>F King: Bank Reconciliation Statement as on 31 December 2007</i>	
Bank overdraft per cash book		1,746
Add Bank lodgements not yet entered on bank statement		325
		<u>2,071</u>
Less Unpresented cheque		37
Bank overdraft per bank statement		<u>2,034</u>

**Answer to Question 31.2A BA 1**

	<i>Purchases Ledger Control</i>		
Returns outwards	246	Balance b/d	11,241
Bank	8,300	Purchases	6,100
Discounts received	749		
Balance c/d	<u>8,046</u>		
	17,341		<u>17,341</u>

**Answer to Question 31.4A BA 1**

	<i>Sales Ledger Control</i>		
Balance b/d	28,409	Bad debts	342
Sales journal	26,617	Bank	24,293
Bank: dishonoured cheques	120	Discounts	416
		Returns in	924
		Set-offs to purchases ledger	319
		Balance c/d	28,852
	<hr/> 55,146		<hr/> 55,146

**Answer to Question 31.7A BA 1**

	<i>Sales Ledger Control</i>		
Balance b/d	20,040	Balance b/d	56
Sales day book	124,600	Cash book	119,930
Balance c/d	37	Bad debts	204
		Discount allowed	3,480
		Returns inwards	1,063
		Purchase ledger	438
		Balance c/d	19,506
	<u>144,677</u>		<u>144,677</u>
	<i>Purchases Ledger Control</i>		
Balance b/d	12	Balance b/d	14,860
Cash book	93,685	Purchases day book	95,580
Discount received	2,850	Balance c/d	26
Returns outwards	240		
Sales ledger	438		
Balance c/d	13,241		
	<u>110,466</u>		<u>110,466</u>

### Answer to Question 31.8A BA 1

(a) (i) Purchases invoices; (ii) Debit notes.

(b) Sales journal, Returns inwards journal. Descriptions per text.

(c)		<i>T Sage</i>	
2010		2010	
Apr 9 Bank	690	Apr 1 Balance b/d	720
9 Discount	30	17 Purchases	410
29 Returns out	80		
30 Balance c/d	330		
	<u>1,130</u>		<u>1,130</u>
		May 1 Balance b/d	330

(d)		<i>Purchases Ledger Control</i>	
2010		2010	
Apr 30 Bank	1,596	Apr 1 Balance b/d	1,530
30 Discounts	84	30 Purchases	1,810
30 Returns out	130	30 Balance c/d*	10
30 Contra to sales ledger	180		
30 Balance c/d	1,360		
	<u>3,350</u>		<u>3,350</u>
May 1 Balance b/d	10	May 1 Balance b/d	1,360

\* Debit balance on J Morris account.

- (e) 1 Arithmetical check on accuracy of entries in purchases ledger.  
2 Quick way to find figure of creditors.

### Answer to Question 32.3A BA 1

(a) B Roy	Dr	1,410	:	A Ray	Cr	1,410
(b) Cash	Dr	94	:	Bank	Cr	94
(c) D Rolls	Dr	734	:	D Rollo	Cr	734
(d) Purchases	Dr	72	:	L Hand	Cr	72
(e) G Boyd	Dr	128	:	Cash	Cr	128
(Needs double the amount to cancel out the error and replace it with the correct amount.)						
(f) Sales	Dr	320	:	Fittings	Cr	320
(g) Cash	Dr	400	:	Bank	Cr	400
(Needs double the amount.)						
(h) Purchases	Dr	1,182	:	Furnishings	Cr	1,182

### Answer to Question 32.6A BA 1

(a) Commissions received	Dr	430	:	Rent received	Cr	430
(b) Bank charges	Dr	34	:	Business rates	Cr	34
(c) Motor expenses	Dr	37	:	Bank	Cr	37
(d) Fax machine	Dr	242	:	Purchases	Cr	242
(e) Returns inwards	Dr	216	:	Returns outwards	Cr	216
(f) Capital	Dr	2,000	:	Loan G Bain	Cr	2,000
(g) Loan interest	Dr	400	:	Van	Cr	400
(h) Drawings	Dr	168	:	Purchases	Cr	168

(double the original amount)

## Answer to Question 32.7A BA 1

(a)

Thomas Smith

*Corrected Trial Balance as at 31 March 2008*

Inventory in trade 1.4.2007	10,700	
Discounts allowed	310	
Discounts received		450
Allowance for doubtful debts		960
Purchases	94,000	
Purchases returns		1,400
Sales		132,100
Sales returns	1,100	
Freehold property: at cost	70,000	
provision for depreciation		3,500
Motor vehicle: at cost	15,000	
provision for depreciation		4,500
Capital		84,600
Bank	7,100	
Trade accounts receivable	11,300	
Trade accounts payable		7,600
Establishment and administrative expenditure	16,600	
Drawings	9,000	
	<u>235,110</u>	<u>235,110</u>

(b) (Dates omitted)

*The Journal*

	<i>Dr</i>	<i>Cr</i>
Inventory	1,300	
Capital		1,300
(Being adjustment for items on mislaid inventory lists.)		
Trade accounts payable	210	
Purchases returns		210
(Being goods returned to J Hardwell Ltd.)		
Sales	1,000	
Trade accounts receivable		1,000
(Being reversal of trade sample sent to John Grey wrongly treated as a sale.)		
Trade samples	1,000	
Purchases		1,000
(Being correction of treatment of trade sample.)		
Repairs and renewals	150	
Purchases		150
(Being correction of treatment of paint used to paint stockroom wrongly charged to purchases.)		

## Answer to Question 33.3A BA 1

(a) (Narratives omitted)

*The Journal*

	<i>Dr</i>	<i>Cr</i>
(i) Sales	125	
Office equipment		125
(ii) Suspense	10	
Purchases		10
(iii) Drawings	140	
Purchases		140
(iv) Bank charges	22	
Suspense		22
(v) Suspense	90	
K Lamb		90

(b)		<i>Suspense</i>	
Purchases	10	Balance	78
K Lamb	90	Bank charges	22
	<u>100</u>		<u>100</u>

(c)	<i>Statement of Corrected Net Profit for the year ended 31 December 2007</i>	
Net profit per the financial statements		28,400
Add Purchases overcast	10	
Add Private purchases	140	150
		<u>28,550</u>
Less Sales shown in error	125	
Less Bank charges omitted	22	147
Corrected net profit		<u>28,403</u>

### Answer to Question 33.7A BA 1

1	Trial Balance as at 31 March 2009	
	Dr	Cr
Non-current assets at cost	18,300	
Provision for depreciation 1 April 2008		2,800
Inventory as at 1 April 2008	3,700	
Trade accounts receivable	1,825	
Trade accounts payable		864
Balance at bank (overdrawn)		382
Capital		26,860
Drawings	7,740	
Sales		26,080
Purchases	18,327	
Running expenses	6,904	
Allowance for doubtful debts		90
Suspense	280	
	<u>57,076</u>	<u>57,076</u>

2	<i>The Journal</i>		
		<i>Dr</i>	<i>Cr</i>
Sales		120	
Suspense			120
Office equipment (Non-current assets)		360	
Purchases			360
Bank		45	
Account payable			45
Return inwards		37	
Account receivable			37
Drawings		160	
Suspense			160

3	<i>Suspense</i>		
Per trial balance	280	Sales	120
		Drawings	160
	<u>280</u>		<u>280</u>

4 Per text.



## Answer to Question 33.9A BA 1

(a)		<i>Suspense</i>	
Balance b/d	1,536	(i) Debtor balance omitted	87
(iv) Sales undercast	360	(iii) Undercast of cash book	720
		(v) Supplier incorrectly credited for returns out (double the amount)	358
		(vii) Cheque omitted: Mr Smith	731
	<u>1,896</u>		<u>1,896</u>

Items (ii) and (vi) do not pass through suspense account.

- (b) (i) Account receivable increased in balance sheet.  
(ii) Net profit will be increased by 1,200 but further depreciation needed. Machinery increased by 1,200 (subject to depreciation) in the balance sheet.  
(iii) Cash in the balance sheet increased by 720.  
(iv) Sales increased 360; so too are gross profit and net profit.  
(v) Accounts payable reduced 358 in balance sheet.  
(vi) Electricity increased 152, so net profit reduced 152. Also electricity owing 152 to be included as extra accrual in balance sheet.  
(vii) Cash increased 731 in balance sheet. Can now be removed from allowance for doubtful debts, so net profit increased 731 and accounts receivable (net) in balance sheet increased 731.

## Answer to Question 33.10A BA 1

		<i>Sales Ledger Control</i>	
Balance b/d	110,172	Purchases ledger: set-off (iii)	700
Customer Y (x)	200	Customer: posting error (vii)	100
		Balance c/d	109,572
	<u>110,372</u>		<u>110,372</u>

		<i>Purchases Ledger Control</i>	
Sales ledger: set-off (iii)	700	Balance b/d	78,266
Purchases: wrong posting (vi)	198		
Purchases overcast (viii)	1,000		
Balance c/d	76,368		
	<u>78,266</u>		<u>78,266</u>

		<i>Suspense</i>	
Balance b/d	2,315	Trial balance error (ix)	2,400
Insurances (xi)	90	Balance c/d	5
	<u>2,405</u>		<u>2,405</u>

		<i>Purchases Ledger Balances</i>	
As given			77,777
Add M Smith: credit posted in error (iv)			600
			<u>78,377</u>
Less Debit balances	1,111		
Set-off (iii)	700		
Invoice entered in error (vi)	198		2,009
Revised list of balances			<u>76,368</u>

Now, identify what has led to the balance on the suspense account, and make the appropriate correcting entries needed to close the account.

### Answer to Question 33.13A BA 1

	<i>Dr</i>	<i>Cr</i>
(a) Discount allowed	62	
Discount received	62	
Suspense		124
(b) Sales	100	
Suspense		100
(c) Fittings	1,400	
Bank	700	
Motor van		1,800
Gain on sale of motor van		300
(d) Premises	810	
Wages		470
Purchases		340
(e) C Blimp	90	
Bank		86
Discounts allowed		4
(f) D Hood	76	
D I Hoade		67
Suspense		9

### Answer to Question 34.2A BA 1

(a)	<b>R Jack</b>	
	<i>Income Statement for the year ending 31 March 2005</i>	
Sales	(iv)	106,400
Less Cost of goods sold:		
Inventory 1 April 2004		14,000
Add Purchases		<u>82,000</u>
		96,000
Less Inventory 31 March 2005	(i)	<u>20,000</u>
	(ii)	<u>76,000</u>
Gross profit	(iii)	30,400
Less Expenses	(vi)	<u>21,888</u>
Net profit	(v)	<u>8,512</u>

The closing inventory as at 31 March 2005, as shown above, is 20,000.

Order of solving problem:

- (i) Average inventory is 17,000. Therefore  $\frac{14,000 + (a)}{2} = 17,000$   
Therefore (a) = 20,000.
- (ii) can now be found by deducting (a) 20,000 from 96,000 = 76,000.
- (iii) is 40% of (ii), therefore (iii) is 30,400.
- (iv) is therefore needed to balance the account, i.e. 106,400.
- (v) if net profit was 8% of sales it would be 8,512.
- (vi) therefore expenses are 30,400 – (v) 8,512 = 21,888.

- (b) The total amount of profit and loss expenditure Jack must not exceed if he is to maintain a *net* profit on sales of 8% is, as shown in step (vi): 21,888.

### Answer to Question 34.4A BA 1

	<i>Category X</i>	<i>Category Y</i>
(a) Cost of goods sold = Sales <i>less</i> trade discount	9,000 – 15% = <u>7,650</u>	24,000 – 18% = <u>19,680</u>
(b) Sales – Cost of goods sold = Gross profit	9,000 – 7,650 = <u>1,350</u>	24,000 – 19,680 = <u>4,320</u>
(c) Total expenses = 14% of sales	<u>1,260</u>	<u>3,360</u>
(d) Gross profit – Expenses = Net profit	1,350 – 1,260 = <u>90</u>	4,320 – 3,360 = <u>960</u>
(e) $\frac{\text{Cost of goods sold}}{\text{Average inventory}} = \text{Inventory turnover}$ So, by arithmetical deduction	$\frac{7,650}{?} = 10$ = <u>765</u>	$\frac{19,680}{?} = 16$ = <u>1,230</u>

### Answer to Question 34.6A BA 1

- (a) Mark-up      therefore      Margin  
 $\frac{1}{3}$                                    $\frac{1}{3+1} = \frac{1}{4}$  (see text) = 25%
- (b)  $\frac{14,500}{60,000} \times \frac{100}{1} = 24.166\%$
- (c) Such as: wastage; pilferage; sales at reduced prices; incorrect inventory valuation; arithmetical errors on selling prices.
- (d) *Trading Account for the year ending 31 December 2009*
- |   |               |               |
|---|---------------|---------------|
| Sales   |               | 60,000        |
| Less: Cost of goods sold                      | 3,000         |               |
| Inventory 1 January 2009                      | <u>49,350</u> |               |
| Add: Purchases (47,000 + 5%)                  | 52,350        |               |
| Less: Inventory 31 December 2009 (4,500 + 5%) | <u>4,725</u>  | 47,625        |
| Gross profit                                  |               | <u>12,375</u> |
- (e)  $\frac{45,500}{(3,000 + 4,500) \div 2} = \frac{45,500}{3,750} = 12.133 \text{ times}$
- (f) Gross profit 14,500 – Expenses (10% of 60,000) 6,000 = Net profit 8,500.
- (g) Amended net profit: Gross profit 12,375 – Expenses 6,000 = 6,375  
Reduction compared with (f) 8,500 – 6,375 = 2,125  
As a percentage of (f)  $\frac{2,125}{8,500} \times \frac{100}{1} = 25\%$

## Answer to Question 34.8A BA 1

<b>(a) Bank transactions</b>		
Opening balance		3,063
Add Receipts		<u>1,467</u>
		4,530
Less Payments:		
Rent	60	
Adverts	66	
Miscellaneous	12	
Drawings	<u>150</u>	
		<u>288</u>
		<u>4,242</u>
<b>(b) Closing inventory</b>		
A: $(3 + 12 - 11) \Rightarrow 4 \times 54 =$		216
B: $(3 + 10 - 8) \Rightarrow 5 \times 48 =$		<u>240</u>
		<u>456</u>
Arthur is correct		
<b>(c) Gross profit</b>		
A: $(81 - 54) \times 11 =$		297
B: $(72 - 48) \times 8 =$		<u>192</u>
		<u>489</u> = 33.33%
<b>Net profit</b>		
$489 - (60 + 66 + 12) =$		351 = 23.9 %
<b>(d)</b>		
<b>Arthur</b>		
<b>Income Statement</b>		
<b>for the month ending 31 October</b>		
Sales $(11 \times 81) + (8 \times 72)$		1,467
Opening inventory	306	
Purchases	<u>1,128</u>	
	1,434	
Closing inventory	<u>456</u>	
		<u>978</u>
Gross profit		489
Less Expenses:		
Rent	60	
Advertising	66	
Miscellaneous	<u>12</u>	
		<u>138</u>
Net profit		<u>351</u>
<b>Balance Sheet as at 31 October</b>		
<i>Current assets</i>		
Inventory	456	
Bank	<u>4,242</u>	
	4,698	
<i>Current liabilities</i>		
Raleigh	<u>1,128</u>	
		<u>3,570</u>
<i>Capital account</i>		
Opening balance	3,369	
Add Net profit	<u>351</u>	
	3,720	
Less Drawings	<u>150</u>	
		<u>3,570</u>
<b>(e) Profit of £351</b>		
Drawings		150
Increase in Inventory		150
Increase in Bank		1,179
Increase in Accounts payable		<u>(1,128)</u>
		<u>351</u>

## Answer to Question 35.3A BA 1

Opening Capital: 31 October 2003

Cash	210	
Bank	4,700	
Fixtures	2,800	
Inventory	18,200	
Accounts receivable	26,600	
Motor van	<u>6,800</u>	59,310
Less Creditors		<u>12,700</u>
		<u>46,610</u>

### B Barnes

Statement of Affairs as at 31 October 2004

<i>Non-current assets</i>		
Motor van	6,800	
Less Depreciation	<u>1,360</u>	5,440
Fixtures	3,700	
Less Depreciation	<u>370</u>	3,330
<i>Current assets</i>		<u>8,770</u>
Inventory	23,900	
Accounts receivable	29,400	
Prepaid expenses	460	
Cash	<u>190</u>	53,950
<i>Current liabilities</i>		<u>62,720</u>
Trade accounts payable	9,100	
Expenses owing	320	
Bank overdraft	<u>1,810</u>	
		<u>11,230</u>
		<u>51,490</u>
<i>Financed by:</i>		
Capital		
Balance at 31 October 2003		44,610
Add Net profit	(C)	
Add Cash introduced		<u>7,600</u>
	(B)	
Less Drawings		<u>32,200</u>
	(A)	<u></u>

Missing figures deduced: (A) 51,490 (B) 83,690 (C) 31,480.

## Answer to Question 35.5A BA 1

Workings:

	Cash	Bank		Cash	Bank
Balance b/d	194	920	Cash		12,600
Receipts from debtors		94,200	Trade accounts payable	1,310	63,400
Cash sales	1,540		Rent		3,200
Loan from F Tung		2,500	Insurance		1,900
Bank	12,600		Drawings*	xxx	11,400
			Sundry expenses	180	820
			Balance c/d	<u>272</u>	<u>4,300</u>
	<u>14,334</u>	<u>97,620</u>		<u>14,334</u>	<u>97,620</u>

\* Figure for drawings is that needed to make cash columns balance, i.e. 12,572.

<i>Capital at 31 December 2007</i>		<i>Purchases</i>		<i>Sales</i>	
Bank	920	Bank	63,400	Bank	94,200
Cash	194	Cash	<u>1,310</u>	Cash	<u>1,540</u>
Inventory	24,200		64,710		95,740
Accounts receivable	9,200	– Opening Crs	<u>7,300</u>	– Opening Drs	<u>9,200</u>
Insurance prepaid	340		57,410		86,540
Motor van	<u>5,500</u>	+ Closing Crs	<u>8,100</u>	+ Closing Drs	<u>11,400</u>
	40,354		<u>65,510</u>		<u>97,940</u>
Less Accounts payable	<u>7,300</u>				
	<u>33,054</u>				

### A Bell

#### *Income Statement for the year ending 31 December 2008*

Sales		97,940
Less Cost of goods sold:		
Opening inventory	24,200	
Add Purchases	<u>65,510</u>	
	89,710	
Less Closing inventory	<u>27,100</u>	62,610
Gross profit		<u>35,330</u>
Less Expenses:		
Rent (3,200 + 360)	3,560	
Insurance (1,900 + 340 – 400)	1,840	
Sundry expenses (820 + 180)	1,000	
Depreciation: motor van	<u>900</u>	7,300
Net profit		<u>28,030</u>

#### *Balance Sheet as at 31 December 2008*

<i>Non-current assets</i>		
Motor van	5,500	
Less depreciation	<u>900</u>	4,600
<i>Current assets</i>		
Inventory	27,100	
Accounts receivable	11,400	
Prepayments	400	
Bank	4,300	
Cash	<u>272</u>	43,472
		<u>48,072</u>
<i>Current liabilities</i>		
Trade accounts payable	8,100	
Rent owing	<u>360</u>	8,460
<i>Non-current liabilities</i>		
Loan – F Tung	<u>2,500</u>	10,960
		<u>37,112</u>
Capital		
Balance at 1 January 2008		33,054
Add Net profit		<u>28,030</u>
		61,084
Less Drawings (12,572 + 11,400)		<u>23,972</u>
		<u>37,112</u>

## Answer to Question 35.7A BA 1

(a)

(i)

<i>Accounts Receivable Control</i>			
Balance b/d	2,643	Bank	44,846
Credit sales (difference)	<u>46,215</u>	Balance c/d	<u>4,012</u>
	<u>48,858</u>		<u>48,858</u>

Total sales = credit 46,215 + cash 3,921 = 50,136

<i>Accounts Payable Control</i>			
Bank	22,177	Balance b/d	1,598
Balance c/d	<u>2,445</u>	Purchases (difference)	<u>23,024</u>
	<u>24,622</u>		<u>24,622</u>

Total purchases = 23,024 + table 300 = 23,324

(ii)

### Bill Smithson

#### *Income Statement for the year ending 31 March 2009*

Sales		50,136
Less Cost of goods sold:		
Opening inventory	3,210	
Add Purchases	<u>23,324</u>	
	26,534	
Less Closing inventory	<u>4,063</u>	<u>22,471</u>
Gross profit		27,665
Less Expenses:		
Electricity	1,090	
Telephone	360	
Rent	2,000	
Advertising	1,430	
Insurance (946 – 177)	769	
Motor expenses (2,116 – 432 + 291)	1,975	
Depreciation: Motor	1,020	
Fittings	<u>620</u>	<u>9,264</u>
Net profit		<u>18,401</u>

(b)

#### *Balance Sheet as at 31 March 2009*

<i>Non-current assets</i>		
Fittings (4,200 + 2,550 – 300 – 250)	6,200	
Less Depreciation	<u>620</u>	5,580
Motor	5,100	
Less Depreciation	<u>1,020</u>	<u>4,080</u>
		9,660
<i>Current assets</i>		
Inventory	4,063	
Accounts receivable	4,012	
Prepayment	177	
Bank	<u>1,775</u>	<u>10,027</u>
		19,687
<i>Current liabilities</i>		
Accounts payable	2,445	
Expenses owing	<u>291</u>	<u>2,736</u>
		<u>16,951</u>
<i>Capital</i>		
Balance at 1.4.2008		15,543
Add Net profit		<u>18,401</u>
		33,944
Less Drawings (16,743 + shelving 250)		<u>16,993</u>
		<u>16,951</u>

## Answer to Question 35.9A BA 1

### Jean Smith

#### *Income Statement for the year ending 31 March 2006*

Sales		50,400
Less Cost of sales: Purchases (26,400 + 120 + 880)	27,400	
Less Closing inventory	<u>1,900</u>	<u>25,500</u>
Gross profit 50% × (50,400 – 600)		24,900
Less Expenses:		
Wages	14,700	
Rent (3,500 – 700)	2,800	
Rates	1,200	
Electricity (760 + 180)	940	
Postages, stationery and sundries	355	
Van running expenses	890	
Van licence and insurance (250 – 125)	125	
Van depreciation	750	
Loan interest	<u>125</u>	<u>21,885</u>
Net profit		<u><u>3,015</u></u>

#### *Balance Sheet as at 31 March 2006*

<i>Non-current assets</i>		
Motor van at cost	7,600	
Less Provision for depreciation	<u>750</u>	<u>6,850</u>
<i>Current assets</i>		
Inventory	1,900	
Accounts receivable	2,300	
Prepayments (125 + 700)	825	
Bank (W1)	4,310	
Cash	<u>640</u>	<u>9,975</u>
		16,825
<i>Less Current liabilities</i>		
Accounts payable	880	
Accrued expenses (125 + 180)	<u>305</u>	<u>1,185</u>
Non-current liabilities	10,000	<u>11,185</u>
Loan from John Peacock		<u><u>5,640</u></u>
<i>Capital:</i>		
Balance as at 1 April 2005		15,000
Add Net profit		<u>3,015</u>
		18,015
Less Drawings (3,875 (W1) + 8,500)		<u>12,375</u>
		<u><u>5,640</u></u>

(W1)	<i>Cash</i>	<i>Bank</i>		<i>Cash</i>	<i>Bank</i>
Capital		15,000	Van running expenses	890	
Loan: J Peacock		10,000	Van licence and insurance		250
Bankings 42,000 + 340		42,340	Van		7,600
Cash sales 50,400 – 2,300	48,100		Caravan		8,500
			Wages		14,700
			Rates		1,200
			Rent		3,500
			Electricity		760
			Purchases (26,400 + 120)		26,520
			Postages, etc	355	
			Bankings	42,340	
			Drawings (difference)	3,875	
			Balances c/d	<u>640</u>	<u>4,310</u>
	<u>48,100</u>	<u>67,340</u>		<u>48,100</u>	<u>67,340</u>



**Answer to Question 35.13A BA 1**

(a)

**P Maclaran***Capital Account on 1 January 2008*

Bank		6,000
Cash		60
Inventory		2,300
Machinery		9,800
Accounts receivable		<u>8,100</u>
		26,260
Less: Accruals	150	
Accounts payable	5,700	
Loan	<u>7,000</u>	
		<u>12,850</u>
		<u><u>13,410</u></u>

**P Maclaran***Income Statement for the year ending 31 December 2008*

Sales		47,700
Less: Sales returns		<u>640</u>
		47,060
Less: Cost of sales		
Opening inventory at 1 January 2008	2,300	
Add: Purchases	<u>30,700</u>	
	33,000	
Less: Withdrawn by the owner	1,200	
Less: Closing inventory at 31 December 2008	<u>5,400</u>	
	6,600	
		<u>26,400</u>
Gross profit		20,660
Add: Discount received		<u>600</u>
		21,260
Less: Expenses		
Rent	850	
Bad debts written off	240	
Wages	9,200	
Insurance	850	
Loan interest	700	
Depreciation	2,800	
Repairs	1,400	
Electricity	<u>570</u>	
		<u>16,610</u>
Net profit		<u><u>4,650</u></u>

*Workings:*Sales:  $35,000 - 80 + 9,700 + 240 - 8,100 + 9,200 + 640 + 1,100 = 47,700$ .Purchases:  $31,000 - 5,700 + 4,800 + 600 = 30,700$ .Depreciation:  $9,800 + 3,400 - 10,400 = 2,800$ .

**Answer to Question 35.14A BA 1****P Maclaran***Balance Sheet as at 31 December 2008*

<i>Non-current Assets</i>		
Machinery at 1 January 2008	9,800	
Add: Additions	<u>3,400</u>	
	13,200	
Less: Depreciation	<u>2,800</u>	
		10,400
<i>Current assets</i>		
Inventory	5,400	
Accounts receivable	9,200	
Prepayments	100	
Cash	<u>90</u>	
		<u>14,790</u>
		25,190
<i>Current liabilities</i>		
Accounts payable	4,800	
Bank overdraft	<u>2,930</u>	
	7,730	
Accrued charges: Loan interest	<u>200</u>	
	7,930	
Non-current liabilities	<u>7,000</u>	
Bank loan 10%		<u>14,930</u>
		<u>10,260</u>
<i>Capital Account</i>		
Balance at 1 January 2008	13,410	
Add: Net profit	<u>4,650</u>	
	18,060	
Less: Drawings	<u>7,800</u>	
		<u>10,260</u>

**Answer to Question 36.2A BA 1****The Shire Golf Club**

(a)	<i>Bar Trading Account for the year ending 31 December 2003</i>	
Sales		84,600
Less Cost of supplies sold:		
Opening inventory	9,400	
Add Purchases	<u>41,300</u>	
	50,700	
Less Closing inventory	<u>6,410</u>	
		44,290
Gross profit		40,310
Wages of bar staff		<u>29,200</u>
Profit to income & expenditure		<u>11,110</u>
(c)	<i>Income and Expenditure Account for the year ending 31 December 2003</i>	
Income		
Subscriptions (183,400 – 1,870)		181,530
Profit on bar		11,110
Profits from raffles		<u>6,508</u>
		199,148
Less Expenditure:		
Golf professional's salary	37,000	
Greenkeeper's wages	21,500	
General expenses	910	
Depreciation of equipment	<u>2,400</u>	
		61,810
Surplus of income over expenditure		<u>137,338</u>

*Balance Sheet as at 31 December 2003*

<i>Non-current assets</i>			
Clubhouse			142,000
Equipment	18,600		
Less Depreciation	<u>2,400</u>		<u>16,200</u>
			158,200
<i>Current assets</i>			
Bar inventory	6,410		
Bank	<u>3,924</u>		<u>10,334</u>
			168,534
<i>Current liabilities</i>			
Subscriptions received in advance			<u>1,870</u>
			<u>166,664</u>
<i>(b) Financed by:</i>			
Accumulated fund			
Balance at 1 January 2003			29,326
Add Surplus of income over expenditure			<u>137,338</u>
			<u>166,664</u>

**Answer to Question 36.4A BA 1**

<i>(a) Plumpton Leisure Centre</i>			
<i>Trading Account for the year ending 31 December 2004</i>			
Takings			16,290
Less Cost of supplies			
Opening inventory	680		
Add Purchases	<u>4,320</u>		<u>5,000</u>
			920
Less Closing inventory			<u>4,080</u>
Gross profit			12,210
Wages			<u>4,680</u>
Profit to income and expenditure			<u>7,530</u>
<i>(c) Income and Expenditure Account for the year ending 31 December 2004</i>			
Income			
Subscriptions (45,060 + 860)			45,920
Refreshment bar profit			7,530
Profits from dances			4,116
Profit on exhibition			<u>890</u>
			58,456
Less Expenditure			
Wages (31,400 – 4,680)	26,720		
Rent of building	8,700		
Travelling expenses of teams	1,900		
Depreciation of equipment	5,200		
Loss on equipment sold	<u>80</u>		<u>42,600</u>
Surplus of income over expenditure			<u>15,856</u>

*Balance Sheet as at 31 December 2004*

<i>Non-current assets</i>		
Equipment (32,400 – 420 + 18,200)	50,180	
Less Depreciation	<u>5,200</u>	44,980
<i>Current assets</i>		
Refreshment bar inventory	920	
Accounts receivable for subscriptions	860	
Bank	<u>6,076</u>	<u>7,856</u>
		<u>52,836</u>
<i>Financed by:</i>		
Accumulated fund		
Balance at 1 January 2004*		36,980
Add Surplus for the year		<u>15,856</u>
		<u>52,836</u>

\* 1 January 2004 Equipment 32,400 + Inventory 680 + Bank 3,900 = 36,980.

**Answer to Question 36.6A BA 1**

**Milham Theatre Club**

*Accumulated Fund as at 1 February 2007*

(a)			
Cash in hand		80	
Subscriptions in arrears		150	
Savings account		<u>1,950</u>	
		2,180	
Less Bank overdraft	180		
Coach hire owing	<u>60</u>	<u>240</u>	<u>1,940</u>

(b)			
<i>Theatre Trips Account</i>			
Income: For theatre tickets		2,720	
For coach travel		<u>1,240</u>	3,960
Less Expenses for theatre tickets		3,120	
For coach travel (1,540 – 60)		<u>1,480</u>	<u>4,600</u>
Deficit to income and expenditure account			<u>640</u>

(c)			
<i>Income and Expenditure Account for the year ending 31 January 2008</i>			
Income:			
Subscriptions (1,620 + 75)			1,695
Savings account interest			<u>155</u>
			1,850
Less Expenditure:			
Secretarial and administrative expenses		55	
Subscription arrears written off		30	
Deficit on theatre trips		<u>640</u>	<u>725</u>
Surplus of income over expenditure			<u>1,125</u>

(d) (Extracts)			
<i>Balance Sheet as at 31 January 2008</i>			
Accumulated fund:			
Balance at 1 February 2007		1,940	
Add Surplus for the year		1,125	
Add Gift from member		<u>1,000</u>	4,065
Current liabilities			
Subscriptions received in advance			165

- (e)
- 1 Increase number of members.
  - 2 Make all subscriptions payable in advance.
  - 3 Charge more for coach travel.
  - 4 Charge more for theatre tickets.

**Answer to Question 37.3A BA 1****J Jones***Manufacturing Account and Income Statement for the year ending 31 December 2006*

Inventory of raw materials at 1.1.2006		21,000	
Add: Purchases		<u>258,000</u>	
		279,000	
Less: Inventory of raw materials at 31.12.2006		<u>25,000</u>	
Cost of raw materials consumed		254,000	
Factory wages		<u>59,000</u>	
Prime cost		313,000	
Indirect manufacturing costs			
Fuel and Light	20,000		
Rent and business rates	12,000		
Repairs to plant and machinery	9,000		
Depreciation – plant and machinery	<u>8,000</u>		
			<u>49,000</u>
			362,000
Add: Work in progress at 1.1.2006		<u>14,000</u>	
		376,000	
Less: Work in progress at 31.12.2006		<u>11,000</u>	
Production cost of goods completed		<u>365,000</u>	
Sales		482,000	
Less: Returns inward		<u>7,000</u>	
		475,000	
Less: Cost of goods sold			
Inventory of finished goods at 1.1.2006	23,000		
Add: Production cost of goods completed	<u>365,000</u>		
	388,000		
Less: Inventory of finished goods at 31.12.2006	<u>26,000</u>		
			<u>362,000</u>
Gross profit			113,000
Less: Expenses			
Administration expenses			
Fuel	5,000		
Salaries	17,000		
Rent and business rates	4,000		
Office expenses	<u>9,000</u>		
		35,000	
Selling and distribution expenses			
Carriage outwards		4,000	
Financial charges			
Allowance for doubtful debts		<u>1,000</u>	
			<u>40,000</u>
Net profit			<u><u>73,000</u></u>

*Balance Sheet as at 31 December 2006*

<i>Non-current assets</i>		
Premises		410,000
Plant and machinery		<u>64,000</u>
		474,000
<i>Current assets</i>		
Inventory – raw materials	25,000	
work in progress	11,000	
finished goods	<u>26,000</u>	
		62,000
Accounts receivable		19,000
Prepayments		5,000
Bank		<u>11,000</u>
		97,000
		<u>571,000</u>
<i>Current liabilities</i>		
Accounts payable		37,000
Accrual		<u>4,000</u>
		41,000
		<u>530,000</u>
<i>Capital account</i>		
Opening balance		457,000
Add: Net profit		<u>73,000</u>
		<u>530,000</u>

**Answer to Question 37.6A BA 1**

*Manufacturing Account and Trading Account part of the Income Statement for the 3 months ending  
31 March 2002*

Inventory of raw materials at 1.1.2002		10,500
Add: Purchases		27,200
Carriage in		<u>700</u>
		38,400
Less: Inventory of raw materials at 31.12.2002		<u>10,200</u>
(a) Cost of raw materials used in production		28,200
Add: Direct factory wages		<u>72,600</u>
(b) Prime cost		100,800
Indirect manufacturing costs:		
Factory wages	13,900	
Rent and business rates	1,200	
Power	2,000	
Repairs	1,300	
Sundry expenses	900	
Depreciation – machinery	<u>3,900</u>	
		23,200
		<u>124,000</u>
Add: Work in progress at 1.1.2002		2,400
		<u>126,400</u>
Less: Work in progress at 31.3.2002		<u>2,900</u>
(c) Production cost of goods completed		<u>123,500</u>
Sales		160,400
Less: Cost of goods sold		
Inventory of finished goods at 1.1.2002	14,300	
Production cost of goods completed	<u>123,500</u>	
		137,800
Less: Inventory of finished goods at 31.3.2002		<u>13,200</u>
(d) Cost of goods sold		124,600
(e) Gross profit		<u>35,800</u>

## Answer to Question 37.9A BA 1

(a)	Jean Marsh		
	<i>Manufacturing Account for the year ending 31 December 2009</i>		
Cost of raw materials consumed:			
Inventory of raw materials at 1.1.2009	3,400		
Add Purchases	18,000		
Carriage inwards	800		
	<u>22,200</u>		
Less Inventory of raw materials 31.12.2009	<u>2,900</u>	19,300	
Factory wages		<u>18,500</u>	
Prime cost		37,800	
Factory overhead expenses:			
General expenses	1,200		
Lighting <sup>4</sup> / <sub>5</sub>	2,000		
Rent <sup>4</sup> / <sub>5</sub>	3,000		
Insurance <sup>3</sup> / <sub>4</sub>	600		
Depreciation of plant and machinery	<u>1,500</u>	8,300	
Factory cost of production c/d		<u>46,100</u>	
(b)	<i>Trading Account part of the Income Statement for the year ending 31 December 2009</i>		
Sales			90,000
Less Cost of sales of finished goods:			
Opening inventory	6,100		
Add Factory cost of production b/d	<u>46,100</u>		
	<u>52,200</u>		
Less Closing inventory	<u>8,200</u>	44,000	
Gross profit c/d		<u>46,000</u>	
(c)	<i>Profit and Loss Account part of the Income Statement for the year ending 31 December 2009</i>		
Gross profit b/d			46,000
Add Discount received			<u>1,600</u>
			47,600
Less Administrative costs:			
Office salaries	16,900		
General expenses	825		
Lighting <sup>1</sup> / <sub>5</sub>	500		
Rent <sup>1</sup> / <sub>5</sub>	750		
Insurance <sup>1</sup> / <sub>4</sub>	<u>200</u>	19,175	
Selling costs:			
Jean Marsh: Salary and expenses	10,400		
Depreciation of car	500		
Advertising	1,400		
Bad debts	650		
Carriage outwards	<u>375</u>	13,325	32,500
Net profit after proprietor's salary			<u>15,100</u>

(d)

*Balance Sheet as at 31 December 2009**Non-current assets*

Plant and machinery	9,100	
Less Depreciation for year	<u>1,500</u>	7,600
Motor vehicle	4,200	
Less Depreciation	<u>500</u>	<u>3,700</u>
		11,300

*Current assets*

Inventory: Raw materials	2,900	
Finished goods	8,200	
Accounts receivable	7,700	
Prepayments	150	
Bank	3,600	
Cash	<u>325</u>	<u>22,875</u>
		34,175

*Current liabilities*

Accounts payable	6,000	
Expenses owing	<u>75</u>	<u>6,075</u>
		<u>28,100</u>

*Financed by:*

Capital		
Balance at 1 January 2009		15,000
Add Net profit after salary		<u>15,100</u>
		30,100
Less Drawings		<u>2,000</u>
		<u>28,100</u>

**Answer to Question 38.3A BA 1**

Jack's Superstores  
*Departmental Income Statement for the year ending 31 March 2005*

	A	B	C
Sales	180,000	138,000	82,000
Less Cost of goods sold:			
Opening inventory	27,100	21,410	17,060
Add Purchases	<u>101,300</u>	<u>81,200</u>	<u>62,900</u>
	128,400	102,610	79,960
Less Closing inventory	<u>23,590</u>	<u>15,360</u>	<u>18,200</u>
Gross profits	<u>104,810</u>	<u>87,250</u>	<u>61,760</u>
Add Discounts received	<u>1,013</u>	<u>812</u>	<u>629</u>
Less Expenses:	<u>76,203</u>	<u>51,562</u>	<u>20,869</u>
Salaries and wages	45,600	30,400	15,200
Rent and rates	3,100	3,100	3,100
Delivery expenses	1,620	1,242	738
Commission	4,500	3,450	2,050
Insurance	900	600	300
Advertising	769	769	769
Administration expenses	6,600	6,600	6,600
Depreciation	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>
Net profits/(losses)	<u>64,489</u>	<u>47,561</u>	<u>30,157</u>
	<u>11,714</u>	<u>4,001</u>	<u>( 9,288)</u>



**Answer to Question 39.2A BA 1****Gerry Peace***Statement of Cash Flows for the year ending 31 December 2003*

<i>Operating activities</i>		
Profit from operations		21,160
Adjustments for:		
Depreciation (fixtures 200 + van 2,020)		<u>2,220</u>
Operating cash flows before movements in working capital		23,380
Increase in inventory	(6,800)	
Increase in accounts receivable	(1,800)	
Decrease in accounts payable	<u>(3,294)</u>	
		(11,894)
Cash generated by operations		11,486
Tax paid	—	
Interest paid	<u>—</u>	
		—
Net cash from operating activities		11,486
<i>Investing activities</i>		
Payments to acquire tangible non-current assets (5,000 + 400)	<u>(5,900)</u>	
Net cash used in investing activities		(5,900)
<i>Financing activities</i>		
Loan received	5,000	
Capital introduced	10,000	
Drawings	<u>(21,600)</u>	
Net cash used in financing activities		(6,600)
Net decrease in cash and cash equivalents		(1,014)
Cash and cash equivalents at beginning of year (900 + 220)		<u>1,120</u>
		<u>106</u>
Cash and cash equivalents at end of year		
Bank balances and cash ((94) + 200)		<u>106</u>

**Answer to Question 39.5A BA 1****K Rock***Statement of Cash Flows for the year ending 30 June 2009*

<i>Operating activities</i>		
Profit from operations		51,000
Adjustments for:		
Depreciation (5,200 + 6,300)	11,500	
Loss on sale of tangible non-current assets	1,600	
Reduction in allowance for doubtful debts	(200)	
		<u>12,900</u>
Operating cash flows before movements in working capital		63,900
Increase in inventory	(2,900)	
Increase in accounts payable	3,200	
Decrease in accounts receivable	<u>1,600</u>	
		<u>1,900</u>
Cash generated by operations		65,800
Tax paid	—	
Interest paid	<u>—</u>	<u>—</u>
Net cash from operating activities		65,800
<i>Investing activities</i>		
Payments to acquire tangible non-current assets	(18,100)	
Receipts from sale of tangible non-current assets	<u>15,800</u>	
Net cash used in investing activities		(2,300)
<i>Financing activities</i>		
Loan repaid to T Pine	(10,000)	
Drawings	<u>(38,000)</u>	
Net cash used in financing activities		(48,000)
Net increase in cash and cash equivalents		<u>15,500</u>
Cash and cash equivalents at beginning of year		<u>12,600</u>
		<u>28,100</u>
Cash and cash equivalents at end of year		
Bank balances and cash		<u>28,100</u>

**Answer to Question 40.2A BA 1**

<i>(i) Memorandum Joint Venture Account for Frank and Graham</i>			
Mowers purchased	135,260	Sales	123,790
Carriage	404	Frank: Mowers taken over	40,000
Net Profit: Frank ½	14,063		
Graham ½	<u>14,063</u>		
	<u>28,126</u>		
	<u>163,790</u>		<u>163,790</u>
<i>(ii) (Frank's books) Joint Venture with Graham</i>			
Mowers purchased	120,400	Bank	70,000
Carriage	320	Mowers taken over	40,000
Bank: Graham	50,000	Sales	104,590
Profit and loss	14,063		
Balance c/d	<u>29,807</u>		
	<u>214,590</u>		<u>214,590</u>
Bank: to Graham	<u>29,807</u>	Balance b/d	<u>29,807</u>
<i>(Graham's books) Joint Venture with Frank</i>			
Mowers purchased	14,860	Bank	50,000
Carriage	84	Sales	19,200
Bank: Frank	70,000	Balance c/d	29,807
Profit and loss	<u>14,063</u>		
	<u>99,007</u>		<u>99,007</u>
Balance b/d	<u>29,807</u>	Bank: to Frank	<u>29,807</u>

## Answer to Question 40.4A BA 1

<i>Memorandum Joint Venture Account for Rock, Hill and Pine</i>			
Paintings (8,000 + 17,000 + 1,700)	26,700	Sales (31,410 + 4,220 + 2,300)	37,930
Lighting and heating	86	Goods taken over	6,200
Rent	2,100	Sale of van	1,700
Van	2,200		
Use of Pine's van	600		
General expenses	1,090		
Net profit: Rock $\frac{3}{8}$	4,895		
Hill $\frac{1}{2}$	6,527		
Pine $\frac{1}{8}$	<u>1,632</u>		
	13,054		
	<u>45,830</u>		<u>45,830</u>

<i>(Rock's Books) Joint Venture with Hill and Pine</i>			
Rent	2,100	Sale of van	1,700
Paintings	17,000	Balance c/d	22,840
General expenses	545		
Profit and loss	4,895		
	<u>24,540</u>		<u>24,540</u>
Balance b/d	<u>22,840</u>	Cash: from Pine	<u>22,840</u>

<i>(Hill's Books) Joint Venture with Rock and Pine</i>			
Van	2,200	Sales	4,220
Paintings	8,000	Good taken over	6,200
Profit and loss	6,527	Balance c/d	6,307
	<u>16,727</u>		<u>16,727</u>
Balance b/d	<u>6,307</u>	Cash: from Pine	<u>6,307</u>

<i>(Pine's Books) Joint Venture with Rock and Hill</i>			
Use of van	600	Sales	31,410
Lighting	86	Sales	2,300
Paintings	1,700		
General expenses	545		
Profit and loss	1,632		
Balance c/d	29,147		
	<u>33,710</u>		<u>33,710</u>
Cash: to Rock	22,840	Balance b/d	29,147
Cash: to Hill	6,307		
	<u>29,147</u>		<u>29,147</u>

## Answer to Question 41.2A BA 1

<i>Gray, Wilkes and Booth</i>			
<i>Appropriation Account for the year ending 31 December 2003</i>			
Net profit			84,800
Less: Salaries – Wilkes	32,000		
Booth	<u>14,000</u>	46,000	
Interest on capital			
Gray	2,500		
Wilkes	2,000		
Booth	<u>1,500</u>	<u>6,000</u>	<u>52,000</u>
Share of profit			32,800
Gray $\frac{3}{8}$		12,300	
Wilkes $\frac{3}{8}$		12,300	
Booth $\frac{1}{4}$		<u>8,200</u>	<u>32,800</u>

## Answer to Question 41.5A BA 1

### Cole, Knox and Lamb

*Appropriation Account for the year ending 31 December 2005*

Net Profit				184,800
Add: Interest on drawings				
Cole		1,200		
Knox		900		
Lamb		<u>500</u>		
				<u>2,600</u>
Less: Salaries				187,400
Knox	22,000			
Lamb	<u>28,000</u>	50,000		
Interest on capital				
Cole	3,600			
Knox	2,700			
Lamb	<u>2,100</u>	<u>8,400</u>		<u>58,400</u>
				<u>129,000</u>
Balance of profit shared: Cole 55%		70,950		
Knox 25%		32,250		
Lamb 20%		<u>25,800</u>		
				<u><u>129,000</u></u>

*Balance Sheet as at 31 December 2005 (extract)*

Capital: Cole	60,000			
Knox	45,000			
Lamb	<u>35,000</u>			
				140,000
Current accounts		Cole	Knox	Lamb
Balances at 1.1.2005		18,000	8,000	6,000
Add: Salaries		—	22,000	28,000
Interest on capital		3,600	2,700	2,100
Share of profit		<u>70,950</u>	<u>32,250</u>	<u>25,800</u>
		92,550	64,950	61,900
Less: Drawings		(27,000)	(23,000)	(17,000)
Interest on drawings		<u>( 1,200)</u>	<u>( 900)</u>	<u>( 500)</u>
		<u>64,350</u>	<u>41,050</u>	<u>44,400</u>
				149,800

## Answer to Question 41.6A BA 1

### Penrose and Wilcox

*Profit and Loss Appropriation Account for the year ending 31 December 2009*

Net profit brought down				6,810
Add Interest on drawings: Penrose		270		
Wilcox		<u>180</u>		<u>450</u>
				<u>7,260</u>
Less Salary: Penrose			2,000	
Interest on capital: Penrose		540		
Wilcox		<u>720</u>	<u>1,260</u>	<u>3,260</u>
				<u>4,000</u>
Balance of profit shared:				
Penrose $\frac{3}{5}$		2,400		
Wilcox $\frac{2}{5}$		<u>1,600</u>	<u>4,000</u>	<u>4,000</u>

(ii)	<i>Current Accounts (dates omitted)</i>			
	Penrose	Wilcox	Penrose	Wilcox
Balance b/d	640		Balance b/d	330
Interest on drawings	270	180	Interest on capital	540
Drawings	3,000	2,000	Salary	2,000
Balances c/d	<u>1,030</u>	<u>470</u>	Share of profit	<u>2,400</u>
	<u>4,940</u>	<u>2,650</u>		<u>4,940</u>
				<u>2,650</u>

(b) Shows easily whether original investment is growing or declining.

(c) He had taken out more in drawings than he was entitled to as share of profit.

(d) (i) To calculate net profit.

(ii) To show how net profits are divided between the partners.

(e) (i) To compensate one partner for having contributed more as capital than another.

(ii) To provide deterrent if partners take out more in drawings than they need to.

## Answer to Question 41.7A BA 1

(a)	<i>Profit and Loss Appropriation Account</i>		
Net profit			25,800
Add: Interest on drawings			
A	400		
B	<u>300</u>		
			<u>700</u>
Less: Salary – B			<u>26,500</u>
			<u>4,500</u>
Less: Interest on capital			<u>22,000</u>
A	1,500		
B	<u>500</u>		
			<u>2,000</u>
Less: Share of Profit			<u>20,000</u>
A	12,000		
B	<u>8,000</u>		
			<u>20,000</u>
			<u>–</u>

(b)	<i>Partners' Current Accounts</i>		
	A	B	
Opening balance	( 500)	1,280	
Add: Interest on capital	<u>1,500</u>	<u>500</u>	
	1,000	1,780	
Add: Salary	–	4,500	
Share of profit	<u>12,000</u>	<u>8,000</u>	
	13,000	14,280	
Less: Interest on drawings	( 400)	( 300)	
	12,600	13,980	
Less: Drawings	(12,000)	(15,000)	
Closing balance	<u>600</u>	<u>( 1,020)</u>	

## Answer to Question 41.10A BA 1

*Scot and Joplin: Income Statement and Profit and Loss Appropriation Account for the year ending 31 December 2007*

Sales			180,400
Less Cost of goods sold:			
Opening inventory	38,410		
Add Purchases	<u>136,680</u>		
	175,090		
Less Closing inventory	<u>41,312</u>		<u>133,778</u>
Gross profit			<u>46,622</u>
Less Expenses:			
Salaries	27,400		
Office expenses (2,130 + 240)	2,370		
Discounts allowed	312		
Depreciation: Motors	5,350		
Office equipment	<u>1,840</u>		
	7,190		<u>37,272</u>
Net profit			<u>9,350</u>
Add Interest on drawings: Scot	300		
Joplin	<u>200</u>		<u>500</u>
			<u>9,850</u>
Less Interest on capital: Scot	2,500		
Joplin	<u>1,000</u>		<u>3,500</u>
			<u>6,350</u>
Balance of profit shared: Scot 70%	4,445		
Joplin 30%	<u>1,905</u>		<u>6,350</u>
			<u>–</u>

*Balance Sheet as at 31 December 2007*

<i>Non-current assets</i>	<i>Cost</i>	<i>Depreciation</i>	
Office equipment	9,200	5,440	3,760
Motor vehicles	<u>21,400</u>	<u>18,150</u>	<u>3,250</u>
	<u>30,600</u>	<u>23,590</u>	<u>7,010</u>
<i>Current assets</i>			
Inventory		41,312	
Accounts receivable		41,940	
Bank		2,118	
Cash		<u>317</u>	
		85,687	
<i>Less Current liabilities</i>			
Accounts payable	32,216		
Expenses owing	<u>240</u>	<u>32,456</u>	<u>53,231</u>
			<u>60,241</u>
<i>Capitals</i>			
Scot		50,000	
Joplin		<u>20,000</u>	70,000
<i>Current accounts</i>	<i>Scot</i>	<i>Joplin</i>	
Balance 1.1.2007	7,382	7,009	
Add Interest on capital	2,500	1,000	
Add Share of profits	<u>4,445</u>	<u>1,905</u>	
	14,327	9,914	
Less Drawings	17,500	16,000	
Less Interest on drawings	<u>300</u>	<u>200</u>	
	<u>( 3,473 )</u>	<u>( 6,286 )</u>	<u>( 9,759 )</u>
			<u>60,241</u>

**Answer to Question 41.12A BA 1**

**Bush, Home and Wilson**

*Income Statement for the year ending 30 April 2004*

Sales			
Less Returns inwards			334,618
			<u>10,200</u>
			324,418
<i>Less Cost of goods sold:</i>			
Opening inventory		68,127	
Add Purchases	196,239		
Carriage inwards	<u>3,100</u>	<u>199,339</u>	
		267,466	
Less Closing inventory		<u>74,223</u>	193,243
Gross profit			<u>131,175</u>
<i>Less Expenses:</i>			
Salaries and wages		54,117	
Discounts allowed		190	
Business rates (2,900 – 200)		2,700	
Postages (845 – 68)		777	
Bad debts		1,620	
Allowance for doubtful debts		450	
General expenses		<u>1,017</u>	
Depreciation: Computers	2,800		
Office equipment	<u>1,100</u>	<u>3,900</u>	64,771
Net profit			<u>66,404</u>
Add Interest on drawings: Bush		300	
Home		200	
Wilson		<u>240</u>	740
			<u>67,144</u>
Less Salaries: Home	18,000		
Wilson	<u>14,000</u>	32,000	
Interest on capital: Bush	4,800		
Home	800		
Wilson	<u>2,400</u>	<u>8,000</u>	40,000
			<u>27,144</u>
Balance of profit shared: Bush $\frac{1}{2}$		13,572	
Home $\frac{1}{8}$		3,393	
Wilson $\frac{3}{8}$		<u>10,179</u>	<u>27,144</u>
			<u>—</u>

*Balance Sheet as at 30 April 2004*

<i>Non-current assets</i>	<i>Cost</i>	<i>Depreciation</i>	
Office equipment	5,700	4,000	1,700
Computers	8,400	6,400	2,000
	<u>14,100</u>	<u>10,400</u>	<u>3,700</u>
<i>Current assets</i>			
Inventory		74,223	
Accounts receivable	51,320		
Less Allowance for doubtful debts	<u>1,400</u>	49,920	
Prepayments (200 + 68)		268	
Bank		<u>5,214</u>	<u>129,625</u>
			<u>133,325</u>
<i>Current liabilities</i>			
Accounts payable			<u>36,480</u>
			<u>96,845</u>
<i>Financed by:</i>			
Capital: Bush		60,000	
Home		10,000	
Wilson		<u>30,000</u>	<u>100,000</u>
<i>Current accounts:</i>	<i>Bush</i>	<i>Home</i>	<i>Wilson</i>
Balances 1.5.2003	5,940	(2,117)	9,618
Add Salaries	–	18,000	14,000
Interest on capital	4,800	800	2,400
Share of profit	<u>13,572</u>	<u>3,393</u>	<u>10,179</u>
	24,312	20,076	36,197
Less Drawings	(39,000)	(16,000)	(28,000)
Interest on drawings	( 300)	( 200)	( 240)
	<u>(14,988)</u>	<u>3,876</u>	<u>7,957</u>
			( 3,155)
			<u>96,845</u>

**Answer to Question 42.2A BA 1**

(a) *Balance Sheet as at 1 October 2002*

Goodwill	72,000
Other assets	<u>180,000</u>
	<u>252,000</u>

Capitals Mack (30,000 + 7,200)	37,200
Burns (70,000 + 28,800)	98,800
Flint (35,000 + 14,400)	49,400
Tonks (45,000 + 21,600)	<u>66,600</u>
	<u>252,000</u>

(b)

<i>Before</i>	<i>After</i>	<i>Loss or gain</i>	<i>Action needed</i>
Mack <sup>1</sup> / <sub>10</sub>	<sup>1</sup> / <sub>5</sub> 14,400	Gain 7,200	Debit Mack 7,200
Burns <sup>2</sup> / <sub>5</sub>	<sup>3</sup> / <sub>10</sub> 21,600	Loss 7,200	Credit Burns 7,200
Flint <sup>1</sup> / <sub>5</sub>	<sup>2</sup> / <sub>5</sub> 28,800	Gain 14,400	Debit Flint 14,400
Tonks <sup>3</sup> / <sub>10</sub>	<sup>1</sup> / <sub>10</sub> <u>7,200</u>	Loss 14,400	Credit Tonks 14,400
	<u>72,000</u>		

*Balance Sheet as at 1 October 2002*

Net assets	<u>180,000</u>
	<u>180,000</u>
Capitals Mack (30,000 – 7,200)	22,800
Burns (70,000 + 7,200)	77,200
Flint (35,000 – 14,400)	20,600
Tonks (45,000 + 14,400)	<u>59,400</u>
	<u>180,000</u>

## Answer to Question 42.4A BA 1

(a)	Share old goodwill		Share new goodwill	Action: Capital accounts
Blunt $\frac{1}{6}$	10,000	$\frac{1}{3}$	20,000	Dr Capital 10,000
Dodds $\frac{1}{2}$	30,000	$\frac{5}{12}$	25,000	Cr Capital 5,000
Fuller $\frac{1}{3}$	20,000	$\frac{1}{6}$	10,000	Cr Capital 10,000
Baxter	—	$\frac{1}{12}$	5,000	Dr Capital 5,000
	<u>60,000</u>		<u>60,000</u>	

	Capital Accounts					Blunt	Dodds	Fuller	Baxter
Adjustment for goodwill	10,000			5,000	Balances b/d	14,000	24,400	20,400	—
					Adjustment for goodwill		5,000	10,000	
Balances c/d	<u>4,000</u>	<u>29,400</u>	<u>30,400</u>	<u>19,000</u>	Cash				<u>24,000</u>
	<u>14,000</u>	<u>29,400</u>	<u>30,400</u>	<u>24,000</u>		<u>14,000</u>	<u>29,400</u>	<u>30,400</u>	<u>24,000</u>

(b)	Balance Sheet			
Other assets				66,000
Cash				<u>25,200</u>
				91,200
Accounts payable				( 8,400)
				<u>82,800</u>
Capitals				
Blunt				4,000
Dodds				29,400
Fuller				30,400
Baxter				<u>19,000</u>
				<u>82,800</u>

## Answer to Question 43.2A BA 1

(a) (i)	Goodwill	
Balance b/d	<u>12,400</u>	Revaluation <u>12,400</u>

(ii)	Revaluation	
Goodwill	12,400	Plant and machinery 480
Inventory	320	Loss on revaluation
		Fitch $\frac{5}{8}$ 7,650
		Wall $\frac{3}{8}$ <u>4,590</u>
	<u>12,720</u>	<u>12,240</u>
		<u>12,720</u>

(iii)	Capitals				Fitch	Wall	Home
Loss on revaluation	7,650	4,590		Balances b/d	19,461	14,477	
Balances c/d	<u>11,811</u>	<u>9,887</u>	<u>12,000</u>	Cash			<u>12,000</u>
	<u>19,461</u>	<u>14,477</u>	<u>12,000</u>		<u>19,461</u>	<u>14,477</u>	<u>12,000</u>



(b)	<i>Balance Sheet</i>		
<i>Non-current assets</i>			
Plant and machinery at valuation			16,800
<i>Current assets</i>			
Inventory	6,100		
Accounts receivable	4,100		
Bank	<u>16,626</u>	<u>22,826</u>	<u>38,626</u>
<i>Less Current liabilities</i>			
Accounts payable		<u>5,928</u>	<u>33,698</u>
<i>Capitals</i>			
Fitch	11,811		
Wall	9,887		
Home	<u>12,000</u>	<u>33,698</u>	

### Answer to Question 43.4A BA 1

(a)	Dr	Cr
Buildings	4,000	
Goodwill	12,000	
Fittings		2,000
Inventory		500
Accounts receivable		200
Accrued expenses		300
A Barnes		7,800
C Darwin		5,200

(b)	<i>A Barnes, C Darwin and E Fox</i>		
	<i>Balance Sheet as at 31 March 2008</i>		
<i>Non-current assets</i>			
Goodwill			12,000
Buildings			55,000
Fittings			<u>27,000</u>
			94,000
<i>Current assets</i>			
Inventory	15,500		
Accounts receivable	4,800		
Bank	<u>22,000</u>	<u>42,300</u>	<u>136,300</u>
<i>Current liabilities</i>			
Accounts payable	8,000		
Accruals	<u>300</u>	<u>8,300</u>	<u>128,000</u>
<i>Capital accounts</i>			
A Barnes			67,800
C Darwin			35,200
E Fox			<u>25,000</u>
			<u>128,000</u>

(c)	Dr	Cr
A Barnes	6,000	
C Darwin	4,000	
E Fox	2,000	
Goodwill		12,000

## Answer to Question 44.3A BA 1

### Gain and Main

*Profit and Loss Appropriation Account for the year ending 31 March 2008*

Net profit b/d				26,250
Less Salary: Main		9,750		
Interest on capital: Gain		1,000		
Main		<u>500</u>	<u>1,500</u>	<u>11,250</u>
Balance of profit				15,000
Shared: Gain			9,000	
Main			<u>6,000</u>	<u>15,000</u>

### Current Accounts

	<i>Gain</i>	<i>Main</i>		<i>Gain</i>	<i>Main</i>
Balance b/d		2,000	Balance b/d	1,000	
Realisation:			Capitals transferred	10,000	5,000
Car taken over	1,000		P&L appropriation:		
Plain Ltd: Shares	24,000	16,000	Salary		9,750
Bank: to settle		4,170	Interest	1,000	500
			Share of profit	9,000	6,000
			Realisation profit shared	1,380	920
			Bank: to settle	<u>2,620</u>	
	<u>25,000</u>	<u>22,170</u>		<u>25,000</u>	<u>22,170</u>

### Realisation

Fixtures	2,000	Accounts payable	500
Land and buildings	30,000	Depreciation: Fixtures	1,000
Motors	4,500	Motors	1,300
Inventory	3,000	Gain: Car taken over	1,000
Accounts receivable	2,000	Plain Ltd: Purchase price	40,000
Profit on realisation:			
Gain	1,380		
Main	<u>920</u>		
	<u>43,800</u>		<u>43,800</u>

### Bank

Balance b/d	1,550	Main: to settle	4,170
Gain: to settle	<u>2,620</u>		
	<u>4,170</u>		<u>4,170</u>

### Plain Ltd

Realisation	40,000	Gain	24,000
		Main	<u>16,000</u>
	<u>40,000</u>		<u>40,000</u>

## Answer to Question 44.4A BA 1

		<i>Dr</i>	<i>Cr</i>
(a) (Narratives omitted)			
Realisation		44,000	
Freehold premises			18,000
Equipment and machinery			12,000
Cars			3,000
Inventory			11,000
CNO Ltd		58,000	
Realisation			58,000
Cash		10,000	
Preference shares in CNO Ltd		12,000	
Ordinary shares in CNO Ltd		36,000	
CNO Ltd			58,000
Accounts payable		10,000	
Bank			9,810
Realisation (discount)			190
Cash		12,800	
Realisation (bad debts 800, discounts 400)		1,200	
Accounts receivable			14,000
Realisation (profit)		12,990	
Capitals			
A $\frac{2}{5}$			5,196
B $\frac{2}{5}$			5,196
C $\frac{1}{5}$			2,598
Capitals	A	4,800	
	B	4,800	
	C	2,400	
Preference shares in CNO Ltd			12,000
Capitals	A	14,400	
	B	14,400	
	C	7,200	
Ordinary shares in CNO Ltd			36,000
Loan	A	7,000	
Cash			7,000
Capitals	A	7,996	
	B	3,996	
	C	2,998	
Cash			14,990

(b) The partners will receive the following shares, the shares being split in profit sharing ratio:

	<i>Ordinary</i>	<i>Preference</i>
A	11,520	4,800
B	11,520	4,800
C	5,760	2,400
	<u>28,800</u>	<u>12,000</u>

## Answer to Question 44.6A BA 1

(a) (All in £000)

		<i>Revaluation</i>	
Furniture: decrease (12 – 5)		7	Land and buildings:
Motors: decrease 20 – (10 + 4)		6	increase (200 – 160)
Inventory written off		5	
Bad debt written off		2	
Doubtful debts provision: increase			
(42 – 2) × 5% – 1		1	
Office expenses accrued		3	
Dissolution costs		1	
Capitals: Proudie $\frac{3}{5}$	9		
Slope $\frac{1}{5}$	3		
Thorne $\frac{1}{5}$	<u>3</u>	<u>15</u>	
		<u>40</u>	<u>40</u>

(b)

(b)		Capitals					
	Proudie	Slope	Thorne		Proudie	Slope	Thorne
Motor	4			Balances b/d	100	60	40
Goodwill written off (W1)		45	45	Current a/cs	24	10	8
Cash	8			Revaluation	9	3	3
Loan a/c: transfer	219			Loan	8		
Balances c/d		28	6	Goodwill share (W1)	90		
	<u>231</u>	<u>73</u>	<u>51</u>		<u>231</u>	<u>73</u>	<u>51</u>

(W1) Goodwill: Profits 130 + 150 + 181			461
Less Stock reduction		5	
Bad debt written off		2	
Increase in allowance for doubtful debts		1	
Office expenses accrued		<u>3</u>	<u>11</u>
			<u>450</u>

Average profit  $450 \div 3 = 150$ ; Proudie's share  $150 \times \frac{3}{5} = 90$   
Split equally between Slope and Proudie.

(c)

### Slope and Thorne Balance Sheet as at 1 June 2009

<i>Non-current assets</i>			
Land and buildings			200
Furniture			5
Motor vehicles			<u>10</u>
			215
<i>Current assets</i>			
Inventory		18	
Accounts receivable	40		
Less Allowance for doubtful debts	<u>2</u>	38	
Prepaid expenses		2	
Cash		<u>2</u>	<u>60</u>
			275
<i>Current liabilities</i>			
Accounts payable	15		
Accrued expenses (3 + 1 + 3)	<u>7</u>	22	
		<u>219</u>	
<i>Non-current liabilities</i>			
Loan – Proudie			<u>241</u>
			<u>34</u>
 <i>Capitals: Slope</i>			
Thorne			28
			<u>6</u>
			<u>34</u>

## Answer to Question 44.8A BA 1

(All answers shown in £000)

(a) (i)

### Grant and Herd

*Profit and Loss Appropriation Account for the year ending 31.12.2008*

Net profit for the year			60
Add Interest on drawings:			
Grant ( $40 \times 10\% \times \frac{1}{2}$ )		2	
Herd ( $40 \times 10\% \times \frac{3}{4}$ )		<u>3</u>	<u>5</u>
			65
Less Salary: Herd		20	
Interest on capital: Grant	15		
Herd	<u>5</u>	20	
Balance of profit: Grant $\frac{3}{5}$	15		
Herd $\frac{2}{5}$	<u>10</u>	<u>25</u>	<u>65</u>

(ii)

### Capitals

	Grant	Herd		Grant	Herd
Salary paid		10	Balances b/d	300	100
Drawings	40	40	Salary	–	20
Interest on drawings	2	3	Interest on capital	15	5
Car	10		Share of profit	15	10
Shares in Valley	300	200	Realisation	87	58
Bank	<u>65</u>	<u>253</u>	Bank	<u>417</u>	<u>253</u>
	<u>417</u>				

(iii)

### Realisation

Non-current assets	300	Depreciation	100
Inventory	90	Trade accounts payable	141
Accounts receivable and prepayments	18	Accounts payable and accruals	25
Trade accounts receivable	223	Grant: Car	10
Profit on realisation to			
capitals: Grant $\frac{3}{5}$	87	Valley Ltd: Consideration	500
Herd $\frac{2}{5}$	<u>58</u>	( $400,000 \times 1.25$ )	
	<u>776</u>		<u>776</u>

(b)

### Valley Ltd

*Balance Sheet as at 1 January 2009*

<i>Non-current assets at cost</i>		
Intangible asset: Goodwill		145
Tangible assets ( $300 - 100 - 10$ )		<u>190</u>
		335
<i>Current assets</i>		
Inventory	90	
Trade accounts receivable	223	
Other accounts receivable and prepayments	<u>18</u>	<u>331</u>
		666
<i>Current liabilities</i>		
Trade accounts payable	141	
Other accounts payable and accruals	<u>25</u>	<u>166</u>
		500
<i>Capital and reserves</i>		
Called-up share capital		400
Share premium		<u>100</u>
		<u>500</u>

## Answer to Question 45.5A BA 1

Developing Limited			
Statement of Changes in Equity (extract) for 2004 (£000s)			
	Retained Profits	General Reserve	Share Premium
Opening balance	3	7	4
Retained profits for the year	27	–	–
Transferred to General Reserve	(10)	10	–
Closing balance	<u>20</u>	<u>17</u>	<u>4</u>

### Balance Sheet as at 31 December 2004 (£000s)

Non-current assets		140
Current assets		<u>50</u>
		190
Less: Current liabilities – Accounts payable		<u>19</u>
		171
Less: Non-current liabilities – Loan notes		<u>20</u>
		<u>151</u>
Share capital	Authorised	Issued
Ordinary shares of 50p each	100	80
10% Preference shares of £1 each	<u>50</u>	<u>30</u>
	150	110
Reserves		
Share premium	4	
General reserve	17	
Retained profits	<u>20</u>	
		<u>41</u>
		<u>151</u>

## Answer to Question 45.7A BA 1

(a)	Budgie Ltd	
	Balance Sheet as at . . . (£000s)	
Non-current assets		
Cost		160
Less: Accumulated depreciation		<u>50</u>
		110
Current assets		
Inventory	40	
Accounts receivable	<u>47</u>	<u>87</u>
		197
Current liabilities		
Accounts payable	45	
Bank overdraft	<u>30</u>	
		<u>75</u>
		<u>122</u>
Shareholders' funds		
Share capital		100
Retained profits		<u>22</u>
		<u>122</u>

- (b) Inventory represents almost half the current assets – the acid test ratio is 0.63:1 compared with the current ratio of 1.16:1 – and, in the absence of any information on industry norms, this level of inventory appears to be too high. If the bank demanded payment of the overdraft, the company would face severe liquidity problems. It should probably try to reduce the level of inventory held and reduce the bank overdraft.

## Answer to Question 45.9A BA 1

### Tully Ltd Income Statement for the year ending 31 December 2005

Sales		975,600
Less Cost of goods sold		
Opening inventory	81,300	
Purchases	<u>623,800</u>	
	705,100	
Less Closing inventory	<u>102,400</u>	<u>602,700</u>
Gross profit		372,900
Less Expenses		
Wages	241,500	
Motor expenses	4,580	
Machinery repairs	3,600	
Sundry expenses	2,900	
Depreciation: Premises	13,250	
Machinery	21,820	
Motor vehicles	<u>6,940</u>	
Directors' remuneration	<u>82,600</u>	<u>377,190</u>
Net loss		<u><u>4,290</u></u>

### Balance Sheet as at 31 December 2005

Non-current assets	Cost	Depn	Net
Premises	265,000	73,250	191,750
Machinery	109,100	63,220	45,880
Motor vehicles	<u>34,700</u>	<u>25,140</u>	<u>9,560</u>
	<u>408,800</u>	<u>161,610</u>	247,190
Current assets			
Inventory		102,400	
Accounts receivable		169,600	
Bank		<u>17,900</u>	<u>289,900</u>
			537,090
Current liabilities			
Accounts payable		74,900	
Motor expenses owing		<u>280</u>	
			<u>75,180</u>
Total assets less current liabilities			<u><u>461,910</u></u>
Capital and reserves			
Called-up share capital			375,000
General reserve		67,500	
Retained profits (–4,290 + 31,200 – 7,500)		<u>19,410</u>	<u>86,910</u>
			<u><u>461,910</u></u>

Note: The proposed dividend will be shown as a note.

## Answer to Question 45.11A BA 1

### Falta Ltd

#### Income Statement for the year ending 30 April 2005

Sales	880,426	
Less Returns inwards	<u>18,400</u>	862,026
Less Cost of goods sold		
Opening inventory	102,994	
Add Purchases	419,211	
Add Carriage inwards	<u>1,452</u>	
	523,657	
Less Closing inventory	<u>111,317</u>	412,340
Gross profit		449,686
Less Expenses		
Wages and salaries	123,289	
Rent, business rates and insurance	17,042	
Discounts allowed	3,415	
Debenture interest	3,200	
Depreciation: Equipment	45,000	
Motor vehicles	14,300	
Directors' remuneration	<u>88,400</u>	294,646
Net profit		<u>155,040</u>

#### Balance Sheet as at 30 April 2005

Non-current assets	Cost	Depreciation	Net
Equipment	225,000	77,600	147,400
Motors	<u>57,200</u>	<u>32,500</u>	24,700
	<u>282,200</u>	<u>98,850</u>	172,100
Current assets			
Inventory		111,317	
Accounts receivable		227,219	
Bank		4,973	
Cash		<u>62</u>	343,571
			515,671
Current liabilities			
Expenses owing		6,802	
Loan notes interest		1,600	
Accounts payable		<u>54,818</u>	
		63,220	
Non-current liabilities			
8% Loan notes		<u>40,000</u>	103,220
			<u>412,451</u>
Capital and reserves			
Called-up share capital			200,000
Non-current asset replacement reserve		40,000	
General reserve		20,000	
Retained profits (12,411 + 155,040 – (5,000 + 10,000))		<u>152,451</u>	212,451
			<u>412,451</u>

Note: The proposed dividend will be shown as a note.



## Answer to Question 45.13A BA 1

	<i>The Journal</i>	<i>Dr</i>	<i>Cr</i>
(a) (Narratives omitted)			
(i) Accounts payable		10,000	
Accounts receivable			10,000
Operating profit		1,000	
Accounts receivable			1,000
Operating profit		4,000	
Suspense			4,000
(ii) Bank		2,000	
Accounts receivable			2,000
Operating profit		1,000	
Bank			1,000
(iii) Operating profit		1,000	
Accounts receivable			1,000
Allowance for doubtful debts (note 1)		1,140	
Operating profit			1,140
(iv) Retained profit brought forward		1,000	
Operating profit			1,000
Inventory		2,000	
Operating profit			2,000
(v) Suspense (note 2)		3,000	
Operating profit			3,000

### Notes:

1 Accounts receivable  $200 - 10 (i) - 1 (i) - 2 (ii) - 1 (iii) = 186$  (£000)

New allowance  $1\% \times 186,000 = 1,860$

Reduction in allowance  $3,000 - 1,860 = 1,140$

2 See note (v) in question. Credit balance on suspense account treated as sales.

(b)

**Fiddles PLC**

*Income Statement for the year ending . . .*

Operating profit (note 1)	80,140
Loan note interest (note 2)	<u>7,200</u>
Net profit for the year	<u>72,940</u>
Add Retained profits brought forward from last year	<u>199,000</u>
Retained profits carried forward to next year	<u><u>271,940</u></u>

*Balance Sheet as at . . .*

*Non-current assets*

Land		100,000
Buildings		120,000
Plant and machinery	170,000	
Less Depreciation	<u>120,000</u>	<u>50,000</u>
		270,000

*Current assets*

Inventory		192,000
Accounts receivable	186,000	
Less Allowance for doubtful debts	<u>1,860</u>	<u>184,140</u>
Bank		<u>13,000</u>
		389,140
		<u>659,140</u>

*Current liabilities*

Accounts payable	100,000
Loan note interest	<u>7,200</u>
	107,200

*Non-current liabilities*

16% Loan notes	<u>180,000</u>
	287,200
	<u>371,940</u>

*Capital and reserves*

Called-up share capital	100,000
Retained profits	<u>271,940</u>
	<u>371,940</u>

*Notes:*

- 1  $80,000 + (iii) 1,140 + (iv) 1,000 + (iv) 2,000 + (v) 3,000 - (i) 1,000 - (i) 4,000 - (ii) 1,000 - (iii) 1,000 = 80,140$
- 2  $180,000 \times 16\% \times 3 \text{ months} = 7,200$
- 3 The proposed dividend will be shown as a note

## Answer to Question 46.2A BA 1

(a)	<i>Business Purchase</i>	
Accounts payable	9,000	Premises 35,000
Bank	50,000	Plant 6,000
		Inventory 8,000
		Accounts receivable 6,000
		Goodwill (difference) 4,000
	<u>59,000</u>	<u>59,000</u>

(b)	<i>Balance Sheet at 1 January 2009</i>	
<i>Non-current assets</i>		
Goodwill		4,000
Premises		90,000
Plant and machinery, at cost <i>less</i> depreciation		30,000
Fixtures and fittings, at cost <i>less</i> depreciation		<u>4,000</u>
		128,000
<i>Current assets</i>		
Inventory	25,000	
Accounts receivable	15,500	
Cash (4,500 + 300 – 4,000)	<u>800</u>	<u>41,300</u>
Total assets		169,300
<i>Current liabilities</i>		
Accounts payable	17,000	
Bank overdraft	15,800	
Expenses owing	<u>200</u>	
	33,000	
<i>Non-current liabilities</i>		
	<u>25,000</u>	<u>58,000</u>
		<u>111,300</u>
Capital: Balance	87,000	
Add Cash introduced	<u>25,000</u>	
	112,000	
Less Loss on plant	<u>700</u>	<u>111,300</u>

## Answer to Question 47.2A BA 1

(a)	<i>Spendlight</i>	<i>Easylawn</i>
(i) Gross profit as % of sales	$\frac{430}{2,500} \times \frac{100}{1} = 17.2\%$	$\frac{430}{1,600} \times \frac{100}{1} = 26.9\%$
(ii) Net profit as % of sales	$\frac{166}{2,500} \times \frac{100}{1} = 6.6\%$	$\frac{170}{1,600} \times \frac{100}{1} = 10.6\%$
(iii) Expenses as % of sales	$\frac{264}{2,500} \times \frac{100}{1} = 10.6\%$	$\frac{260}{1,600} \times \frac{100}{1} = 16.25\%$
(iv) Inventory turnover	$\frac{2,070}{(190 + 220) \div 2} = 10.1 \text{ times}$	$\frac{1,170}{(110 + 60) \div 2} = 8.7 \text{ times}$
(v) ROCE	$\frac{166}{368} \times \frac{100}{1} = 45.1\%$	$\frac{170}{223} \times \frac{100}{1} = 76.2\%$
(vi) Current ratio	$\frac{399}{189} = 2.1$	$\frac{199}{38} = 5.2$
(vii) Acid test ratio	$\frac{179}{189} = 0.95$	$\frac{39}{38} = 1.03$
(viii) Accounts receivable/sales ratio	$\frac{104}{2,500} \times 12 = 0.5 \text{ months}$	$\frac{29}{1,600} \times 12 = 0.2 \text{ months}$
(ix) Accounts payable/purchases ratio	$\frac{189}{2,100} \times 12 = 1.08 \text{ months}$	$\frac{38}{1,220} \times 12 = 0.37 \text{ months}$

- (b) Easylawn is the more efficient company. It has made £170,000 profit as compared with £166,000 profit and has achieved a return on capital employed of 76.2% per cent, almost 70% higher than that of Spendlight, with 45.1%.

*Reasons:* These are conjecture – you really have to know more about the businesses before you can be definite.

- (i) Easylawn has managed to achieve a far greater percentage gross profit, whilst maintaining a reasonable level of sales.
- (ii) Because expenses are lower, but gross profit is the same as for Spendlight, a higher figure of net profit is achieved by Easylawn.
- (iii) Easylawn has kept inventory down to relatively lower figures than Spendlight, although Spendlight has managed to get higher rate of inventory turnover.
- (iv) Easylawn has a 69% higher rate of return on capital employed, helped by lower inventory, better debt/sales ratio and relatively lower accounts payable.
- (v) Acid test ratio with Easylawn appears healthier than with Spendlight.

**Answer to Question 47.5A BA 1**

$$(a) (i) \frac{40}{160} \times \frac{100}{1} = 25\%$$

$$(ii) \frac{\text{Cost of sales}}{\text{Average inventory}} = \frac{120}{10} = 12$$

$$(iii) \frac{32}{160} \times \frac{100}{1} = 20\%$$

$$(iv) \frac{32}{128} \times \frac{100}{1} = 25\%$$

$$(v) \frac{20}{10} = 2 : 1$$

$$(vi) \frac{\text{Accounts receivable and bank}}{\text{Accounts payable liabilities}} = \frac{10}{10} = 1 : 1$$

- (b) Although the gross profit percentage is the same, inventory turnover is down from 12 to 9. This would mean a relatively lower gross profit figure for CD.

Net profit percentage is markedly lower, down from 20% to 10%. This implies that CD has far higher expenses than AB.

For the amount of assets used AB is getting twice the return on them than CD, 25% compared with 12½%.

CD has kept current assets to a minimum – a figure of 1 : 1 is too low for comfort under normal circumstances. Similarly the quick asset ratio is too low.

AB is by far the more successful business. It is turning over its inventory more frequently and has kept expenses under control. This has meant overall a return of 25% on its capital employed. It is also in a good liquid position and able to meet its debts.

CD on the other hand is in a worse position on each factor. It is not only less profitable; it may well be unable to meet its debts as they fall due.

**Answer to Question 47.6A BA 1**

- 1 (i) Loan note interest has to be paid whether profits are made or not. Dividends on shares can only be paid if there are sufficient available profits.
- (ii) Shareholders are part owners of the company and can exercise their powers with the votes at their disposal. Loan note holders normally have no voice in the running of the company.
- (iii) If the company ceases to trade, then loan note holders are entitled to a full return of their money before the shareholders get anything.

2 (i)

**Galloway Ltd**

*Profit and Loss Appropriation Account for the year ending 30 April 2008*

Net profit for the year brought down	36,600
Add Retained profits brought forward from last year	<u>3,950</u>
	40,550
Less Transfer to general reserve	<u>5,000</u>
Retained profits carried forward to next year	<u><u>35,550</u></u>

(ii)

*Balance Sheet as at 30 April 2008**Non-current assets*

Freehold premises at cost		190,000
Furniture and equipment at cost	44,000	
Less Depreciation to date	<u>7,460</u>	36,540
Motor vehicles at cost	38,400	
Less Depreciation to date	<u>16,300</u>	<u>22,100</u>
		248,640

*Current assets*

Inventory	32,124	
Accounts receivable	4,782	
Prepayments	280	
Rent receivable	<u>175</u>	<u>37,361</u>
		286,001

*Current liabilities*

Accounts payable	3,847
Bank overdraft	1,830
Expenses owing	<u>774</u>
	6,451

*Non-current liabilities*

8% Loan notes	<u>15,000</u>	<u>21,451</u>
		<u>264,550</u>

Share capital: Ordinary shares

200,000

## Reserves:

General reserve	29,000	
Retained profits	<u>35,550</u>	<u>64,550</u>
		<u>264,550</u>

3 (i) Net profit as % of sales.

(ii) Lower gross profit % ratio.  
Higher expenses.

(iii) Acid test ratio.

(iv) More capital introduced in cash; loans received in cash; non-current assets sold; profits.

**Answer to Question 47.8A BA 1**

(a)

*Schedule of Accounting Ratios and Resource Utilisation*

<i>Year ended 30 September</i>	<i>2007</i>		<i>2008</i>		<i>2009</i>	
(i) Net profit as % of sales	$\frac{13,000}{90,000}$	= 14.4%	$\frac{20,000}{100,000}$	= 20%	$\frac{22,000}{120,000}$	= 18.3%
(ii) Gross profit as % of sales	$\frac{16,000}{90,000}$	= 17.8%	$\frac{25,000}{100,000}$	= 25%	$\frac{28,000}{120,000}$	= 23.3%
(iii) Inventory turnover	$\frac{74,000}{3,500}$	= 21.1	$\frac{75,000}{5,500}$	= 13.6	$\frac{92,000}{18,500}$	= 5.0
(iv) Current ratio	$\frac{24,000}{4,000}$	= 6 : 1	$\frac{25,000}{6,000}$	= 4.2 : 1	$\frac{40,000}{11,000}$	= 3.6 : 1
(v) Acid test ratio	$\frac{20,000}{4,000}$	= 5 : 1	$\frac{18,000}{6,000}$	= 3 : 1	$\frac{10,000}{11,000}$	= 0.9 : 1
(vi) Accounts receivable/ sales (months)	$\frac{19,000}{90,000} \times 12 = 2.5$		$\frac{15,000}{100,000} \times 12 = 1.8$		$\frac{10,000}{120,000} \times 12 = 1.0$	

These are not the only six ratios or measures available.

- (b) Your answer should be in report fashion. The main points you should cover include:
- (i) The increase of sales by £20,000 from 2008 to 2009 has been accompanied by a fall in net profit ratio of 1.7%, and worse liquidity ratios. The acid test ratio shows that there may be difficulties in paying your debts soon.
  - (ii) The year to 2008 showed a considerable increase in profitability. Can this be maintained?
  - (iii) Why has inventory increased to £30,000 at end of 2009? Does this show difficulties in achieving sales? Investigate.
  - (iv) If the above indicate problems in the future, what is the value of assets if sold at break-up prices?
  - (v) A government investment involves no risk, except for inflation.
  - (vi) Your return from Space Age should have a figure deducted for the value of your services. Only then can we sensibly compare the return from the business with the return from the investment.
  - (vii) There is a case for the investment in the loan stock being better than carrying on the business.

### Answer to Question 47.10A BA 1

(a)	Table of Accounting Ratios			
	A		B	
1 Current ratios	$\frac{180}{160}$	= 1.1	$\frac{200}{120}$	= 1.7
2 Acid test	$\frac{100}{160}$	= 0.6	$\frac{100}{120}$	= 0.8
3 Net profit as % of sales	$\frac{30}{1,000}$	= 3%	$\frac{100}{3,000}$	= 3.3%
4 Gross profit as % of sales	$\frac{600}{1,000}$	= 60%	$\frac{1,000}{3,000}$	= 33%
5 Accounts receivable/sales (months)	$\frac{100}{1,000} \times 12 = 1.2$		$\frac{90}{3,000} \times 12 = 0.36$	
6 Accounts payable/cost of sales (months)	$\frac{110}{400} \times 12 = 3.3$		$\frac{120}{2,000} \times 12 = 0.7$	
7 Return on owners' equity	$\frac{30}{100}$	= 30%	$\frac{100}{520}$	= 19.2%
8 Gearing	$\frac{100}{200}$	= 50%	$\frac{130}{650}$	= 20%

- (b) Should be in report fashion. Main points, briefly:
- (i) Both have similar net profit percentage: A 3%; B 3.3%. However, result obtained very differently as A has high GP% and very high expenses, whereas B has lower GP% and relatively lower expenses.
  - (ii) Higher gearing of A leads to higher return on owners' equity. The extra debt of A could lead to problems when profits fall.
  - (iii) A's high accounts payable/cost of sales ratio is very worrying, as is the low current ratio.
  - (iv) Figures considerably distorted by B's land revaluation. This leads to B's ROOE being understated, whilst that of A – by comparison – is overstated.

### Answer to Question 47.20A BA 1

See text.





## **PART 2 BUSINESS ACCOUNTING 2**



# Answers

## Answer to Question 1.4A BA 2

(a) All in £000

		<i>Branch Inventory (Selling price)</i>	
Balance b/d	75	Returns	30
Goods to branch	600	Cash sales	120
Branch accounts receivable: returns	8	Branch accounts receivable	437
		Inventory deficiency to branch adjustment	6
		Balance c/d	90
	<u>683</u>		<u>683</u>

Balance b/d 90

	<i>Goods Sent to Branch (Cost price)</i>		
Returns from branch	20	Branch inventory	400
Head office trading a/c	<u>380</u>		
	<u>400</u>		<u>400</u>

	<i>Branch Adjustment (Profit loading)</i>		
Returns from branch	10	Unrealised profit b/d	25
Branch inventory deficiency	6	Goods to branch	200
Branch profit and loss	179		
Unrealised profit c/d	30		
	<u>225</u>		<u>225</u>

Unrealised profit b/d 30

	<i>Branch Accounts receivable</i>		
Balance b/d	66	Branch inventory: Returns	8
Branch inventory	437	Bank	390
		Discounts	9
		Bad debts	15
		Balance c/d	81
	<u>503</u>		<u>503</u>

Balance b/d 81

	<i>Branch Bank</i>		
Balance b/d	3	General expenses	42
Cash sales	120	To HO bank	459
Branch accounts receivable	390	Balance c/d	12
	<u>513</u>		<u>513</u>

Balance b/d 12

(b)

Paper Products					
Income Statement for the year ending 31 March 2006					
		Head Office		Branch	Total
Revenue: Cash		1,500		120	1,620
Credit		<u>1,960</u>		<u>429</u>	<u>2,389</u>
		3,460		549	4,009
Less Cost of goods sold:					
Opening inventory	180		50	230	
Add Purchases	<u>2,400</u>		<u>380</u>	<u>2,780</u>	
	2,580		430	3,010	
Less Closing inventory	<u>220</u>	<u>2,360</u>	<u>60</u>	<u>370</u>	<u>2,730</u>
Gross profit		1,100		179	1,279
Less Expenses:					
General expenses	410		42	452	
Discounts allowed	29		9	38	
Bad debts	<u>24</u>	<u>463</u>	<u>15</u>	<u>66</u>	<u>529</u>
Net profit		<u>637</u>		<u>113</u>	<u>750</u>

(c) See text, but merits mainly concern tight control as HO can see what profits the branch *ought* to be making; also saves branch staff having to keep full accounting records.

Demerits depend on whether branch staff are given room for initiative within the above system, or else the HO stupidly lets the system strangle all initiative.

### Answer to Question 1.6A BA 2

LR				
Income Statement for the year ending 31 December 2009				
		Head Office	Branch	
Revenue		83,550		51,700
Less Cost of goods sold:				
Purchases	123,380			
Goods to branch	<u>44,264</u>		44,264	
	79,116			
Less Closing inventory	<u>12,276</u>	<u>66,840</u>	<u>2,664</u>	<u>41,600</u>
Gross profit		16,710		10,100
Less General expenses		<u>8,470</u>		<u>6,070</u>
Net profit		<u>8,240</u>		<u>4,030</u>

Balance Sheet as at 31 December 2009			
Non-current assets			39,000
Current assets			
Inventory		14,940	
Accounts receivable		15,020	
Cash in transit		1,000	
Bank		<u>5,260</u>	<u>36,220</u>
			75,220
Less Current liabilities			
Accounts payable			<u>12,690</u>
			<u>62,530</u>
Equity			
Capital introduced			52,000
Add Net profit			<u>12,270</u>
			64,270
Less Drawings			<u>1,740</u>
			<u>62,530</u>

Workings:

*Inventory: Head office*

Purchases		123,380
Less Cost of sales: $\frac{100}{125} \times £83,550$	66,840	
Cost of goods to branch: $\frac{100}{125} \times £56,250$	<u>45,000</u>	<u>111,840</u>
		11,540
Add Cost of goods in transit: $\frac{100}{125} \times £920$		<u>736</u>
		<u>12,276</u>

*Inventory: Branch*

Cost of goods sent		45,000
Less Cost of sales: $\frac{100}{125} \times £51,700$	41,360	
Cost of goods in transit:	736	
Inventory shortage at cost: $\frac{100}{125} \times £300$	<u>240</u>	<u>42,336</u>
		<u>2,664</u>

**Answer to Question 1.8A BA 2**

(a) (All in £000)

**Star Stores**

*Income Statements for the year ending 31 December 2009*

	<i>Head Office</i>		<i>Branch</i>
Revenue	1,200		570
Goods transferred to branch	<u>360</u>		
	1,560		<u>570</u>
Less Cost of goods sold:			
Opening inventory	80		30
Add Purchases	880		
Transfer of goods from head office	<u>960</u>		<u>300</u>
			330
Less Closing inventory	<u>100</u>	<u>860</u>	<u>48</u>
Gross profit		700	282
Less Administrative expenses	380		30
Distribution costs	157		172
Increase in provision for profit included in branch inventory*	<u>13</u>	<u>550</u>	
Net profit		<u>150</u>	<u>86</u>

\*  $(48 \times \frac{1}{6}) - 5 + (60 \times \frac{1}{6})$

(b)	<i>Balance Sheet as at 31 December 2009</i>		
<i>Non-current assets</i>	<i>Cost</i>	<i>Depn</i>	<i>Net</i>
Plant and equipment	330	150	180
Motor vehicles	700	400	300
	<u>1,030</u>	<u>550</u>	<u>480</u>
<i>Current assets</i>			
Inventory (100 + 48 + 60 – 18)		190	
Accounts receivable and prepayments		206	
Bank and cash (25 + 2 + 15)		<u>42</u>	<u>438</u>
			<u>918</u>
<i>Less Current liabilities</i>			
Accounts payable and accruals			<u>196</u>
			<u>722</u>
Capital: Balance at 1.1.2009			550
Add Net profit			<u>236</u>
			<u>786</u>
Less Drawings			<u>64</u>
			<u>722</u>
<i>Workings</i>			
	<i>Branch Current Account</i>		
Balance b/d	255	Inventory in transit c/d	60
Net profit	86	Cash in transit c/d	15
	<u>341</u>	Balance c/d	<u>266</u>
			<u>341</u>
	<i>Head Office Current Account</i>		
Balance c/d	266	Balance b/d	180
	<u>266</u>	Net profit	<u>86</u>
			<u>266</u>

### Answer to Question 1.11A BA 2

Conversion of currency to sterling:

<i>Dr</i> Balances:	<i>Mics</i>	<i>Rate</i>	<i>£</i>
Non-current assets at cost	900,000	8 to £	112,500
Accounts receivable and cash	36,000	4 to £	9,000
Operating costs	<u>225,000</u>	5 to £	<u>45,000</u>
	<u>1,161,000</u>		<u>166,500</u>
<i>Cr</i> Balances:			
Sales	480,000	5 to £	96,000
Accounts payable	25,000	4 to £	6,250
HO current account	420,000	actual	42,600
Accumulated depreciation	<u>236,000</u>	8 to £	<u>29,500</u>
	<u>1,161,000</u>		<u>174,350</u>
Difference represents exchange loss: to be written off			<u>7,850</u>
			<u>166,500</u>

### Home Ltd

#### *Income Statement for the year ending 31 December 2004*

Revenue (96,000 + 186,300)		282,300
Less Operating costs (103,700 + 45,000)	148,700	
Exchange losses	<u>7,850</u>	<u>156,550</u>
Net profit for the year		<u>125,750</u>
Add Retained profit 31 December 2003		<u>110,800</u>
Retained profit at 31 December 2004		<u>236,550</u>

*Balance Sheet as at 31 December 2004*

Non-current assets (W1)		425,900
Current assets		
Accounts receivable and cash (17,600 + 9,000)	26,600	
Creditors: amounts falling due within one year		
Trade accounts payable (9,700 + 6,250)	<u>15,950</u>	<u>10,650</u>
		<u>436,550</u>
Capital and reserves		
Called-up share capital		200,000
Retained profits		<u>236,550</u>
		<u>436,550</u>

(W1) Cost 450,000 + 112,500 = 562,500 – accumulated depreciation 107,100 + 29,500 = (net) 425,900.

**Answer to Question 2.2A BA 2**

(a)		<i>Computer</i>	
2005			
Jan 1	Dowe Ltd	1,046	
<i>Accumulated Provision for Depreciation</i>			
2005			2005
Dec 31	Balance c/d	<u>418</u>	Dec 31 Profit and loss
2006			2006
Dec 31	Balance c/d	<u>669</u>	Jan 1 Balance b/d
			Dec 31 Profit and loss
		<u>669</u>	<u>251</u>
			<u>669</u>
2007			2007
Dec 31	Balance c/d	<u>820</u>	Jan 1 Balance b/d
			Dec 31 Profit and loss
		<u>820</u>	<u>151</u>
			<u>820</u>
<i>Dowe Ltd</i>			
2005			2005
Jan 1	Bank	300	Jan 1 Computer
Dec 31	Bank	300	Dec 31 HP interest (10% of 746)
31	Balance c/d	<u>521</u>	75
		<u>1,121</u>	<u>1,121</u>
2006			2006
Dec 31	Bank	300	Jan 1 Balance b/d
31	Balance c/d	<u>273</u>	Dec 31 HP interest
		<u>573</u>	<u>52</u>
			<u>573</u>
2007			2007
Dec 31	Bank	300	Jan 1 Balance b/d
			Dec 31 HP interest
		<u>300</u>	<u>27</u>
			<u>300</u>

(b)		<i>Balance Sheet as at 31 December 2005 (extract)</i>
Non-current assets		
Computer at cost	<u>1,046</u>	
Less Depreciation	<u>418</u>	
		628
Current liabilities		
Owing on HP		521

## Answer to Question 2.4A BA 2

(a)				<i>Motor Vehicles</i>			
2002	July 31	HP Company:					
		Cash price DL1	27,000	2002	Dec 31	Balance c/d	63,000
	Nov 30	HP Company:					
		Cash price DL2	<u>36,000</u>				
			<u>63,000</u>				<u>63,000</u>
2003	Jan 1	Balance b/d	63,000	2003	Sept 1	Disposal DL1	27,000
					Dec 31	Balance c/d	<u>36,000</u>
			<u>63,000</u>				<u>63,000</u>
(b)				<i>Depreciation</i>			
2002	Dec 31	Balance c/d	3,563	2002	Dec 31	Profit and loss:	
						DL1 $25\% \times \frac{5}{12}$	
						$\times \pounds 27,000$	2,813
						DL2 $25\% \times \frac{1}{12}$	
						$\times \pounds 36,000$	750
			<u>3,563</u>				<u>3,563</u>
2003	Sept 1	Disposals re: DL1	7,313	2003	Jan 1	Balance b/d	3,563
	Dec 31	Balance c/d	9,750		Sept 1	Profit and loss:	
						DL1 $25\% \times \frac{8}{12}$	
						$\times \pounds 27,000$	4,500
						DL2 $25\% \times \pounds 36,000$	9,000
			<u>17,063</u>				<u>17,063</u>
(c)				<i>Hire Purchase Company</i>			
			<i>DL1</i>				<i>DL1</i>
			<i>DL2</i>				<i>DL2</i>
2002	July 31	Cash: deposit	4,680	2002	Motors		
	Nov 30	Cash: deposit			July 31	Cash price	27,000
	Dec 31	Cash: instalments			Nov 30	Cash price	36,000
		$5 \times \pounds 1,050$	5,250		Dec 31	Profit and loss:	
		$1 \times \pounds 1,350$				HP interest	
		Balance c/d	17,670			$5 \times \pounds 120$	600
						$1 \times \pounds 150$	150
			<u>27,600</u>				<u>27,600</u>
			<u>36,150</u>				<u>36,150</u>
2003	Jan–Aug 31	Cash: $8 \times \pounds 1,050$	8,400	2003	Jan 1	Balance b/d	17,670
	Sept 20	Cash to settle	10,700		Sept 20	Profit and loss:	
	Jan–Dec 31	Cash $12 \times \pounds 1,350$	16,200			HP interest	1,430
		Balance c/d	13,200		Dec 31	$12 \times \pounds 150$	1,800
			<u>19,100</u>				<u>19,100</u>
			<u>29,400</u>				<u>29,400</u>
(d)				<i>Assets Disposal</i>			
2003	Sept 1	Motor vehicles DL1	27,000	2003	Sept 1	Depreciation	7,313
					Sept 20	Cash	18,750
					Dec 31	Profit and loss:	
						Loss on disposal	937
			<u>27,000</u>				<u>27,000</u>



## Answer to Question 2.8A BA 2

### Object Ltd

#### Income Statement for the year ending 31 August 2006

Hire purchase sales		540,000
Cash sales		<u>71,000</u>
		611,000
Less Cost of goods sold		
Opening inventory	15,000	
Purchases	342,000	
Inventory repossessed	<u>2,500</u>	
	359,500	
Less Closing inventory (see W1)	<u>12,000</u>	347,500
		263,500
Add Profit on repossessed goods (see W2)		<u>700</u>
		264,200
Less Provision for unrealised profit (see W3)		<u>99,792</u>
Gross profit		164,408
Less Administration and shop expenses	130,000	
Depreciation	<u>15,000</u>	145,000
Net profit for the year		<u><u>19,408</u></u>

#### Balance Sheet as at 31 August 2006

<i>Non-current assets</i>		
Intangible assets		
Premises and equipment at cost	100,000	
Less Depreciation to date	<u>60,000</u>	40,000
<i>Current assets</i>		
Inventory	12,000	
Accounts receivable (see W4)	223,560	
Less Provision for unrealised profit (W3)	<u>99,360</u>	124,200
Bank and cash	<u>6,208</u>	142,408
		182,408
<i>Current liabilities</i>		
Trade accounts payable		<u>80,000</u>
Net current assets		<u><u>102,408</u></u>
<i>Equity</i>		
Called-up share capital		75,500
Retained profits		<u>27,408</u>
		<u><u>102,408</u></u>
<i>Workings:</i>		
(W1) Opening inventory	15,000	
Purchases	342,000	357,000
Cash sales	71,000	
Less Repossessed	<u>3,500</u>	<u>67,500</u>
Accordingly:		
Cost of sales $67,500 \times \frac{100}{150}$	45,000	
HP sales: Cost $\pounds 540,000 \times \frac{100}{180}$	<u>300,000</u>	345,000
Closing inventory		<u><u>12,000</u></u>

(W2)		<i>Repossessions</i>	
HP Accounts receivable	3,240	Provision for unrealised profit	1,440
Profit to trading a/c	<u>700</u>	Purchases	<u>2,500</u>
	<u>3,940</u>		<u>3,940</u>
(W3)		<i>Provision for Unrealised Profit</i>	
Repossessions $\text{£}3,240 \times \frac{80}{180}$	1,440	Balance b/d	1,008
Balance c/d $\text{£}223,560 \times \frac{80}{180}$	<u>99,360</u>	Trading account	<u>99,792</u>
	<u>100,800</u>		<u>100,800</u>
(W4)		<i>HP Accounts receivable</i>	
Balance b/d	2,268	Cash	315,468
HP sales	540,000	Repossessions	3,240
	<u>542,268</u>	Balance c/d	<u>223,560</u>
			<u>542,268</u>

### Answer to Question 2.9A BA 2

(a) First assumption

	<b>F Ltd</b>	
	<i>Hire Purchase Income Statement (extract)</i>	
Hire purchase sales		1,815
Cost of sales	1,210	
Provision for unrealised profit	229	
Loss on repossessed goods	<u>53</u>	<u>1,492</u>
Gross profit		<u>323</u>

	<i>Balance Sheet (extract)</i>	
Hire purchase accounts receivable	687	
Less Provision for unrealised profit	<u>229</u>	458

Workings:

	Cost	HP sales price	Cash collected	Balance	Balance of profit		Cost
					Earned	Unearned	
Jan 10	150	225	180	45	60	15	30
Mar 8	350	525	420	105	140	35	70
May 12	90	135	81	54	27	18	36
July 6	200	300	247	—	47	—	—
Sept 20	70	105	42	63	14	21	42
Oct 15	190	285	57	228	19	76	152
Nov 21	<u>160</u>	<u>240</u>	<u>48</u>	<u>192</u>	<u>16</u>	<u>64</u>	<u>128</u>
	<u>1,210</u>	<u>1,815</u>	<u>1,075</u>	<u>687</u>	<u>323</u>	<u>229</u>	<u>458</u>

(b) Second assumption

	<b>F Ltd</b>	
	<i>Hire Purchase Income Statement (extract)</i>	
Hire purchase sales		1,815
Cost of sales	1,210	
Provision for unrealised profit	405	
Loss on repossessed goods	<u>53</u>	<u>1,668</u>
Gross profit		<u>147</u>

	<i>Balance Sheet (extract)</i>	
Hire purchase accounts receivable	687	
Less Provision for unrealised profit	<u>405</u>	282

Workings:

	Cost	HP sales price	Cash collected	Balance	Balance of profit		Cost
					Earned	Unearned	
Jan 10	150	225	180	45	30	45	–
Mar 8	350	525	420	105	70	105	–
May 12	90	135	81	54	–	45	9
July 6	200	300	247	–	47	–	–
Sept 20	70	105	42	63	–	35	28
Oct 15	190	285	57	228	–	95	133
Nov 21	160	240	48	192	–	80	112
	<u>1,210</u>	<u>1,815</u>	<u>1,075</u>	<u>687</u>	<u>147</u>	<u>405</u>	<u>282</u>

### Answer to Question 2.10A BA 2

(a) (i)		<i>Machinery</i>		
1.1.07	HP Loan		20,000	
(ii)		<i>Provision for Depreciation: Machinery</i>		
			31.12.07	Profit and loss
				4,000
31.12.08	Balance c/d	<u>8,000</u>	31.12.08	Profit and loss
		<u>8,000</u>		<u>4,000</u>
				<u>8,000</u>
			1.1.09	Balance b/d
				8,000
31.12.09	Balance c/d	<u>12,000</u>	31.12.09	Profit and loss
		<u>12,000</u>		<u>4,000</u>
				<u>12,000</u>
(iii)		<i>Hire Purchase Loan</i>		
1.1.07	Bank	6,000	1.1.07	Machinery
				20,000
31.12.07	Bank	5,828	31.12.07	Profit and loss
	Balance c/d	<u>9,852</u>		(12% × 14,000)
		<u>21,680</u>		<u>1,680</u>
				<u>21,680</u>
31.12.08	Bank	5,828	1.1.08	Balance b/d
	Balance c/d	<u>5,206</u>		9,852
		<u>11,034</u>	31.12.08	Profit and loss
				(12% × 9,852)
				<u>1,182</u>
				<u>11,034</u>
31.12.09	Bank	5,831	1.1.09	Balance b/d
				5,206
			31.12.09	Profit and loss
				(12% × 5,206)
				<u>625</u>
		<u>5,831</u>		<u>5,831</u>

(b)	<i>(Extracts) Balance Sheet as at 31 December</i>		
	2007	2008	2009
<i>Non-current assets</i>			
Machinery at cost	20,000	20,000	20,000
Less Depreciation to date	<u>4,000</u>	<u>8,000</u>	<u>12,000</u>
	16,000	12,000	8,000
<i>Non-current liabilities</i>			
Owing under hire purchase	5,206		
<i>Current liabilities</i>			
Owing under hire purchase	4,646	5,206	

### Answer to Question 3.3A BA 2

<i>Cantilever Ltd – Contract Account</i>			
Materials issued	9,411	Architect's certificates ( $64,170 \times \frac{10}{9}$ )	71,300
Materials bought	28,070	Inventory of materials	2,164
Direct expenses	6,149	Plant	10,150
Administration charge	2,146		
Wages	18,493		
Plant bought	12,180		
Accrued wages c/d	366		
Accrued expenses c/d	49		
	<u>76,864</u>		
Profit and loss ( $6,750 \times \frac{2}{3}$ )	4,500		
Reserve (part of apparent profit not recognised as being earned yet)	<u>2,250</u>		
	<u>83,614</u>		<u>83,614</u>

### Answer to Question 3.4A BA 2

<i>Contract Account – Year ended 31 December 2010</i>			
Plant	30,000	Sale of materials (at cost)	8,000
Materials	124,000	Unused materials c/d	10,000
Wages	95,000	Plant c/d	20,000
Sundry expenses	5,000	Cost of contract to date c/d	225,000
Head office charges	9,000		
	<u>263,000</u>		<u>263,000</u>
Cost of contract b/d	225,000		
Unused materials b/d	10,000		
Plant b/d	20,000		
Profit and loss account			
Profit taken to date	43,000		
<i>Workings:</i>		<i>Value</i>	<i>Cost</i> <i>Profit</i>
Cash received to date		<u>195,000</u>	
Value of work certificated ( $\frac{100}{75}$ thereof)		260,000	
Work completed but not yet certified		<u>30,000</u>	
Total value of work executed to date		<u>290,000</u>	<u>225,000</u> <u>65,000</u>
<i>Further costs to be incurred:</i>			
Wages	64,000		
Materials $74,400 + 10,000$	84,400		
Sundry expenses	9,000		
Plant $25,000 + 20,000$	45,000		
Plant residual value	(15,000)		
Head office charges			
( $\frac{6}{9} \times 9,000$ ) + 10%	6,600		
Contingency provision	<u>15,000</u>		
	209,000		
	<u>520,000</u>	<u>209,000</u>	<u>86,000</u>
Work certified to date 260,000: Profit to be taken now $\frac{260}{520} \times 86,000 =$		<u>434,000</u>	<u>43,000</u>

## Answer to Question 3.5A BA 2

(All in £000)

(a) *Workings:*

(i) Profits/(losses)

(i) Profits/(losses)										
	1		2		3		4		5	
Contract price		1,100		950		1,400		1,300		1,200
Less Costs to date	664		535		810		640		1,070	
estd further costs										
to completion	106		75		680		800		165	
estd post-completion										
costs	<u>30</u>	<u>800</u>	<u>10</u>	<u>620</u>	<u>45</u>	<u>1,535</u>	<u>20</u>	<u>1,460</u>	<u>5</u>	<u>1,240</u>
Estd total profits/(losses)		<u>300</u>		<u>330</u>		<u>( 135)</u>		<u>( 160)</u>		<u>( 40)</u>
Profit/loss recognised										
Profit: <i>Cost of sales to date</i>										
Total cost:										
Contract 1 $\frac{580}{800} \times 300$	218									
Contract 2 $\frac{470}{620} \times 330$		250								
Overall losses						(135)	(160)		(40)	

(ii) Payments on account

	Contracts									
	1	2	3	4	5					
Turnover to 31.10.2010	798	720	646	525	900					
Progress payments: received	615	680	615	385	722					
awaited	60	40	25	200	34					
retained	<u>75</u>	<u>750</u>	<u>80</u>	<u>800</u>	<u>60</u>	<u>700</u>	<u>65</u>	<u>650</u>	<u>84</u>	<u>840</u>
Yet to recover			<u>48</u>							
Excess paid			(80)	(54)	(125)					
Transferred to long-term			65	29						
Payments on account (net)			<u>(15)</u>	<u>(25)</u>	<u>(125)</u>					

(iii) *Data for Income Statement for the year ending 31 October 2010*

	Contracts					Profit or Loss
	1	2	3	4	5	
Turnover to 31.10.2010	580	470	646	525	900	
Profit to 31.10.2010	<u>218</u>	<u>250</u>				
	<u>798</u>	<u>720</u>				
Turnover to 31.10.2009	<u>560</u>	<u>340</u>	<u>517</u>	<u>400</u>	<u>610</u>	
To profit and loss	<u>238</u>	<u>380</u>	<u>129</u>	<u>125</u>	<u>290</u>	1,162
Cost of sales to 31.10.2010	580	470	646	525	900	
Loss to 31.10.2009			<u>135</u>	<u>160</u>	<u>40</u>	
			781	685	940	
Cost of sales to 31.10.2009	<u>460</u>	<u>245</u>	<u>517</u>	<u>470</u>	<u>610</u>	
To profit and loss	<u>120</u>	<u>225</u>	<u>264</u>	<u>215</u>	<u>330</u>	1,154
Profit/loss (proof)						
to 31.10.2010	218	250	(135)	(160)	(40)	
to 31.10.2009	<u>100</u>	<u>95</u>		<u>(70)</u>		
	<u>188</u>	<u>155</u>	<u>(135)</u>	<u>(90)</u>	<u>(40)</u>	<u>8</u>
Costs to 31.10.2010	664	535	810	640	1,070	
To cost of sales	<u>580</u>	<u>470</u>	<u>646</u>	<u>525</u>	<u>900</u>	
	84	65	164	115	170	
Less Losses foreseeable			<u>135</u>	<u>160</u>	<u>40</u>	
			29	(45)	130	
Transfers from payments on a/c		65	29			
Long-term contract balances	<u>84</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>130</u>	
Provision for losses				<u>(45)</u>		

(b) *Balance Sheet extracts at 31 October 2010*

*Current assets*

*Inventory*

Long-term contracts (84 + 130) 214

*Accounts receivable*

Recoverable on long-term contracts (48 + 60) 108

*Creditors*

Payments on account (15 + 125 + 25) 165

*Provisions for liabilities and charges*

Foreseeable losses provision 45

*Note attached to balance sheet:*

Long-term contract balances (84 + 65 + 29 + 130) 308

Less Payments on account (29 + 65) 94

214

**Answer to Question 5.4A BA 2**

(Dates omitted)

(a)

*Ordinary Share Capital*

Forfeited shares (5,000 × £1) 5,000 Balance b/d 500,000

Application and allotment 70,000

Balance c/d 595,000 First and final call 30,000

600,000 600,000

Balance c/d 600,000 Balance b/d 595,000

600,000 Amber 5,000

600,000

(b)

*Share Premium*

Balance c/d 52,500 Application and allotment 50,000

Forfeited shares 2,500

52,500 52,500

(c)

*Application and Allotment*

Bank refunds (75,000 × 65p) 48,750 Bank (200,000 × 65p) 130,000

Bank refunds re 3 for 4 allotment (25,000 × 65p) 16,250 Bank (100,000 × 55p) 55,000

Ordinary share capital 70,000

Share premium 50,000

185,000 185,000

(d)

*First and Final Call*

Ordinary share capital (100,000 × 30p) 30,000 Bank (95,000 × 30p) 28,500

30,000 Forfeited shares (5,000 × 30p) 1,500

30,000 30,000

(e)

*Forfeited Shares*

First and final call 1,500 Ordinary share capital 5,000

Amber Ltd 1,000

Share premium 2,500

5,000 5,000

(f)

*Amber Ltd*

Ordinary share capital 5,000 Bank (5,000 × 80p) 4,000

5,000 Forfeited shares\* 1,000

5,000 5,000

\* discount on reissue

## Answer to Question 5.6A BA 2

Grobigg Ltd			
<i>Application and Allotment</i>			
Cash: return of unsuccessful application monies $8,000 \times 0.75$	6,000	Cash: $180,000 \times 0.75$	135,000
Share capital: Due on application and allotment $150,000 \times 0.80$	120,000	Cash: Balance due on allotment	13,500
Share premium $150,000 \times 0.15$	22,500		
	<u>148,500</u>		<u>148,500</u>
<i>Call</i>			
Share capital $150,000 \times 0.20$	30,000	Cash: $149,600 \times 0.20$	29,920
	<u>30,000</u>	Forfeited shares	80
			<u>30,000</u>
<i>Forfeited Shares</i>			
Call	80	Share capital	400
Share capital	400	Cash: $400 \times 0.90$	360
Share premium	280		
	<u>760</u>		<u>760</u>
<i>Share Premium</i>			
		Application and allotment	22,500
		Forfeited shares	280
<i>Share Capital</i>			
Forfeited shares	400	Application and allotment	120,000
Balance c/d	150,000	Forfeited shares	400
	<u>150,400</u>	Call	30,000
			<u>150,400</u>

## Answer to Question 6.2A BA 2

(a)	Dr	Cr
(A1) Bank	7,000	
(A2) Preference share applicants		7,000
Cash received from applicants		
(B1) Preference share applicants	7,000	
(B2) Preference share capital		7,000
Preference shares allotted		
(C1) Retained profits	3,000	
(C2) Capital redemption reserve		3,000
Part of purchase price of shares not covered by new issue, to comply with Companies Acts		
(D1) Ordinary share capital	10,000	
(D2) Ordinary share purchase		10,000
Shares being purchased		
(E1) Ordinary share purchase	10,000	
(E2) Bank		10,000
Payment made for share purchase		

	<i>Balances before</i>	<i>Effect</i>			<i>Balances after</i>
		<i>Dr</i>		<i>Cr</i>	
Net assets (except bank)	31,000				31,000
Bank	<u>16,000</u>	(A1)	7,000	(E2)	10,000
	<u>47,000</u>				<u>44,000</u>
Preference share capital	8,000			(B2)	7,000
Preference share applicants		(B1)	7,000	(A2)	7,000
Ordinary share capital	20,000	(D1)	10,000		10,000
Ordinary share purchase		(E1)	10,000	(D2)	10,000
Capital redemption reserve				(C2)	3,000
Share premium	<u>4,000</u>				<u>4,000</u>
	<u>32,000</u>				<u>32,000</u>
Retained profits	<u>15,000</u>	(C1)	3,000		<u>12,000</u>
	<u>47,000</u>				<u>44,000</u>

(b)				<i>Dr</i>	<i>Cr</i>
(A1) Ordinary share capital				12,000	
(A2) Ordinary share purchase					12,000
Shares being purchased					
(B1) Retained profits				2,400	
(B2) Ordinary share purchase					2,400
Premium on purchase of shares not previously issued at premium					
(C1) Retained profits				12,000	
(C2) Capital redemption reserve					12,000
Transfer because shares purchased out of distributable profits					
(D1) Ordinary share capital				14,400	
(D2) Bank					14,400
Payment of redemption					

	<i>Balances before</i>	<i>Effect</i>			<i>Balances after</i>
		<i>Dr</i>		<i>Cr</i>	
Net assets (except bank)	31,000				31,000
Bank	<u>16,000</u>			(D2)	14,400
	<u>47,000</u>				<u>32,600</u>
Preference share capital	8,000				8,000
Ordinary share capital	20,000	(A1)	12,000		8,000
Ordinary share purchase		(D1)	14,400	(A2)	12,000
				(B2)	2,400
Capital redemption reserve				(C2)	12,000
Share premium	<u>4,000</u>				<u>4,000</u>
	<u>32,000</u>				<u>32,000</u>
Retained profits	<u>15,000</u>	(C1)	12,000		<u>600</u>
	<u>47,000</u>	(B1)	2,400		<u>32,600</u>



(c)		<i>Dr</i>	<i>Cr</i>
(A1) Preference share capital		8,000	
(A2) Preference share purchase			8,000
Shares to be purchased			
(B1) Preference share purchase		8,000	
(B2) Bank			8,000
Cash paid on purchase			
(C1) Retained profits		8,000	
(C2) Capital redemption reserve			8,000
Transfer per Companies Acts			

	<i>Balances before</i>		<i>Dr</i>	<i>Effect</i>	<i>Cr</i>	<i>Balances after</i>
Net assets (except bank)	31,000					31,000
Bank	16,000			(B2)	8,000	8,000
	<u>47,000</u>					<u>39,000</u>
Preference share capital	8,000	(A1)	8,000			–
Preference share purchase		(B1)	8,000	(A2)	8,000	–
Ordinary share capital	20,000					20,000
Capital redemption reserve				(C2)	8,000	8,000
Share premium	4,000					4,000
	<u>32,000</u>					<u>32,000</u>
Retained profits	15,000	(C1)	8,000			7,000
	<u>47,000</u>					<u>39,000</u>

(d)		<i>Dr</i>	<i>Cr</i>
(A1) Bank		12,000	
(A2) Preference share applicants			12,000
Cash received from applicants			
(B1) Preference share applicants		12,000	
(B2) Preference share applicants			12,000
Preference shares allotted			
(C1) Ordinary share capital		12,000	
(C2) Ordinary share purchase			12,000
Shares to be purchased			
(D1) Ordinary share purchase		12,000	
(D2) Bank			12,000
Payment made to purchase shares			

	<i>Balances before</i>		<i>Dr</i>	<i>Effect</i>	<i>Cr</i>	<i>Balances after</i>
Net assets (except bank)	31,000					31,000
Bank	16,000	(A1)	12,000	(D2)	12,000	16,000
	<u>47,000</u>					<u>47,000</u>
Preference share capital	8,000			(B2)	12,000	20,000
Preference share applicants	–	(B1)	12,000	(A2)	12,000	–
Ordinary share capital	20,000	(C1)	12,000			8,000
Ordinary share purchase	–	(D1)	12,000	(C2)	12,000	–
Share premium	4,000					4,000
	<u>32,000</u>					<u>32,000</u>
Retained profits	15,000					15,000
	<u>47,000</u>					<u>47,000</u>

(e)		<i>Dr</i>	<i>Cr</i>
(A1) Bank		10,000	
(A2) Preference share applicants			10,000
Cash received from applicants			
(B1) Preference share applicants		10,000	
(B2) Preference share capital			10,000
Preference shares allotted			
(C1) Ordinary share capital		6,000	
(C2) Ordinary share purchase			6,000
Shares being purchased			
(D1) Share premium account		1,200	
(D2) Ordinary share purchase			1,200
Amount of share premium account used for redemption			
(E1) Retained profits		1,800	
(E2) Ordinary share purchase			1,800
Excess of premium payable over amount of share premium account usable for the purpose			
(F1) Ordinary share purchase		9,000	
(F2) Bank			9,000
Amount payable on purchase			

	<i>Balances before</i>		<i>Dr</i>	<i>Effect</i>	<i>Cr</i>	<i>Balances after</i>
Net assets (except bank)	31,000					31,000
Bank	16,000	(A1)	10,000	(F2)	9,000	17,000
	<u>47,000</u>					<u>48,000</u>
Preference share capital	8,000			(B2)	10,000	18,000
Preference share applicants	–	(B1)	10,000	(A2)	10,000	–
Ordinary share capital	20,000	(C1)	6,000			14,000
Ordinary share purchase	–	(F1)	9,000	(C2)	6,000	
				(D2)	1,200	–
				(E2)	1,800	
Share premium account	4,000	(D1)	1,200			2,800
	<u>32,000</u>					<u>34,800</u>
Retained profits	15,000	(E1)	1,800			13,200
	<u>47,000</u>					<u>48,000</u>

### Answer to Question 6.4A BA 2

(a)		<i>Loan Note Redemption Reserve</i>	
		2003	
		Dec 31	Retained profits*
			6,960.36
		2004	
2004		Dec 31	Bank: Interest
			348.02
Dec 31	Balance c/d	Dec 31	Retained profits
	<u>14,268.74</u>		<u>6,960.36</u>
	<u>14,268.74</u>		<u>14,268.74</u>
		2005	
		Jan 1	Balance b/d
			14,268.74
2005		Dec 31	Bank: Interest
			713.42
Dec 31	Balance c/d	Dec 31	Retained profits
	<u>21,942.52</u>		<u>6,960.36</u>
	<u>21,942.52</u>		<u>21,942.52</u>
		2006	
2006		Jan 1	Balance b/d
			21,942.52
Dec 31	Retained profits: Loan notes now redeemed	Dec 31	Bank: Interest
	<u>30,000.00</u>		1,097.12
	<u>30,000.00</u>	Dec 31	Retained profits
			<u>6,960.36</u>
			<u>30,000.00</u>

\*  $0.232012 \times 30,000 = 6,960.36$

(b)	<i>Loan Note Sinking Fund Investment</i>			
2003				
Dec 31	Bank	6,960.36		
2004				
Dec 31	Bank	7,308.38		
2005				
Dec 31	Bank	7,673.78		
2006			2006	
Dec 31	Bank	8,057.48	Dec 31	Bank
		<u>30,000.00</u>		<u>30,000.00</u>
(c)	<i>Loan Notes</i>			
2006			2003	
Dec 31	Bank (redemption)	<u>30,000.00</u>	Jan 1	Bank
				<u>30,000.00</u>
(d)	<i>Retained Profits (extracts) for the years ended 31 December</i>			
2003	Loan note		Redemption Reserve	6,960.36
2004	Loan note		Redemption Reserve	6,960.36
2005	Loan note		Redemption Reserve	6,960.36
2006	Loan note		Redemption Reserve	6,960.36

### Answer to Question 6.6A BA 2

(Dates omitted)	Dr	Cr
(a) Bank	1,320,000	
Application and allotment		1,320,000
Application monies received		
(b) Application and allotment	1,032,000	
Bank		1,032,000
Oversubscriptions refunded		
(c) Application and allotment	340,000	
Ordinary share capital		140,000
Share premium		200,000
Amount due on allotment ordinary shares		
(d) Bank (see workings W1)	51,975	
Application and allotment		51,975
(e) Call	60,000	
Ordinary share capital		60,000
First and final call made		
(f) Bank	59,910	
Call		59,910
Amount paid on call		
(g) Ordinary share capital	300	
Forfeited shares		300
Shares forfeited		
(h) Forfeited shares	115	
Application and allotment		25
Call		90
Amounts not received cancelled		
(i) Forfeited shares	300	
Ordinary share capital		300
Forfeited shares now reissued		
(j) Bank	500	
Forfeited shares		500
Cash received on reissue		
(k) Forfeited shares	385	
Share premium		385
Profit on reissue transferred		
(l) Bank	800,000	
Application and allotment – redeemable shares		800,000
Monies received on issue		

(m) Application and allotment – redeemable shares	800,000	
Share premium		300,000
Redeemable shares		500,000
Redeemable shares allotted		
(n) (Old) redeemable preference shares	500,000	
Share premium	200,000	
Redemption of shares		700,000
Shares to be redeemed at premium 40p		
(o) Redemption of shares	700,000	
Bank		700,000
Monies paid on redemption		
(p) Investments	100,000	
Ordinary share capital		100,000
400,000 March Hares shares of 25p purchased, payment being 200,000 50p ordinary shares		
(q) 8 per cent loan notes	400,000	
Share premium	40,000	
Loan note redemption		440,000
Amount due on loan notes to be redeemed		
(r) Loan note redemption	440,000	
Bank		440,000
Redeemed loan notes paid for		
(s) Bank	475,000	
Share premium	25,000	
7% Loan notes		500,000
Issue of 7% loan notes at 5% discount		
<i>Workings (W1):</i>		
Due on application and allotment		340,000
Received on application	1,320,000	
Less Returned	<u>1,032,000</u>	<u>288,000</u>
		52,000
Less Unpaid 100 × 25p		<u>25</u>
		<u><u>51,975</u></u>

### Answer to Question 6.8A BA 2

(All in £000)

(a)	<i>Ordinary Share Capital</i>	
	Balance b/d	500
	Ordinary share application	150
	Ordinary share allotment	150
	Ordinary share first call	100
Balance c/d	<u>1,000</u>	<u>100</u>
	<u>1,000</u>	<u>1,000</u>
(b) and (c)	<i>Ordinary Share Application and Allotment</i>	
Bank (10,000 × 3)	30	Bank (85,000 × 3) 255
Ordinary share capital	300	Bank (50,000 × 8) – 75,000 325
Share premium	<u>250</u>	
	<u>580</u>	<u>580</u>
(d)	<i>Share Premium</i>	
	Ordinary share allotment	250
Balance c/d	<u>305</u>	<u>55</u>
	<u>305</u>	<u>305</u>
(e)	<i>Ordinary Share: First Call</i>	
Ordinary share capital	<u>100</u>	Bank <u>100</u>

(f)	<i>Ordinary Share: Final Call</i>			
Ordinary share capital	100	Bank	90	
		Investments (own shares)	<u>10</u>	
	<u>100</u>			<u>100</u>
(g)	<i>Investments: Own Shares</i>			
Ordinary share capital: final call	10	Bank	65	
Share premium	<u>55</u>			
	<u>65</u>			<u>65</u>

### Answer to Question 7.4A BA 2

(a)	<i>Hubble Ltd: Journal</i>	<i>Dr</i>	<i>Cr</i>
Cash		75,000	
Freehold premises			55,000
Gain on sale of non-current asset			20,000
Sale of freehold premises			
Freehold premises	80,000		
Revaluation reserve			80,000
Surplus on revaluation of premises (400,000 – (375,000 – 55,000))			
Freehold premises	100,000		
Plant and machinery	10,000		
Inventory	55,000		
Vendor: A Bubble			165,000
Assets taken over as per purchase agreement			
Vendor: A Bubble	165,000		
Ordinary share capital			120,000
Share premium			20,000
Cash			25,000
Discharge of purchase consideration by issue of 120,000 ordinary shares £1 each and a cash payment of £25,000			

(b)	Hubble Ltd: Balance Sheet as at 31 May 2010		
Non-current assets			
Freehold premises at cost or valuation			500,000
Plant and machinery at cost	160,000		
Less Depreciation	<u>48,765</u>	111,235	
Motor vehicles at cost	8,470		
Less Depreciation	<u>1,695</u>	<u>6,775</u>	
			618,010
Current assets			
Inventory	157,550		
Accounts receivable	96,340		
Bank	11,825		
Cash	<u>105</u>	<u>265,820</u>	
			883,830
Current liabilities			
Trade accounts payable		63,200	
			<u>820,630</u>
Financed by:			
Share capital			
Authorised: 650,000 ordinary shares			<u>650,000</u>
Issued: 520,000 ordinary shares			520,000
Reserves			
Share premium	20,000		
Revaluations reserve	80,000		
Retained profits	<u>200,630</u>	<u>300,630</u>	
			<u>820,630</u>

### Workings

Freehold premises	$375,000 + 100,000 + 80,000 - 55,000 = 500,000$	
Plant and machinery	$101,235 + 10,000$	$= 111,235$
Bank	$75,000 - 38,175 - 25,000$	$= 11,825$
Retained profits	$180,630 + 20,000$	$= 200,630$

## Answer to Question 7.5A BA 2

VU Limited			
		<i>Pre-incorporation</i> 1.4.2009 to 30.6.2009	<i>Post-incorporation</i> 1.7.2009 to 31.3.2010
Revenue		30,000	95,000
Less Cost of sales	(A)	<u>20,779</u>	<u>59,221</u>
		9,221	35,779
Less Depreciation	(B)	555	1,665
Directors' fees			500
Administration expenses	(B)	2,210	6,630
Sales commission	(C)	1,050	3,325
Interest on purchase consideration	(B)	1,400	467
Distribution costs:			
Variable	(C)	900	2,850
Fixed	(B)	625	1,875
Loan note interest		—	<u>1,600</u>
		<u>6,740</u>	<u>18,912</u>
Net profit for the periods		2,481	16,867
Less Goodwill impaired written-off	(D)	1,000	
Preliminary expenses written-off	(D)	1,481	169
Dividend paid		—	<u>7,560</u>
		<u>2,481</u>	<u>7,729</u>
Retained profit carried forward			<u>9,138</u>

### Notes:

(A) See workings below. (B) Time basis. (C) Pro rata to sales. (D) The goodwill impaired is written-off against the pre-incorporation profit of £2,481, as are preliminary expenses (so far as possible).

The split of cost of sales is rather tricky. The answer will be demonstrated in an arithmetical, rather than algebraic, fashion:

Sales are: Pre-incorporation	$30,000 = 24\%$
Post-incorporation	$95,000 = 76\%$

As post-incorporation cost of sales fell by 10% then the relationship between pre- and post-incorporation cost of sales is:

Pre-incorporation	24
Post-incorporation 76% – ( $\frac{1}{10}$ 76%)	<u>68.4</u>
	<u>92.4</u>

$\therefore$  Pre-incorporation costs are  $80,000 \times \frac{100}{92.4} \times \frac{24}{100} = \underline{\underline{20,779}}$

Note: The proposed dividend is not relevant as it is an appropriation of profit and is not part of the calculation of profit.

## Answer to Question 7.6A BA 2

Rowlock Ltd			
<i>Income Statement for the year ending 31 May 2009</i>			
Revenue			52,185
Cost of goods sold:			
Opening inventory		5,261	
Add Purchases		<u>38,829</u>	
		44,090	
Less Closing inventory		<u>4,946</u>	<u>39,144</u>
Gross profit			<u>13,041</u>

	<i>Pre-incorporation</i>	<i>Post-incorporation</i>
Gross profit (allocated on basis of sales 5 : 16)	3,105	9,936
Variable expenses:		
Wrapping	840	
Postage	441	
Packing	<u>1,890</u>	
(5 : 16)	<u>3,171</u>	2,416
Fixed expenses		
Office	627	
Warehouse rent, etc.	<u>921</u>	
(4 : 8)	<u>1,548</u>	1,032
Expenses attributable to company:		
Director's salary		1,000
Loan note interest	—	<u>525</u>
	<u>1,271</u>	<u>4,973</u>
	<u>1,834</u>	<u>4,963</u>
Formation expenses	<u>218</u>	<u>—</u>
Net profit	<u>1,616</u>	<u>4,963</u>

*Balance Sheet as at 31 May 2009*

<i>Non-current assets</i>		
Goodwill		4,434
Sundry		<u>25,000</u>
		29,434
<i>Current assets</i>		
Inventory	4,946	
Sundry	<u>9,745</u>	<u>14,691</u>
Total assets		44,125
<i>Current liabilities</i>		
Non-current liabilities	4,162	
7% loan notes	<u>15,000</u>	<u>19,162</u>
Net assets		<u>24,963</u>
<i>Equity</i>		
Ordinary share capital		20,000
		<u>4,963</u>
		<u>24,963</u>

*Workings:*

Gross profit allocated per volume sales in each period:

<i>Oct</i>	<i>Nov</i>	<i>Dec</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>July</i>	<i>Aug</i>	<i>Sept</i>
2	2	2	2	2	2	2	2	1	1	1	2
16								5			

*Purchase of Business Account*

Drawings	500	Balance Rowlock's capital	
Purchase consideration:		account at 1.6.2008 = net assets	29,450
Ordinary shares	20,000	Pre-incorporation profits	1,616
Debentures	<u>15,000</u>	Goodwill (difference)	<u>4,434</u>
	<u>35,500</u>		<u>35,500</u>

**Answer to Question 8.2A BA 2**

(a)	<i>Ordinary Dividends</i>	
2007	2007	
Jan 31 Bank	48,000	Dec 31 Profit and loss
Jul 10 Bank	<u>40,000</u>	
	<u>88,000</u>	<u>88,000</u>

<i>Corporation Tax</i>			
2007		2007	
Oct 1 Bank	145,000	Jan 1 Balance b/d	145,000
Dec 31 Accrued c/d	<u>160,000</u>	Dec 31 Profit and loss	<u>160,000</u>
	<u>305,000</u>		<u>305,000</u>

<i>Deferred Taxation</i>			
2007		2007	
Dec 31 Balance c/d	28,000	Jan 1 Balance b/d	16,000
	<u>28,000</u>	Dec 31 Profit and loss	<u>12,000</u>
		(30,000 × 40%)	<u>28,000</u>

<i>Income Tax</i>			
2007		2007	
Jan 30 Bank	3,500	Jan 1 Balance b/d	3,500
Dec 31 Loan note Int. receivable	2,100	Dec 31 Loan note Interest payable	3,500
Dec 31 Balance c/d	<u>1,400</u>		
	<u>7,000</u>		<u>7,000</u>

<i>Loan note Interest Payable</i>			
2007		2007	
Dec 31 Bank	14,000	Dec 31 Profit and loss	17,500
Dec 31 Income tax	<u>3,500</u>		
	<u>17,500</u>		<u>17,500</u>

<i>Loan note Interest Receivable</i>			
2007		2007	
Dec 31 Profit and loss	10,500	Dec 31 Bank	8,400
	<u>10,500</u>	Dec 31 Income tax	<u>2,100</u>
			<u>10,500</u>

<i>Investment Income</i>			
2007		2007	
Dec 31 Profit and loss	<u>4,200</u>	Sep 30 Bank	<u>4,200</u>

<i>(b) Income Statement (extract) for the year ending 31 December 2007</i>			
Net trading profit			540,000
Add Loan note interest received	14,000		
Investment income	<u>4,200</u>		<u>18,200</u>
			558,200
Less Loan note interest payable			<u>17,500</u>
Profit before taxation			540,700
Taxation: Corporation tax	160,000		
Deferred tax	<u>12,000</u>		<u>172,000</u>
Profit for the year			<u>368,700</u>

<i>Balance Sheet (extract) as at 31 December 2007</i>			
Current liabilities			
Corporation tax	160,000		
Non-current liabilities			
Deferred taxation	28,000		



**Answer to Question 8.4A BA 2**

Joytan Ltd		
<i>Income Statement for the year ending 31 December 2009</i>		
Trading profit		500,000
Income from other non-current asset investments	13,500	
Other interest receivable and similar income	<u>8,000</u>	<u>21,500</u>
		521,500
Interest payable and similar charges		<u>30,000</u>
Profit before taxation		491,500
Tax on profit on ordinary activities		<u>210,000</u>
Profit for the year		<u><u>281,500</u></u>

**Answer to Question 8.7A BA 2**

(a) Tax on profit on ordinary activities (£000):		
Corporation tax at 35% (740 + 104) (W1)	844	
Deferred taxation	<u>20</u>	
	864	
Corporation tax overprovided in previous years (W2)	<u>( 80)</u>	
	<u>784</u>	
<i>Workings</i>		
(W1) £740,000 plus tax relief £104,000		
(W2) Balance due at 31 March 2002		600,000
Less: CT paid to Revenue and Customs		<u>(520,000)</u>
		<u>80,000</u>
(b) Corporation tax liability:		
Estimated CT charged on profits for year ended 31 March 2003		740,000
Less Tax credit on investment income ( $12 \times \frac{20}{80}$ )		<u>3,000</u>
Total tax liability		<u><u>737,000</u></u>
(c) Deferred taxation:		
Balance at 31 March 2002		300
Transfer from profit and loss		<u>20</u>
		<u><u>320</u></u>

No provision has been made in respect of timing differences totalling £400,000.

**Answer to Question 10.4A BA 2**

(a)		
	<i>Realisation</i>	
Goodwill	50,000	Rays Ltd
Non-current assets	190,000	Loss on realisation
Inventory	21,000	
Work in progress	3,000	
Accounts receivable	25,000	
Bank	18,000	
Formation expenses	<u>3,000</u>	
	<u>310,000</u>	<u><u>310,000</u></u>
<i>Sundry Shareholders</i>		
Retained profits	80,000	Ordinary share capital
Loss on realisation	70,400	Preference share capital
Rays Ltd: Shares	<u>149,600</u>	
	<u>300,000</u>	<u><u>300,000</u></u>

(b)			
(i)	To Loan note holders:		
	Cash	30,000	
	+ 6% Loan notes	<u>30,000</u>	60,000
	To Creditors:		
	Cash	18,000	
	Shares	<u>12,000</u>	30,000
	To Preference shareholders:		
	Dividend arrears	9,600	
	Shares: 9 for every 10	<u>90,000</u>	99,600
	To Ordinary shareholders:		
	50,000 shares (1 for 4)		<u>50,000</u>
	Total purchase consideration		<u><u>239,600</u></u>
(ii)	Agreed value of assets		
	Inventory		15,000
	Work in progress		3,000
	Accounts receivable		25,000
	Bank		18,000
	Non-current assets (balance)		<u>178,600</u>
			<u><u>239,600</u></u>

(c)	<b>Rays Ltd</b>		
	<i>Balance Sheet as at 1 January 2009</i>		
	<i>Non-current assets</i>		178,600
	<i>Current assets</i>		
	Inventory	15,000	
	Work in progress	3,000	
	Accounts receivable	25,000	
	Bank	<u>58,400</u>	101,400
	Total assets		<u><u>280,000</u></u>
	<i>Non-current liability</i>		
	Loan notes		<u>30,000</u>
	<i>Equity</i>		<u><u>250,000</u></u>
	Issued share capital		<u><u>250,000</u></u>

		<i>Bank</i>	
Balance b/d	18,000	Loan note holders	30,000
Shares issued		Accounts payable	18,000
(250,000 – 161,600)	<u>88,400</u>	Balance c/d	<u>58,400</u>
	<u><u>106,400</u></u>		<u><u>106,400</u></u>

## Answer to Question 10.5A BA 2

### Workings

	<b>TickTick Ltd</b>		
	<i>Capital Reduction</i>		
Development expenditure	110,000	Preference share capital	50,000
Debit balance of the retained profits	121,000	Ordinary shares	400,000
Plant (balance)	<u>219,000</u>		
	<u><u>450,000</u></u>		<u><u>450,000</u></u>

	<i>Journal</i>	<i>Dr</i>	<i>Cr</i>
Capital reduction		231,000	
Development expenditure			110,000
Retained profits			121,000
Preference share capital		50,000	
Ordinary shares		400,000	
Capital reduction			450,000
Capital reduction		219,000	
Plant			219,000

*Balance Sheet as at 31 March 2010*

<i>Non-current assets</i>		
Freehold premises		90,000
Plant		<u>81,000</u>
		171,000
<i>Current assets</i>		
Inventory	82,000	
Accounts receivable	96,000	
Cash at bank	<u>11,000</u>	<u>189,000</u>
Total assets		360,000
<i>Current liabilities</i>		
Accounts payable		<u>60,000</u>
Net assets		<u><u>300,000</u></u>
<i>Equity</i>		
Issued capital:		
Ordinary shares 500,000 of 20p each		100,000
Preference shares 250,000 8 per cent of 80p each		<u>200,000</u>
		<u><u>300,000</u></u>

**Answer to Question 11.3A BA 2**

- (a) (i) Turnover should *not* include VAT on taxable outputs. It would be permissible to show gross turnover only where VAT is deducted to clearly describe turnover net of VAT.
- (ii) Where there is irrecoverable VAT in respect of non-current assets, or other items needing disclosure, these should all be shown inclusive of VAT.
- (b) (i) IAS 33 requires that earnings per share should be shown with the income statement for the current and preceding year.
- (ii) Where the basic EPS differs materially from the diluted EPS, this should also be shown.
- (c) IAS 16 and IAS 36 require that the following are disclosed:
- 1 Methods of depreciation used.
  - 2 Useful lives or the depreciation rates in use.
  - 3 Total depreciation charged for the period.
  - 4 Where material, the financial effect of a change in either useful lives or estimates of residual values.
  - 5 The cost or revalued amount at both the start and end of the accounting period.
  - 6 The cumulative amount of provisions for depreciation or impairment at the beginning and end of the financial period.
  - 7 A reconciliation of the movements, separately disclosing additions, disposals, revaluations, transfers, depreciation, impairment losses, and reversals of past impairment losses written back in the period.
  - 8 The net carrying amount at the beginning and end of the financial period.
    - (i) depreciation methods in use;
    - (ii) useful lives, or alternatively the depreciation rates;
    - (iii) total depreciation for the period;
    - (iv) gross amounts of these assets and accumulated depreciation.
- (d) IAS 38 – expenditure for research and development concerned with research to be written off immediately.
- (e) IAS 20 – such grants are to be: credited to profit and loss over expected useful life of the asset, by treating it as a deferred credit, where a proportion of it is transferred annually to profit and loss; Grants are *not* to be shown as part of shareholders' funds.
- (f) IFRS 3 (Chapter 25) states that goodwill should be capitalised and shown on the face of the balance sheet. It should be reviewed annually for impairment. It should not be amortised.
- (g) IAS 8 and the Framework for the preparation and presentation of financial statements deal with this. Financial statements should be drawn up on the accrual basis and on the assumption that the entity is a going concern. See Chapter 13 Section 13.9 for a fuller answer.
- (h) The parent company should prepare consolidated accounts covering both of them. Uniform accounting policies should be used and, if possible, the same accounting date.

## Answer to Question 11.4A BA 2

(a) (i) *Leasehold land and buildings (IAS 16 and IAS 17)*

The total cost of £375,000 can be amortised over a period longer than the lease where there are sufficient reasons for believing that the lease will be renewed for a further period. A more permanent state would appear to be indicated by the fact that £300,000 was spent on buildings; such a period would be permissible, given sufficient reasons regarding lease extensions.

(ii) *Freehold land and buildings (IAS 16)*

Cost of building should be separated from that of land. Land (normally) is not to be depreciated. Buildings are to be depreciated over normal expected useful life. Increase in value due to inflation could result in a revaluation which in turn would mean increased charge for depreciation.

Costs of maintenance do not mean that depreciation should not be charged.

(iii) *Plant and machinery (IAS 16)*

Depreciation rate to be fixed by reference to expected useful life. The degree of obsolescence and the full physical life will have to be taken into consideration.

Straight line 25 per cent would take only four years to write cost down to nil. On the other hand, 15 per cent reducing balance would take over three times that period. Some compromise between these figures must be the obvious choice. If repairs and maintenance are likely to be light in early years and heavy in later years, it may make sense to use a fairly high rate using the reducing balance method.

(iv) *Research and development (IAS 38)*

The £250,000 spent on grass-cutting characteristics is purely research and should be completely written off.

It will depend on whether the £100,000 spent has resulted in an asset with a future which is economically viable. If it has, then this sum can be written off over an appropriate period.

The £75,000 for market research has not produced an identifiable product and consequently should be written off.

(v) *Inventory (IAS 2)*

Included in the balance sheet valuation should be all costs attributable to bringing the inventory to its existing location and condition.

Sales prices are only used in certain cases, e.g. in retailing where the usual gross profit percentage is used to find cost price which will then be used for the valuation.

(b) (Figures in £000)

Profit per draft accounts			370.0
Add Amortisation of leaseholds added back (125 – 7.5)			<u>117.5</u>
			487.5
Less:			
Depreciation of freeholds (assuming land is 200 and buildings 150) over 50 years		3	
Plant and machinery (assume 25% reducing balance)		131	
Research and development – write off	250		
Drive system treated as viable – to be written off over 4 years	25		
Market research	<u>75</u>		
	350		
Already charged	<u>50</u>	300	434.0
Revised figure of profit			<u>53.5</u>

## Answer to Question 12.4A BA 2

(i) (Internal use)

Breaker plc			
<i>Income Statement for the year ending 31 March 2004</i>			
Sales		1,450,000	
Less Returns inwards		<u>29,000</u>	1,421,000
Less Cost of sales:			
Inventory 1.4.2003		208,000	
Add Purchases	700,000		
Less Returns outwards	<u>22,000</u>	<u>678,000</u>	
		886,000	
Less Inventory 31.3.2004		<u>230,000</u>	656,000
Gross profit			<u>765,000</u>
Distribution costs:			
Wages and salaries	177,000		
Motor expenses	8,800		
Hire of motors	14,000		
General distribution expenses	26,000		
Depreciation: Plant and machinery	<u>17,500</u>	243,300	
Administrative expenses:			
Wages and salaries	98,000		
Motor expenses	2,200		
Hire of motors	5,000		
General administrative expenses	19,000		
Discounts allowed	7,000		
Directors' remuneration	41,000		
Auditor's remuneration	8,000		
Depreciation: Plant and machinery	<u>8,750</u>		
	188,950		
Less Discounts received	<u>6,000</u>	<u>182,950</u>	426,250
Balance c/d			338,750
Balance b/d			338,750
Licence fees receivable			<u>13,000</u>
Operating profit			351,750
Bank interest receivable			<u>3,000</u>
Profit before taxation			354,750
Taxation			<u>143,000</u>
Profit for the year			211,750
Retained profit brought forward from last year			<u>88,000</u>
			299,750
Transfer to general reserve		25,000	
Ordinary dividend paid		<u>80,000</u>	105,000
Retained profit carried forward to next year			<u>194,750</u>

(ii) (Published)

Breaker plc			
<i>Income Statement for the year ending 31 March 2004</i>			
Revenue			1,421,000
Cost of sales			<u>656,000</u>
			765,000
Distribution costs	243,300		
Administrative expenses	<u>182,950</u>	426,250	
		338,750	
Licence fees receivable		<u>13,000</u>	
Operating profit		351,750	
Bank interest receivable		<u>3,000</u>	
Profit before taxation		354,750	
Taxation		<u>143,000</u>	
Profit for the year		<u>211,750</u>	

## Answer to Question 12.5A BA 2

(i) (Internal use)

Mitchell plc

*Income Statement for the year ending 31 July 2002*

Sales		1,790,000	
Less Returns inwards		<u>29,000</u>	1,761,000
Less Cost of sales:			
Inventory 1.8.2001		317,000	
Add Purchases	1,310,000		
Less Returns outwards	<u>57,000</u>	1,253,000	
Carriage inwards		<u>10,000</u>	
		1,580,000	
Less Inventory 31.7.2002		<u>303,000</u>	
Cost of goods sold		1,277,000	
Wages		109,000	
Hire of plant and machinery		<u>12,000</u>	1,408,000
Gross profit			<u>353,000</u>
Distribution costs:			
Salaries and wages	41,000		
Motor expenses	26,000		
Rent and business rates	12,750		
General distribution expenses	7,000		
Advertising	19,000		
Depreciation: Motors	15,000		
Plant and machinery	<u>1,300</u>	122,050	
Administrative expenses:			
Salaries and wages	62,000		
Motor expenses	8,000		
Rent and business rates	4,250		
General administrative expenses	6,000		
Bad debts	3,000		
Discounts allowed	11,000		
Auditor's remuneration	15,000		
Directors' remuneration	35,000		
Hire of plant and machinery	2,000		
Depreciation: Motors	<u>6,000</u>		
	152,250		
Less Discounts received	<u>15,000</u>	137,250	259,300
Operating profit			<u>93,700</u>
Income from shares in group entities		8,000	
Income from shares in associates and joint ventures		<u>5,000</u>	13,000
			106,700
Loan note interest			<u>7,000</u>
Profit before taxation			99,700
Taxation			<u>29,000</u>
Profit after taxation			70,700
Profit on disposal of investments	14,000		
Tax on profit from disposal of investments	<u>3,000</u>		11,000
Profit for the year			<u>81,700</u>
Retained profit brought forward from last year			141,000
			<u>222,700</u>
Transfer to general reserve		50,000	
Preference dividend paid		20,000	
Ordinary dividend paid		<u>110,000</u>	180,000
Retained profits			<u>42,700</u>

(ii) (Published)

<b>Mitchell plc</b>		
<i>Income Statement for the year ending 31 July 2002</i>		
Revenue		1,761,000
Cost of sales		<u>1,408,000</u>
		353,000
Distribution costs	122,050	
Administrative expenses	<u>137,250</u>	<u>259,300</u>
Operating profit		93,700
Profit on disposal of investments	14,000	
Income from shares in group entities	8,000	
Income from shares in associates and joint ventures	<u>5,000</u>	<u>27,000</u>
		120,700
Interest payable and similar charges		<u>7,000</u>
Profit before taxation		113,700
Taxation		<u>32,000</u>
Profit for the year		<u>81,700</u>

### Answer to Question 12.6A BA 2

(All in £000)

<b>Bunker plc</b>		
<i>Income Statement for the year ending 31 March 2010</i>		
Revenue (note 1)		35,000
Cost of sales (5,000 + 24,000 – 6,000 + 500 + 1,000 + 400)		<u>24,900</u>
		10,100
Distribution costs (1,200 + 40 + 700)	1,940	
Administrative expenses (30 + 3 + 800 + 100 + 300)	<u>1,233</u>	<u>3,173</u>
Operating profit (note 2)		6,927
Income from non-current asset investment (note 3)		<u>1,600</u>
		8,527
Loss on disposal of discontinued operations (note 4)		<u>350</u>
Profit before taxation		8,177
Taxation (note 5)		<u>7,120</u>
Profit for the year		<u>1,057</u>
Earnings per share ( <sup>1,057</sup> /1,000) (note 6)		<u>105.7p</u>
<b>Notes</b>		
1 Revenue is net of value added tax.		
2 Operating profit is found after charging:		
Depreciation (500 + 40 + 3)		543
Auditors' remuneration		30
Directors' emoluments		300
Staff costs (700 + 400 + 100)		<u>1,200</u>
3 Income from listed companies		<u>1,600</u>
4 Closure of overseas operations		<u>350</u>
5 Taxation		
UK corporation tax at 35%	7,200	
Previous year's overprovision	( 200)	
Deferred taxation – transfer	150	
Tax relief on overseas operations closure costs	( 30)	
		<u>7,120</u>
6 Earnings per share: Based on 1 million ordinary shares of £1 each and ordinary profit after taxation of £1,057,000.		
7 Dividends: Ordinary interim	100	
Ordinary final	<u>200</u>	<u>300</u>

## Answer to Question 13.4A BA 2

(a) (For internal use)

Jeremina plc			
<i>Income Statement for the year ending 31 March 2002</i>			
Sales	1,320,000		
Less Returns inwards	<u>34,000</u>		1,286,000
Less Cost of sales:			
Inventory 1 April 2001	184,000		
Add Purchases	620,000		
Add Carriage inwards	<u>6,000</u>		
	810,000		
Less Inventory 31 March 2002	<u>163,000</u>		
	647,000		
Wages	104,000		
Depreciation: Plant and machinery	<u>25,200</u>		776,200
Gross profit			<u>509,800</u>
Distribution costs:			
Warehouse wages	40,000		
Wages and salaries: Sales staff	67,000		
Motor expenses	23,200		
General distribution expenses	17,000		
Depreciation: Plant and machinery	7,200		
Motor vehicles	<u>19,200</u>	173,600	
Administrative expenses:			
Wages and salaries	59,000		
Motor expenses	5,800		
General administrative expenses	12,000		
Directors' remuneration	84,000		
Bad debts	10,000		
Discounts allowed	14,000		
Depreciation: Plant and machinery	3,600		
Motor vehicles	<u>4,800</u>		
	193,200		
Less Discounts received	<u>11,000</u>	182,200	355,800
			<u>154,000</u>
Other operating income: Royalties receivable			<u>5,000</u>
			159,000
Loan note interest			<u>2,000</u>
Profit before taxation			157,000
Taxation			<u>38,000</u>
Profit on ordinary activities after taxation			119,000
Retained profits from last year			<u>21,000</u>
			140,000
Preference dividend	12,000		
Ordinary dividend	<u>40,000</u>		<u>52,000</u>
Retained profits carried forward to next year			<u>88,000</u>



(b) (For publication)

**Jeremina plc**  
*Income Statement for the year ending 31 March 2002*

Revenue			1,286,000
Cost of sales			<u>776,200</u>
Gross profit			509,800
Distribution costs	173,600		
Administrative expenses	<u>182,200</u>		<u>355,800</u>
			154,000
Other operating income			<u>5,000</u>
Operating profit			159,000
Interest payable and similar charges			<u>2,000</u>
Profit before taxation			157,000
Taxation			<u>38,000</u>
Profit for the year			<u><u>119,000</u></u>

*Balance Sheet as at 31 March 2002*

**Non-current assets**

*Intangible assets*

Development costs	24,000		
Goodwill	<u>200,000</u>	224,000	

*Tangible assets*

Plant and machinery	132,000		
Motor vehicles	<u>48,000</u>	<u>180,000</u>	404,000

**Current assets**

*Inventory:*

Finished goods and goods for resale	163,000		
Trade accounts receivable	<u>188,000</u>		<u>351,000</u>
Total assets			<u>755,000</u>

**Current liabilities**

Bank loans and overdrafts	7,000		
Trade accounts payable	45,000		
Bills of exchange payable	7,000		
Corporation tax payable	<u>38,000</u>	97,000	

**Non-current liabilities**

Loan notes		<u>30,000</u>	<u>127,000</u>
			<u>628,000</u>

**Equity**

<i>Called-up share capital</i>			500,000
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*Reserves:*

General reserve	25,000		
Exchange reserve	15,000		
Retained profits (21,000 + 119,000 – 12,000 – 40,000)	<u>88,000</u>		<u>128,000</u>
			<u>628,000</u>

*Note:* It is assumed that both the ordinary dividend and the preference dividend were paid during the year.

**Notes**

1 The called-up capital consists of:			
400,000 Preference shares of 50p each			200,000
300,000 Ordinary shares of £1 each			<u>300,000</u>
			<u>500,000</u>
2 Plant and machinery:			
Cost			240,000
Depreciation to 31 March 2001	72,000		
Depreciation for the year to 31 March 2002	<u>36,000</u>		<u>108,000</u>
			<u>132,000</u>
3 Motor vehicles at cost:			120,000
Less Depreciation to 31 March 2001	48,000		
Less Depreciation for the year ended 31 March 2002	<u>24,000</u>		<u>72,000</u>
			<u>48,000</u>

## Answer to Question 13.5A BA 2

(All in £000)

### Plott plc Balance Sheet as at 31 March 2011

			Notes
<i>Non-current assets</i>			
Tangible assets		2,400	(1)
Investments		<u>100</u>	(2)
		2,500	
<i>Current assets</i>			
Inventory	400		(3)
Trade and other accounts receivable	<u>5,500</u>	<u>5,900</u>	(4)
Total assets		8,400	
<i>Current liabilities</i>			
Trade and other accounts payable	2,300		(5)
Bank overdraft	500		
Current tax	<u>900</u>		
	3,700		
<i>Non-current liabilities</i>			
Deferred tax	<u>80</u>	<u>3,780</u>	(6)
Net assets		<u>4,620</u>	
<i>Equity</i>			
Called-up share capital		2,100	(7)
Reserves		<u>2,520</u>	(8)
		<u>4,620</u>	
<i>Notes to the balance sheet</i>			
(1) Tangible assets:			
Cost at 1.4.2010		3,400	
Additions		600	
Disposals		( 200)	
At 31.3.2011		<u>3,800</u>	
Depreciation at 1.4.2010		1,200	
Additions		500	
Disposals		( 300)	
At 31.3.2011		<u>1,400</u>	
Net book value: at 31.3.2011		2,400	
at 31.3.2010		<u>2,200</u>	
(2) Investments: Cost at 1.4.2010 and 31.3.2011		100	
No purchase or sales of non-current asset investments took place during the year.			
Market value of investments at 31.3.2011 was £110,000.			
(3) Inventory: Finished goods		<u>400</u>	
No significant difference between replacement cost and value shown on balance sheet.			
(4) Accounts receivable: Trade 5,300 + Other 200		<u>5,500</u>	
(5) Trade and other accounts payable			
Trade accounts payable		2,000	
Other accounts payable		<u>300</u>	
		<u>2,300</u>	
(6) Provisions for liabilities and charges:			
Deferred taxation		<u>80</u>	

(7) Called-up share capital		<i>Authorised</i>	<i>Issued</i>
Ordinary shares £1 each		<u>2,500</u>	<u>2,100</u>
(8) Reserves	<i>Share</i>	<i>Retained</i>	<i>Total</i>
	<i>premium</i>	<i>profits</i>	
At 1 April 2010	315	1,200	1,515
Profit for the year (585 + 420)		<u>1,005</u>	<u>1,005</u>
At 31 March 2010	315	<u>2,205</u>	<u>2,520</u>
(9) The proposed dividend will be shown as a note			

### Answer to Question 13.6A BA 2

(All in £000)

#### Quire plc

##### Income Statement for the year ending 30 September 2011

Revenue		19,000
Cost of sales (500 + 12,000 + 720 – 400)		<u>12,820</u>
Gross profit		6,180
Distribution costs (2,800 + 360 – 50)	3,110	
Administrative expenses (3,000 + 130 + 120)	<u>3,250</u>	<u>6,360</u>
Operating loss		(180)
Income from non-current asset investments 40 + (1/4 × 40)		<u>50</u>
		(130)
Interest payable		(400)
Loss before taxation		(530)
Taxation (80 + 10 – 60)		<u>(30)</u>
Loss for the period		<u>(560)</u>
Loss per share $\left( \frac{560}{4,000} \right)$		(14.0p)

Note: The proposed dividend should not be accrued.

##### Balance Sheet as at 30 September 2011

<i>Non-current assets</i>		
Tangible assets (3,500 – 1,100 – 1,200)	1,200	
Investments	<u>100</u>	1,300
<i>Current assets</i>		
Inventory	400	
Trade and other account receivables (5,320 + 160 + 50)	<u>5,530</u>	<u>5,930</u>
Total assets		<u>7,230</u>
<i>Current liabilities</i>		
Trade and other accounts payable (100 + 180 + 130)	410	
Bank overdraft	2,400	
Current tax	<u>80</u>	<u>2,890</u>
<i>Non-current liabilities</i>		
Deferred tax (200 – 60)	<u>140</u>	
Total liabilities		<u>3,030</u>
Net assets		<u>4,200</u>
<i>Equity</i>		
Called-up share capital		4,000
Retained profits (820 – 560 – 60)		<u>200</u>
		<u>4,200</u>

Workings:

1 Depreciation:

Fixed assets at cost	3,500
Less Depreciation to 1 October 2010	<u>1,100</u>
	<u>2,400</u>
× 50%	<u>1,200</u>
Apportioned: Cost of sales (60%)	720
Distribution (30%)	360
Administration (10%)	<u>120</u>
	<u>1,200</u>

## Answer to Question 13.7A BA 2

(All in £000)

### Patt plc

#### Income Statement for the year ending 31 March 2010

		Notes
Revenue		7,000 (1)
Cost of sales (130 + 3,700 – 170 + 42 + 2,230)		<u>5,932</u>
Gross profit		1,068
Distribution costs (100 – 15 + 12)	97	
Administrative expenses (200 + 6 + 290 + 20) + [5% × (2,290 – 290)]	<u>616</u>	<u>713</u>
Profit before taxation		355 (2)
Taxation		<u>160</u> (3)
Profit for the year		<u>195</u>
Earnings per share (195 ÷ 1,440)		<u>13.54p</u> (4)
Note: Dividends proposed of 10p per ordinary share = <u>£144,000</u>		

#### Balance Sheet as at 31 March 2010

		Notes
<i>Non-current assets</i>		
Tangible assets		120 (5)
<i>Current assets</i>		
Inventory	170	
Trade and other accounts receivable	<u>1,965</u>	<u>2,135</u> (6)
Total assets		<u>2,255</u>
<i>Current liabilities</i>		
Trade and other accounts payable	235	(7)
Bank overdraft	25	
Current tax	<u>160</u>	<u>420</u>
Net assets		<u>1,835</u>
<i>Equity</i>		
Called-up share capital		1,440 (8)
Retained profits		<u>395</u> (9)
		<u>1,835</u>

## Notes

(1) Revenue is in respect of invoices sent to customers, exclusive of value added tax.			
(2) Profit on operating activities before taxation:			
After charging: Depreciation			60
Bad debt			290
Allowance for doubtful debts			<u>100</u>
(3) Tax on profit on ordinary activities: UK corporation tax at 35%			<u>160</u>
(4) Earnings per share. Based on the profit on ordinary activities, after taxation, on 1,440,000 ordinary shares £1 each in issue.			
(5) Tangible fixed assets			
Total cost at 1 April 2009 and 31 March 2010		300	
Depreciation at 1 April 2009	120		
Charge for year	<u>60</u>	<u>180</u>	<u>120</u>
(6) Trade and other accounts receivable: Trade (2,290 – 100 – 290)		1,900	
Other accounts receivable		50	
Prepayments		<u>15</u>	<u>1,965</u>
(7) Trade and other accounts payable			
Trade		160	
Other accounts payable		55	
Accruals		<u>20</u>	<u>235</u>
(8) Share capital			
Ordinary shares £1 each			<u>1,440</u>
(9) Retained profit			
At 1 April 2009		200	
Profit for year		<u>195</u>	<u>395</u>
(10) Dividend proposed of 10p per share = <u>144,000</u>			

## Answer to Question 14.3A BA 2

### Cosnett Ltd

#### Income Statement for the year ending 30 September 2005

Revenue		3,058,000
Cost of sales		<u>2,083,500</u>
Gross profit		974,500
Distribution costs	82,190	
Administrative expenses (W1)	<u>484,480</u>	<u>566,670</u>
		407,830
Loss on disposal of discontinued operations		<u>86,100</u>
		321,730
Dividends received from investments		<u>2,800</u>
		324,530
Interest payable		<u>19,360</u>
Profit before taxation		305,170
Taxation: Current tax	120,000	
Deferred tax	<u>26,500</u>	<u>146,500</u>
Profit for the year		<u>158,670</u>

*Balance Sheet as at 30 September 2005*

*Non-current assets*

Tangible assets

Plant and machinery 1,184,300

*Current assets*

Inventory

421,440

Trade accounts receivable (W2)

332,100

Investments (W3)

20,000

Cash at bank

17,950

791,490

Total assets

1,975,790

*Current liabilities*

Trade and other accounts payable

212,560

Taxation (W4)

120,000

Accruals

3,260

Bank loan

5,000

340,820

*Non-current liabilities*

Loan notes

150,000

Bank loan

20,000

Deferred taxation

71,600

Account payable for plant

30,000

271,600

612,420

Net assets

1,363,370

*Equity*

Ordinary share capital

600,000

Retained profits

763,370

1,363,370

*Workings:*

(W1) Administrative expenses:

Salaries: office staff

42,100

Directors' emoluments

63,000

Travel and entertainment

4,350

Political and charitable donations

750

Rent and rates: offices

82,180

General expenses

221,400

Allowance for doubtful debts

64,000

Hire of plant

6,700

484,480

(W2)  $396,100 - (80\% \times 80,000) = 332,100$

(W3) Obviously a current asset was bought with temporary surplus cash

(W4) Mainstream corporation tax

120,000

### Notes to Published Accounts

1	Accounting policies. These were . . . [should be given]	
2	Directors' emoluments were £63,000. [Details should be shown of highest paid and bands of payments.]	
3	Depreciation. [Details of methods etc. to be given.]	
4	Plant and machinery account showed cost £1,475,800 and aggregate depreciation £291,500. [Details of year's movements should be stated.]	
5	Auditors' remuneration was £ . . .	
6	Hire of plant and machinery cost £6,700.	
7	The closure of the factory at . . . incurred a loss of £86,100.	
8	Tax charged for the year is calculated:	
	Corporation tax on profit	120,000
	Deferred tax	<u>26,500</u>
		<u>146,500</u>
9	Deferred taxation consists of:	
	Balance 1 October 2004	45,100
	Add Change to profit or loss	<u>26,500</u>
		<u>71,600</u>
10	Retained profits	
	Balance at 1 October 2004	625,700
	Profits for the year	<u>158,670</u>
	Balance at 30 September 2005	<u>784,370</u>
	Interim dividend paid	<u>21,000</u>
		<u>763,370</u>

### Answer to Question 14.4A BA 2

(All in £000)

#### Arran plc

#### Income Statement for the year ending 31 March 2007

Revenue		2,265
Cost of sales (140 + 1,210 – 150)		<u>1,200</u>
Gross profit		1,065
Distribution costs	500	
Administrative expenses (95 + 5 + 40)	<u>140</u>	<u>640</u>
Operating profit		425
Income from non-current asset investment		<u>12</u>
Profit before taxation		437
Taxation: Current tax (180 – 5)	175	
Deferred tax	<u>4</u>	<u>179</u>
Profit for the year		<u>258</u>
Earnings per share (W2)		<u>129p</u>

Note: Dividends proposed at 20p per ordinary share = £60,000.

*Balance Sheet as at 31 March 2007*

<i>Non-current assets</i>			
Tangible assets			
Land and buildings (W3)		165	
Plant and machinery (W3)		<u>190</u>	355
Investments			<u>280</u>
			635
<i>Current assets</i>			
Inventory		150	
Accounts receivable		230	
Cash and bank		<u>25</u>	405
Total assets			<u>1,040</u>
<i>Current liabilities</i>			
Trade accounts payable		130	
Taxation (W4)		<u>180</u>	
		310	
<i>Non-current liabilities</i>			
Deferred tax (60 + 4)		<u>64</u>	374
Net assets			<u>666</u>
<i>Equity</i>			
Called-up share capital			200
Retained profits (229 + 258 – 21)			<u>466</u>
			<u>666</u>
<i>Workings:</i>			
(W1) Corporation tax for the year			180
Less Overprovision in previous year			<u>5</u>
			175
Deferred tax			<u>4</u>
			<u>179</u>
 (W2) $EPS = \frac{\text{Profit after tax}}{\text{Number of ordinary shares issued}}$			
			$= \frac{258}{200} = \underline{\underline{129p}}$
 (W3)			
		<i>Land and buildings</i>	<i>Plant, etc.</i>
Cost 1 April 2006		200	400
Depreciation b/d	30		170
Depreciation for year	<u>5</u>	<u>35</u>	<u>40</u>
Written-down value 31 March 2007		<u>165</u>	<u>190</u>
(W4) Corporation tax for the year			<u>180</u>



## Answer to Question 14.5A BA 2

(All in £000)

### Greet plc

#### Income Statement for the year ending 31 March 2008

	Notes	
Revenue		1,950
Cost of sales (140 + 960 – 150)	(1)	<u>950</u>
Gross profit		1,000
Distribution costs	(1)	420
Administrative expenses	(1)	<u>210</u>
Operating profit		370
Gain on disposal of discontinued operations	(2)	<u>60</u>
		430
Income from other non-current asset investment	(3)	<u>72</u>
Profit before taxation		502
Taxation: Current tax	(4)	27
Deferred tax		<u>16</u>
Profit for the year		43
		<u>459</u>
Earnings per share	(5)	<u>76.5p</u>

#### Balance Sheet as at 31 March 2008

<i>Non-current assets</i>		
Tangible assets	(7)	530
Investments	(8)	<u>560</u>
		1,090
<i>Current assets</i>		
Inventory		150
Accounts receivable		470
Cash and bank		<u>40</u>
Total assets		1,750
<i>Current liabilities</i>		
Trade accounts payable		261
Taxation		<u>52</u>
		313
<i>Non-current liabilities</i>		
Deferred tax	(9)	<u>196</u>
Total liabilities		509
Net assets		<u>1,241</u>
<i>Equity</i>		
Called-up share capital	(10)	600
Retained profits (182 + 459)		<u>641</u>
		<u>1,241</u>

Notes attached to the accounts for year ended 31 March 2008

1 In calculating distribution and administrative costs, the following items have already been charged:			
Hire of plant			35
Depreciation			32
Directors' emoluments			45
Auditors' remuneration			<u>30</u>
2 Sale of factory			<u>60</u>
3 Non-current asset income is on listed non-current asset investments			
4 Tax on profit on ordinary activities:			
UK corporation tax (estimated)			52
Previous year's overprovision			(25)
Deferred tax: increase in provision			<u>16</u>
			<u>43</u>
5 EPS based on 600,000 shares in issue and the profit after tax			<u>76.5p</u>
6 Proposed final dividend 50p a share			<u>300</u>
7 Plant and machinery: Cost 31 March 2007			750
Depreciation to 31 March 2007	188		
Depreciation for the year	<u>32</u>		<u>220</u>
			<u>530</u>
8 Investments: These comprise of non-current asset investments at cost, with market value £580,000			
No movements during year			<u>560</u>
9 Deferred taxation: at 31 March 2007	180		
Add Provided during year	<u>16</u>		<u>196</u>
10 Called-up share capital:			
Ordinary shares £1 each		Authorised	<u>1,000</u>
		Issued	<u>600</u>

### Answer to Question 14.7A BA 2

Per text.

### Answer to Question 15.2A BA 2

See text.

**Answer to Question 15.4A BA 2****Pennylane Ltd**

(IAS 7) *Statement of Cash Flows (using the indirect method) for the year ending 31 December 2003 (£000)*

<b>Cash flows from operating activities</b>		
Profit from operations		330
Adjustments for:		
Depreciation	90	
Loss on sale of tangible non-current assets	13	
Profit on sale of financial investment	( 5)	<u>98</u>
Operating cash flows before movements in working capital		428
Increase in inventories	( 16)	
Increase in accounts receivable	(105)	
Increase in accounts payable	<u>14</u>	
		(107)
Cash generated by operations		321
Tax paid	(110)	
Interest paid	<u>( 75)</u>	
		(185)
<i>Net cash from operating activities</i>		<u>136</u>
<b>Cash flows from investing activities</b>		
Interest received	25	
Payments to acquire intangible non-current assets	( 50)	
Payments to acquire tangible non-current assets	(205)	
Receipts from sale of tangible non-current assets	37	
Receipts from sale of financial investments	<u>30</u>	
<i>Net cash used in investing activities</i>		(163)
<b>Cash flows from financing activities</b>		
Issue of ordinary share capital	60	
Dividends paid	( 80)	
Long-term loan	<u>100</u>	
<i>Net cash from financing activities</i>		<u>80</u>
<b>Net increase in cash and cash equivalents</b>		<u>53</u>
<b>Cash and cash equivalents at beginning of period</b>		<u>(181)</u>
<b>Cash and cash equivalents at end of period</b>		<u><u>(128)</u></u>

**Answer to Question 15.8A BA 2**

(All in £000)

(a) *Income Statement for the year ending 30th April 2006*

Trading profit		520
Less Depreciation on property	36	
Depreciation on plant and vehicles	84	
Loss on sale of plant and vehicles	<u>20</u>	<u>140</u>
Net profit before tax		380
Less Taxation:		
Provision for corporation tax	172	
Transfer to deferred tax	<u>176</u>	<u>(348)</u>
Net profit for the year		<u><u>32</u></u>

*Note:* The transfer of profit for the year to a general reserve would be shown in the statement of changes in Equity.

(b) *Statement of Cash Flows for the year ending 30 April 2006*

**Cash flows from operating activities**

Profit before taxation		380
Adjustments for:		
Depreciation	120	
Loss on sale of tangible non-current assets	20	
Increase in inventories	( 24)	
Increase in accounts receivable	( 76)	
Decrease in accounts payable	<u>24</u>	
		64
Cash generated from operations		<u>444</u>
Taxation paid		(450)
Net cash used in operating activities		( 6)
<b>Cash flows from investing activities</b>		
Payments to acquire tangible non-current assets	(420)	
Payments to acquire intangible non-current assets	( 40)	
Receipts from sales of tangible non-current assets	<u>40</u>	
Net cash used in investing activities		(420)
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	440	
Payment to redeem share capital	(125)	
Net cash from financing activities		315
<b>Net decrease in cash and cash equivalents</b>		(111)
<b>Cash and cash equivalents at beginning of period</b>		<u>50</u>
<b>Cash and cash equivalents at end of period</b>		<u>( 61)</u>

*Workings:*

Loss on sale of tangible non-current assets =  $40 - 60 = (20)$

Cash and cash equivalent at end of period = 64 (per movement of assets table)  
less 125 (unrecorded redemption of shares)  
( 61)

**Answer to Question 15.10A BA 2**

(All in £000)

(a) *Statement of Cash Flows for V Ltd for the year ending 31 December 2003 (indirect method)*

**Cash flows from operating activities**

Profit before taxation		331
Adjustments for:		
Depreciation	74	
Loss on sale of tangible non-current assets	4	
Increase in inventories	( 3)	
Increase in accounts receivable	( 9)	
Increase in accounts payable	<u>( 5)</u>	
		61
Cash generated from operations		<u>392</u>
Interest paid		( 23)
Taxation paid		( 68)
Net cash from operating activities		301
<b>Cash flows from investing activities</b>		
Payments to acquire tangible non-current assets	( 98)	
Receipts from sales of tangible non-current assets	<u>2</u>	
Net cash used in investing activities		( 96)
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	91	
Payment of long-term loan	(250)	
Dividend paid	<u>( 52)</u>	
Net cash used in financing activities		(211)
<b>Net decrease in cash and cash equivalents</b>		( 6)
<b>Cash and cash equivalents at beginning of period</b>		<u>37</u>
<b>Cash and cash equivalents at end of period</b>		<u>31</u>

*Working*

Loss on sale of tangible non-current assets =  $2 - (18 - 12) = (4)$

Taxation paid = charge in income statement	87
new provision	(100)
	( 13)
old provision	81
paid	<u>68</u>

- (b) In the long term, if a business is not profitable, it will not produce sufficient revenues to cover its expenses. Despite the importance of short-term cash flow to meet payments as they fall due, it is in the long-term interests of the business to invest in non-current assets, research and development, and advertising in order to generate future revenues in a profitable manner. Sometimes, management is accused of short-termism, for example delaying necessary capital expenditure in order to keep costs low. While this will indeed improve short-term cash flow, the long-term viability of the business can be at risk.

**Answer to Question 17.4A BA 2**

*Consolidated Balance Sheet*

Goodwill	20,000
Non-current assets	158,000
Inventory	41,000
Accounts receivable	28,000
Bank	<u>3,000</u>
	<u>250,000</u>
Share capital	<u>250,000</u>
	<u>250,000</u>

**Answer to Question 17.5A BA 2**

*Consolidated Balance Sheet*

Non-current assets	170,000
Inventory	42,000
Accounts receivable	78,000
Bank	<u>5,000</u>
	<u>295,000</u>
Share capital	235,000
Retained profits	<u>60,000</u>
	<u>295,000</u>

Elimination of negative goodwill of 60,000 by Parental Ltd recognising the gain in profit or loss.

**Answer to Question 17.8A BA 2**

*Consolidated Balance Sheet*

Non-current assets	64,200
Inventory	15,200
Accounts receivable	19,900
Bank	<u>6,100</u>
	<u>105,400</u>
Share capital	100,000
Minority interest	<u>5,400</u>
	<u>105,400</u>

Elimination of negative goodwill of 1,200 uplifted for minority interest element to 1,200 plus  $1,200 \times \frac{1}{2} = 1,800$ . Non-current assets in Son and Daughter reduced by 1,800. Minority interest =  $\frac{1}{3}$  of 16,200 = 5,400.

**Answer to Question 17.9A BA 2***Consolidated Balance Sheet*

Goodwill	3,000
Non-current assets	57,000
Inventory	11,000
Accounts receivable	17,000
Bank	<u>7,000</u>
	<u>95,000</u>
Share capital	90,000
Minority interest	<u>5,000</u>
	<u>95,000</u>

**Answer to Question 17.12A BA 2***Consolidated Balance Sheet*

Goodwill	2,000
Non-current assets	129,000
Current assets	<u>51,000</u>
	<u>182,000</u>
Share capital	100,000
Retained profits	56,000
General reserve	20,000
Minority interest	<u>6,000</u>
	<u>182,000</u>

Elimination of negative goodwill of 18,000 by reducing non-current assets in Sub 1.

**Answer to Question 17.13A BA 2***Consolidated Balance Sheet*

Goodwill*	19,500
Non-current assets	189,000
Current assets	<u>55,000</u>
	<u>263,500</u>
Share capital	160,000
Retained profits	58,000
General reserve	20,000
Minority interest	<u>25,500</u>
	<u>263,500</u>

\* Goodwill  $10,500 + 9,000 = 19,500$

**Answer to Question 18.3A BA 2***Consolidated Balance Sheet as at 31 October 2008*

Goodwill*	7,980
Non-current assets	165,000
Current assets	<u>55,000</u>
	<u>227,980</u>
Share capital	125,000
Retained profits: $45,000 + (51\% \text{ of } 8,000)$	49,080
Minority interest $39,200 + [49\% \text{ of } (15,000 + 15,000)]$	<u>53,900</u>
	<u>227,980</u>

\* Goodwill: Cost  $60,000 - [51\% \text{ of } (80,000 + 7,000 + 15,000)] = 7,980$

## Answer to Question 18.5A BA 2

*P, S1 and S2 Consolidated Balance Sheet as at 31 December 2003*

Goodwill	1,800
Non-current assets	157,667
Current assets	114,300
	<u>273,767</u>
Share capital	200,000
Retained profits: $27,000 - (80\% \text{ of } 1,600) + (75\% \text{ of } 3,400)$	28,270
General reserve	23,000
Minority interest: $[20\% \text{ of } (50,000 + 1,400 + 6,000) + 25\% \text{ of } (36,000 + 8,067)]$	<u>22,497</u>
	<u>273,767</u>

Goodwill S1 Cost  $49,000 - [80\% \text{ of } (50,000 + 3,000 + 6,000)] = 1,800$

Negative goodwill S2 Cost  $30,500 - [75\% \text{ of } (36,000 + 4,800 + 1,800)] = 1,450$

Elimination of negative goodwill of 1,450 uplifted for minority interest element in S2 to 1,450 plus  $1,450 \times \frac{25}{75} = 1,933$  (to nearest £). Non-current assets in S2 reduced by 1,933. Minority interest in S2 = 25 per cent of 44,067 = 11,017.

*S2 Balance Sheet (restated)*

		£
Non-current assets		29,467
Current assets		14,600
		<u>44,067</u>
Share capital		36,000
Retained profits as at 31.12.02	4,667	
Add profit for 2003	<u>3,400</u>	<u>8,067</u>
		<u>44,067</u>

## Answer to Question 18.6A BA 2

(All in £000)

(a) Cost of acquisition		150
Nominal value shares bought	80	
Retained profits ( $50 \times 80\%$ )	<u>40</u>	<u>120</u>
Goodwill		<u>30</u>
(b) Heather		700
Thistle $(120 - 50) \times 80\%$		<u>56</u>
Group retained profit		<u>756</u>
(c) Minority interest:		
Nominal value of shares		100
Retained profits		<u>120</u>
		<u>220</u>
Minority interest $220 \times 20\% =$	<u>44</u>	

## Answer to Question 19.4A BA 2

(All in £000)

### Seneley Group Consolidated Balance Sheet as at 30 September 2006

Non-current assets			
Goodwill (W4)			58
Other non-current assets			<u>745</u>
Total non-current assets			803
<i>Current assets</i>			
Inventory ( $225 + 45 + 150 - 4$ )		416	
Accounts receivable (W1)		420	
Cash and bank		<u>65</u>	<u>901</u>
Total assets			1,704
<i>Current liabilities: Accounts payable (W1)</i>			<u>430</u>
			<u>1,274</u>
<i>Equity</i>			
Called-up share capital			800
Retained profits (W2)			<u>289</u>
			1,089
Minority interest (W3)			<u>185</u>
			<u>1,274</u>
(W1)		<i>Accounts Receivable</i>	<i>Accounts Payable</i>
Seneley		240	320
Lowe		180	90
Wright		<u>50</u>	<u>70</u>
		470	480
<i>Less Intercompany debts:</i>			
Wright owed Lowe	25		25
Lowe owed Seneley	<u>20</u>		<u>20</u>
Seneley owed Wright	<u>5</u>	<u>50</u>	<u>5</u>
		<u>420</u>	<u>430</u>
(W2) Retained profits:			
Seneley			252
Wright $(50 - 60) \times 70\%$			( 7)
Lowe $(150 - 90) \times 80\%$			<u>48</u>
			293
<i>Less Profit in inventory</i>			( 4)
			<u>289</u>
(W3) Minority interest: Lowe $550 \times 20\%$			110
Wright $250 \times 30\%$			<u>75</u>
			<u>185</u>
(W4) Cost of control:		<i>Lowe</i>	<i>Wright</i>
Cost of investment		450	130
Share capital	80%	(320)	(70%) (140)
Retained profits	80%	( 72)	(70%) ( 42)
Goodwill/(Negative goodwill)		<u>58</u>	<u>( 52)</u>



## Answer to Question 19.5A BA 2

### Consolidated Balance Sheet as at 31 December 2005

Non-current assets		
Goodwill (125,000 – 113,000) + (85,000 – 77,840)		19,160
Other non-current assets		<u>322,000</u>
		341,160
<i>Current assets</i>		
Inventory (101,000 – 350)	100,650	
Accounts Receivable (85,000 – 5,700)	79,300	
Bank	<u>48,000</u>	<u>227,950</u>
Total assets		569,110
<i>Current liabilities</i>		
Accounts Payable (30,000 – 5,700)		<u>24,300</u>
Net assets		<u>544,810</u>
Share capital		325,000
Retained profits (37,000 – 350 + 26,000 – (56% × 4,000))		60,410
General reserve		<u>100,000</u>
		485,410
Minority interest 44% × (135,000)		<u>59,400</u>
		<u>544,810</u>

## Answer to Question 19.7A BA 2

(All in £000)

### Block Group of Companies Consolidated Balance Sheet as at 30 September 2008

Non-current assets		
Goodwill (W1)		100
Other non-current assets (8,900 + 2,280 + 3,240)		<u>14,420</u>
Total non-current assets		14,520
<i>Current assets</i>		
Inventory (300 + 80 + 160 – 50)	490	
Accounts receivable (1,600 + 50 + 130 – 30 – 20)	1,730	
Cash (400 + 120 + 110)	<u>630</u>	<u>2,850</u>
Total assets		17,370
Accounts payable (300 + 140 + 130 – 20 – 30)		<u>520</u>
		<u>17,850</u>
<i>Capital and reserves</i>		
Called-up share capital		10,000
Retained profits (W2)		<u>5,190</u>
		15,190
Minority interest (W3)		<u>1,660</u>
		<u>16,850</u>

<i>Workings:</i>					
(W1) Goodwill:		<i>Chip</i>		<i>Knot</i>	
Cost		2,500			1,600
Shares	3,000		2,000		
Retained profits	<u>200</u>		<u>500</u>		
	<u>3,200</u>	× 80%	<u>2,560</u>	× 60%	<u>1,500</u>
			( <u>60</u> )		<u>100</u>

(W2) Retained profits	
Block	5,060
Chip $(500 - 200) \times 80\%$	240
Knot $(400 - 500) \times 60\%$	( 60)
Inventory profit unrealised $100 \times 50\%$	( 50)
	<u>5,190</u>
(W3) Minority interest	
Chip $20\% \times 3,500$	700
Knot $40\% \times 2,400$	960
	<u>1,660</u>

### Answer to Question 20.2A BA 2

	<i>Holding</i>	<i>Cost</i>	
75% Share capital and reserves 31 October 2008			765,000
Shares bought 31 October 2004	150,000	260,000	
Shares bought 31 October 2008	<u>300,000</u>	<u>650,000</u>	
	<u>450,000</u>		<u>910,000</u>
Goodwill on acquisition			<u>145,000</u>

#### Note

Comprising: 31 October 2004:  $\pounds 260,000 - ((25\% \text{ of } \pounds 600,000 + 340,000) = \pounds 235,000) = 25,000$   
31 October 2008:  $\pounds 650,000 - ((50\% \text{ of } \pounds 600,000 + 420,000) = \pounds 510,000) = 140,000$   
165,000  
Post first purchase profits 31 October 2004 to 31 October 2008  $(25\% \text{ of } \pounds 80,000) = 20,000$ \*  
145,000

\* This is the goodwill 'lost' by delaying acquisition until 31 October 2008.

### Answer to Question 20.4A BA 2

Shares bought		175,000
Reserves at 31 December 2007 $20,000 + 16,000 =$	36,000	
Add proportion of 2008 profits before acquisition $(\frac{1}{4} \times 24,000)$	<u>6,000</u>	
	<u>42,000</u>	
Proportion of pre-acquisition profits $\frac{175,000}{200,000} \times 42,000 =$		<u>36,750</u>
		<u>211,750</u>
Paid for shares 240,000		
Therefore goodwill is $240,000 - 211,750 = 28,250$		

### Answer to Question 21.2A BA 2

<i>Consolidated Balance Sheet as at 31 December 2007</i>		
Goodwill		39,000
Other non-current assets		279,000
Current assets		<u>107,000</u>
		<u>425,000</u>
Share capital		300,000
Retained profits $(74,000 + 46,000 - 25,000 + 30,000)$		<u>125,000</u>
		<u>425,000</u>
Workings: Goodwill: $\text{Cost } 160,000 - 80,000 - 16,000 - \text{Dividend } 25,000 = 39,000$		

## Answer to Question 21.4A BA 2

### Consolidated Balance Sheet as at 31 December 2008

Goodwill (380,000 – 195,000 – 65% of 62,000)	144,700
Other non-current assets	<u>510,000</u>
	654,700
Current assets	<u>212,000</u>
	866,700
Current liabilities	<u>50,000</u>
	<u>816,700</u>
Share capital	600,000
Retained profits (112,000 – 65% of 22,000)	97,700
Minority interest (105,000 + 35% of 40,000)	<u>119,000</u>
	<u>816,700</u>

## Answer to Question 21.7A BA 2

(a) (All in £000)

### P plc & S plc

### Consolidated Balance Sheet as at 30 April 2008

#### Non-current assets

Goodwill			<u>22</u>
----------	--	--	-----------

#### Other non-current assets

	Cost	Depreciation to date	
Freehold property	141	55	86
Plant	<u>440</u>	<u>148</u>	<u>292</u>
	<u>581</u>	<u>203</u>	<u>378</u>
			400

#### Current assets

Inventory (W1)		172	
Accounts receivable (W2)		35	
Cash (W3)		<u>25</u>	<u>232</u>
Total assets			632

#### Current liabilities

Trade Accounts payable (W4)		51	
Taxation		<u>80</u>	
			<u>131</u>
			<u>501</u>

#### Equity

Called-up share capital			300
Reserves			
Share premium			20
General reserve (W6)			64
Retained profits (W7)			<u>73</u>
			457
Minority interest (W5)			<u>44</u>
			<u>501</u>

#### Workings:

#### Cost of Control Account

Cost of investment in ordinary share capital	150	Ordinary share capital (80% × 100)	80
		Share premium (80% × 10)	8
		General reserve (80% × 20)	16
		Profit and loss (80% × 30)	24
		Goodwill	<u>22</u>
	<u>150</u>		<u>150</u>

(W1)	Inventory	P	111		
		S	<u>65</u>	176	
	Less Profit in unsold inventory	20% margin × 20		<u>4</u>	<u>172</u>
(W2)	Accounts receivable	P	30		
		S	<u>15</u>	45	
	Less Intercompany account			<u>10</u>	<u>35</u>
(W3)	Cash	P		19	
		S		2	
	Cheque in transit			<u>4</u>	<u>25</u>
(W4)	Trade accounts payable	P	35		
		S	<u>22</u>	57	
	Less Intercompany account			<u>6</u>	<u>51</u>
(W5)	Minority interest: Ordinary share capital	20% × 100		20	
	Preference share capital	50% × 20		10	
	Share premium	20% × 10		2	
	General reserve	20% × 15		3	
	Retained profits	20% × 45		<u>9</u>	<u>44</u>
(W6)	General reserve: P			68	
	Less 80% reduction S reserve × 5			<u>4</u>	<u>64</u>
(W7)	Retained profits P		65		
	S 80% × 15		<u>12</u>		
	Less Profit on intercompany inventory (see W1)			77	
				( 4)	<u>73</u>

(b) 'Cost of control' is the excess of the purchase price over the value of the assets acquired when one company takes a controlling interest in another company. It is usually called, 'goodwill', although the term 'cost of control' is more explicit. The treatment adopted complies with International GAAP.

### Answer to Question 22.2A BA 2

#### Consolidated Balance Sheet as at 31 March 2004

Non-current assets		
Goodwill (74,000 – 30,000 – 18,000 – 16,000)		10,000
Other non-current assets	263,000	
Less Depreciation	<u>64,900</u>	198,100
Current assets		<u>76,000</u>
		<u>284,100</u>
Share capital		210,000
Retained profits (65,000 – 1,000 + 10,000 + 100)		<u>74,100</u>
		<u>284,100</u>

### Answer to Question 22.4A BA 2

#### Consolidated Balance Sheet as at 31 December 2008

Non-current assets		
Goodwill (68,000 – 65,000)		3,000
Other non-current assets	155,000	
Less Depreciation	<u>15,500</u>	139,500
Current assets		<u>20,000</u>
		<u>162,500</u>
Share capital		110,000
Retained profits (42,000 + 12,000 – 1,500)		<u>52,500</u>
		<u>162,500</u>

**Answer to Question 23.2A BA 2***Consolidated Balance Sheet as at 31 March 2003*

Non-current assets			
Goodwill			50,100
Other non-currents assets			566,250
Current assets			<u>123,750</u>
			<u>740,100</u>
Share capital			500,000
Retained profits (197,500 + 80% of 10,000 + 56% of 12,500)			212,500
Minority interest			<u>27,600</u>
			<u>740,100</u>
Goodwill: Cost of shares to group in Sub A Ltd		97,500	
Cost of shares to group in Sub B Ltd 80% of 32,500		<u>26,000</u>	123,500
Less Shares: in Sub A	40,000		
in Sub B 56% of 25,000	<u>14,000</u>	54,000	
Retained profits: in Sub A 80% of 15,000	<u>12,000</u>		
in Sub B 56% of 2,500	<u>1,400</u>	13,400	
General reserve: in Sub A 80% of 7,500		<u>6,000</u>	73,400
			<u>50,100</u>
Minority interest:			
Shares in Sub A	10,000		
Shares in Sub B 44% of 25,000	<u>11,000</u>	21,000	
Retained profits: in Sub A 20% of 25,000	<u>5,000</u>		
in Sub B 44% of 15,000	<u>6,600</u>	11,600	
General reserve: in Sub A 20% of 7,500		<u>1,500</u>	34,100
Less Cost of shares in Sub B to minority interest of Sub A 20% of 32,500			<u>6,500</u>
			<u>27,600</u>

**Answer to Question 23.4A BA 2**

The dividend on the preference share should be treated like interest and accrued (see W7).

**Bryon Ltd & its subsidiaries**  
*Balance Sheet as at 30 September 2006*

<i>Non-current assets</i>			
Goodwill			550,625
Tangible assets			
Freehold land and buildings at cost (W1)			2,825,000
Plant and equipment at cost (W2)	11,468,400		
Less Depreciation	<u>8,419,600</u>		3,048,800
<i>Current assets</i>			
Inventory (W4)	2,870,500		
Accounts receivable (W5)	4,600,000		
Cash at bank (W6)	<u>142,000</u>		7,612,500
Total assets			<u>14,036,925</u>
<i>Current liabilities</i>			
Accounts payable	4,073,050		
Preference dividends accrued (W7)	80,000		
Bank overdraft	<u>1,450,850</u>	5,603,900	
<i>Non-current liabilities</i>			
8% Redeemable preference shares	2,000,000		
10% Loan note	<u>2,000,000</u>	<u>4,000,000</u>	9,603,900
			<u>4,433,025</u>
<i>Capital and reserves</i>			
Called-up share capital			2,000,000
Reserves (W9)			949,675
Minority interests (W8)			<u>1,483,350</u>
			<u>4,433,025</u>

Workings: Bryon owns 75% of Carlyle  
 Bryon owns  $75\% \times 66\frac{2}{3}\% = 50\%$  of Doyle

(W1)	Land and buildings per balance sheets	2,625,000	
	Extra value: Doyle	<u>200,000</u>	
		<u>2,825,000</u>	
(W2)	Plant per balance sheets	11,250,000	
	Extra value: Doyle	<u>218,400</u>	
		<u>11,468,400</u>	
(W3)	Depreciation per balance sheets	8,280,000	
	Extra depreciation: Doyle	<u>139,600</u>	
		<u>8,419,600</u>	
(W4)	Inventory per balance sheets	2,950,500	
	Less Intercompany profit: Doyle	<u>80,000</u>	
		<u>2,870,500</u>	
(W5)	Accounts receivable per balance sheets	4,700,000	
	Less Cheque in transit	<u>100,000</u>	
		<u>4,600,000</u>	
(W6)	Bank per balance sheets	42,000	
	Cheque in transit	<u>100,000</u>	
		<u>142,000</u>	
(W7)	Preference dividend $\frac{1}{2}$ year accrued: 8% $\times$ 2,000,000 $\times$ 6 months		<u>80,000</u>
(W8)	Minority interests		
	Shares: Ordinary: Carlyle (25%)		250,000
	Doyle (50%)		<u>600,000</u>
			850,000
	Reserves: Carlyle		
	Per question	1,013,400	
	Less Preference dividend 1.10.2006	<u>80,000</u>	
		<u>933,400</u>	
	25%		233,350
	Reserves: Doyle		
	Per balance sheet	521,200	
	Fair value adjustments	<u>278,800</u>	
		<u>800,000</u>	
	50% share		<u>400,000</u>
			<u>1,483,350</u>
(W9)	Reserves		
(i)	Profit in Doyle		
	Per question	310,000	
	Less Additional depreciation	<u>40,000</u>	
	Amended profit for 12 months	<u>270,000</u>	
	Post-acquisition = $\frac{\text{No of shares bought}}{\text{Issued shares}} \times \text{Profit} \times \text{Months owned}$		
	= (Bought 31 March 2006) $\frac{400,000}{1,200,000} \times 270,000 \times \frac{6}{12} =$		45,000
	= (Bought 30 June 2006) $\frac{400,000}{1,200,000} \times 270,000 \times \frac{3}{12} =$		<u>22,500</u>
		<u>67,500</u>	
	75% goes to group reserves*		<u>= 50,625</u>

\* Not  $66\frac{2}{3}\%$  as the shares shown in the above calculation do not include minority interest.  
 As Bryon Ltd owns 75% of Carlyle Ltd, that is the proportion to use.

(ii)	Reserves in Doyle per balance sheet		521,200
	Add Fair value adjustment		<u>278,800</u>
			<u>800,000</u>
	Minority owns 50%	400,000	
	Bryon's share 50%		400,000
	Less 75% share of post-acquisition profits (see (i))		<u>50,625</u>
	Value of reserves at date of purchases		<u>349,375</u>
	Reserves for balance sheet therefore per unconsolidated balance sheets:		
	Bryon	879,000	
	Carlyle	1,013,400	
	Doyle	<u>521,200</u>	2,413,600
	Add Fair value adjustment (Doyle)		<u>278,800</u>
			<u>2,692,400</u>
	Less Unrealised profits on inventory (W4)	80,000	
	Pre-acquisition profits Carlyle (75%)	600,000	
	Doyle reserves: pre-acquisition (see above)	349,375	
	Minority interest (Doyle)	400,000	
	Minority interest (Carlyle):		
	1,013,400 – preference dividend due 80,000 =		
	933,400 × 25%	233,350	
	Accrued dividend preference shares (Carlyle)	<u>80,000</u>	1,742,725
			<u>949,675</u>

### Answer to Question 24.3A BA 2

#### Old plc & subsidiaries

##### Consolidated Income Statement for the year ending 30 April 2006

Revenue (1,250,000 + (875,000 – 150,000 – ( $\frac{3}{4} \times 120,000$ )) + ( $\frac{3}{4} \times 650,000$ ))		2,372,500
Cost of sales (W4)		<u>1,450,500</u>
Gross profit		922,000
Distribution expenses	255,000	
Administration expenses	<u>122,000</u>	377,000
Profit before taxation		545,000
Taxation		<u>215,000</u>
Profits for the year after taxation		330,000
Minority interest (8,400 L (W1) + 4,000 Preference Dividend F)	12,400	
Pre-acquisition dividend	<u>1,000</u>	13,400
Profit for the year (W2)		<u>316,600</u>

#### Workings:

##### (W1) Lodge:

	Year	9 months
Revenue	650,000	487,500
Cost of goods sold (Purch. 475,000 + Op. Inv. 80,000 – Cl. Inv. 85,000)	(470,000)	(352,500)
	180,000	135,000
Distribution expenses	( 60,000)	( 45,000)
Administration	( 72,000)	( 54,000)
	48,000	36,000
Taxation	( 20,000)	( 15,000)
	<u>28,000</u>	<u>21,000</u>
Minority interest 40%		<u>8,400</u>

(W2)	<i>Old</i>	<i>Field</i>	<i>Lodge</i>	
Turnover	1,250,000	875,000	487,500	
Purchases	( 780,000)	(555,000)	(356,250)	
Adjust stock	<u>20,000</u>	<u>( 15,000)</u>	<u>3,750</u>	
	490,000	305,000	135,000	
Distribution	125,000	85,000	( 45,000)	
Administration	<u>28,000</u>	<u>40,000</u>	<u>( 54,000)</u>	
	337,000	180,000	36,000	
Corporation tax	<u>125,000</u>	<u>75,000</u>	<u>15,000</u>	
	212,000	105,000	21,000	
Profit unrealised (see W3)	( 8,000)			
Minority interest (see W1)			( 8,400)	
Preference dividend: minority		( 4,000)		
Pre-acquisition preference dividend		<u>( 1,000)</u>		
	<u>204,000</u>	<u>100,000</u>	<u>12,600</u>	<u>316,600</u>
(W3) Unrealised profit	<i>Old</i>	<i>Field</i>	<i>Lodge</i>	<i>Total</i>
Opening intra-group inventory	36,000		–	
Closing intra-group inventory	<u>40,000</u>		<u>28,000</u>	
	<u>4,000</u>		<u>28,000</u>	
Profit @ 25%	<u>1,000</u>		<u>7,000</u>	<u>8,000</u>
(W4) Cost of sales	<i>Old</i>	<i>Field</i>	<i>Lodge</i>	<i>Total</i>
Per W2	780,000	555,000	356,250	
Intra-group purchases	<u>(150,000)</u>		<u>( 90,000)*</u>	
Cost of purchases	630,000	555,000	266,250	
Inventory adjustment	<u>( 20,000)</u>	<u>15,000</u>	<u>(3,750)</u>	
Profit unrealised in net inventory (W3)	1,000	–	–	
Profit in closing inventory	<u>–</u>	<u>–</u>	<u>7,000</u>	
Cost of sales	<u>611,000</u>	<u>570,000</u>	<u>269,500</u>	<u>1,450,500</u>

### Answer to Question 24.4A BA 2

#### ATH Ltd

##### *Consolidated Income Statement for year ending 31 December 2008*

Revenue (194,000 + 116,000 + 84,000 – 1,000)	393,000
Cost of sales (153,000 + 87,000 + 63,000 – 1,000)	<u>302,000</u>
Gross profit	91,000
General expenses (32,600 + 22,900 + 18,750)	<u>74,250</u>
Profit for the year	16,750
Minority interest (W1)	<u>1,220</u>
Group profit for the year	<u>15,530</u>

##### *Balance Sheet as at 31 December 2008*

Goodwill (W3)	5,450
Non-current assets	<u>99,000</u>
	104,450
Current assets	<u>91,000</u>
Total assets	<u>195,450</u>
Current liabilities	<u>55,000</u>
Net assets	<u>140,450</u>
Share capital	100,000
Retained profits (W2 + 15,530)	32,330
Minority interest (W4)	<u>8,120</u>
	<u>140,450</u>



*Workings:*

(W1) Minority interest: 20% × £6,100 for GLE			<u>1,220</u>
(W2) Profit brought forward: ATH Ltd FRN (1,900 – 700)		15,600 <u>1,200</u>	<u>16,800</u>
(W3) Goodwill:	<i>GLE</i>	<i>FRN</i>	
Cost of shares	33,700	21,250	
Par value	(24,000)	(20,000)	
Pre-acquisition profit	( 4,800)	( 700)	
Goodwill	<u>4,900</u>	<u>550</u>	<u>5,450</u>
(W4) Minority interest:			<i>GLE</i>
Share capital			6,000
Retained profits 20% × (6,000 – 1,500 + 6,100)			<u>2,120</u>
			<u>8,120</u>

*Summarised Income Statements*

	<i>ATH</i>	<i>GLE</i>	<i>FRN</i>	<i>Total</i>
Revenue	194,000	116,000	84,000	394,000
Cost of sales	<u>153,000</u>	<u>87,000</u>	<u>63,000</u>	<u>303,000</u>
Gross profit	41,000	29,000	21,000	91,000
General expenses	<u>32,600</u>	<u>22,900</u>	<u>18,750</u>	<u>74,250</u>
Net profit	8,400	6,100	2,250	16,750
Dividend received	1,200			
Dividend paid		<u>1,500</u>		
	<u>9,600</u>	<u>4,600</u>		

**Answer to Question 26.3A BA 2**

(a)

**Jasmin (Holdings) Group plc**

*Consolidated Balance Sheet as at 31 March 2004 (£000)*

Intangible fixed assets		38,300
Tangible fixed assets		379,400
Investment in associated company (note 1)		<u>8,624</u>
		426,324
<i>Current assets:</i> Inventory (285,600 + 151,400 = 437,000 – 300 unrealised profit)	436,700	
Cash	<u>319,500</u>	
		756,200
Total assets		1,182,524
<i>Current liabilities:</i> Accounts payable		<u>528,100</u>
		654,424
<i>Share capital and reserves</i>		
Ordinary £1 shares		60,000
Revaluation reserve [W1 (iv)]	37,964	
Retained profits [W1 (v)]	<u>553,320</u>	
		591,284
Minority interest		<u>3,140</u>
		654,424

*Notes to financial statements (extract):*

1 Investment in associated company, Fortran plc: (8,000 + post-combination share 624)	
Share of net assets (pre-combination 7,202 plus post-combination of 52% × 1,200)	7,696
Premium on acquisition (not yet written off)	<u>928</u>
	<u>8,624</u>

*Workings:*

(W1) Kasbah:

- (i) Goodwill on acquisition =  $97,600 - [18,000 + 800 \text{ (goodwill on preference shares)} + 40,500] = 38,300$
- (ii) Minority interest = ordinary share capital 2,000 + preference share capital 3,200 = 5,200 – (retained profits 1,880 + revaluation reserve reduction 180) = 3,140
- (iii) Group share of Kasbah retained profits = balance 18,800 + capitalised at acquisition 40,500 = 59,300 – minority interest 1,880 = 57,420 (post-combination loss)
- (iv) Revaluation reserve = Jasmin 40,000 – group share of Kasbah revaluation reduction 1,620 = 38,380 minus post-combination reduction Fortran 416 = 37,964
- (v) Group retained profits = Jasmin 610,000 – (unrealised inventory profit 300 + Kasbah 57,420) = 552,280 + [Fortran post-combination of 52% (3.6 – 1.6 =) 1.04] = 553,320

(W2) Fortran:

- (i) As Jasmin only controls 40% of the voting equity of Fortran, Fortran is an associate company, rather than a subsidiary. Nevertheless, it is 52% of the profits and losses that should be included under equity accounting, being the proportion of ownership.

	<i>Jasmin</i>		<i>Voting rights Others</i>		<i>Total</i>	
'A' ordinary shares	4,800	(80%)	1,200	(20%)	6,000	(100%)
'B' ordinary shares	800	(10%)	7,200	(90%)	8,000	(100%)
	<u>5,600</u>	<u>(40%)</u>	<u>8,400</u>	<u>(60%)</u>	<u>14,000</u>	<u>(100%)</u>

- (ii) Premium on acquisition = cost 8,000 – [52% of (share capital 10,000 + revaluation reserve 2,000 + retained profits 1,600)] = 928
- (iii) Investment in Fortran = cost of shares 8,000 + share of post-acquisition reserves [52% revaluation reserves of (800) = (416) + 52% retained profits of 2,000 = 1,040] = 8,624
- (c) The 63.8 million losses of Kasbah plc (the balance on reserves at 1 April 2003 was 45 million; at 3 March 2004 it was 18.8 million), could indicate a possible going concern problem that should be investigated.

## Answer to Question 26.4A BA 2

- (a) Huge has 75% of Large's share capital. Large is therefore quite clearly a subsidiary undertaking and will be treated as such in the consolidated accounts.

Huge has 25% of the ordinary share capital of Medium. This means that Medium is an associated or related undertaking. The equity method of accounting therefore applies under IAS 27, where the test of it is based on the ability to exert significant influence.

Huge owns only 10% in Small and there is nothing stated in the question to suggest it should be treated as an associated undertaking. It will simply be shown as an investment.

(b) (All in £000)

**Huge plc and subsidiary Large plc**  
*Consolidated Balance Sheet as at 30 September 2007*

*Fixed assets*

Goodwill (W2)		60
Property, plant and machinery (2,004 + 780)		2,784
Investment in related company (Medium)	180	
Add Share of post-acquisition profits (W1)	<u>15</u>	195
Other investments (Small)		<u>12</u>
		3,051

*Current assets*

Inventory (489 + 303)	792	
Accounts receivable (488 + 235 + 10)	733	
Accounts receivable – related company	40	
Bank and cash (45 + 62)	<u>107</u>	1,672
Total assets		4,723

*Current liabilities*

Trade accounts payable (318 + 170)		488
		<u>4,235</u>

*Capital and reserves*

Called-up share capital		2,400
Revenue reserves (see W3)		<u>1,530</u>
		3,930
Minority interest (see W4)		<u>305</u>
		<u>4,235</u>

*Workings:*

(W1) Medium: Post-acquisition profits		
Reserves 30.9.2007	210,000	
Less Reserves 1.10.2006	<u>150,000</u>	60,000
25% of 60,000 =		<u>15,000</u>
(W2) Purchase of Large shares		
600,000 shares at par		600,000
600,000/800,000 × Revenue reserves of 320,000		<u>240,000</u>
		840,000
Cost of purchase		<u>900,000</u>
Goodwill		<u>60,000</u>
(W3) Revenue reserves:		
Huge	1,440,000	
Large 75% × post-acquisition profits of 100,000		
(420,000 – 320,000) =	75,000	
Medium (W1)	<u>15,000</u>	<u>1,530,000</u>
(W4) 25% share capital (Large) × 800,000 =	200,000	
25% reserves (Large) × 420,000 =	<u>105,000</u>	<u>305,000</u>

**Answer to Question 27.2A BA 2**

See text, Section 27.1.

**Answer to Question 27.4A BA 2**

See text, Section:

- (a) 27.3
- (b) 27.2
- (c) 27.4
- (d) 27.6
- (e) 27.5

**Answer to Question 27.6A BA 2**

- (a) 1 : 8.33 or 12%  
 (b) 2.5%  
 (c) 48p  
 (d) 5

**Answer to Question 27.8A BA 2**

Any ten ratios could be selected, but it would be expected that the selection would include ratios from each of the groups given in the chapter. In this case, the company appears as if it may have liquidity problems, possibly due to excessively high inventory. The gross profit percentage is not very high at 30%, and much of it is eroded by the time all the other expenses have been charged to profit or loss. The EPS and dividend cover ratios would need to be compared to those of other companies in the same sector, as would all the other ratios calculated, before any further conclusions could be drawn. It would also be interesting to compare these ratios (and others) with the equivalent figures for the previous year.

<i>Ratio category</i>	<i>Formula</i>	
<i>Solvency</i>		
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	= 1.06 : 1
Acid test ratio	$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$	= 0.18 : 1
<i>Profitability</i>		
Gross profit : Revenue	$\frac{\text{Gross profit}}{\text{Sales}}$	= 30%
Return on capital employed	$\frac{\text{Profit before interest and tax}}{\text{Total assets} - \text{current liabilities}}$	= 10.2%
<i>Efficiency</i>		
Inventory turnover	$\frac{\text{Cost of goods sold}}{\text{Average inventory}}$	= 5.09 times
Accounts receivable days	$\frac{\text{Accounts receivable}}{\text{Sales}} \times 365$	= 10.95 days
Accounts payable days	$\frac{\text{Accounts payable}}{\text{Purchases}} \times 365$	= 40.28 days
<i>Capital structure</i>		
Capital gearing ratio	$\frac{\text{Prior charge capital}}{\text{Total capital}}$	= 23.8%
<i>Shareholder ratios</i>		
Earnings per share	$\frac{\text{Net profit after tax and preference dividends}}{\text{Number of ordinary shares in issue}}$	= 7.6p
Dividend cover	$\frac{\text{Net profit after tax and preference dividends}}{\text{Net dividend on ordinary shares}}$	= 3.17 times

## Answer to Question 27.10A BA 2

	R	T
(i) Gross profit as % of revenue	$\frac{500}{2,000} \times \frac{100}{1} = 25\%$	$\frac{500}{1,400} \times \frac{100}{1} = 35.7\%$
(ii) Net profit as % of revenue	$\frac{60}{2,000} \times \frac{100}{1} = 3\%$	$\frac{100}{1,400} \times \frac{100}{1} = 7\%$
(iii) Expenses as % of revenue	$\frac{440}{2,000} \times \frac{100}{1} = 22\%$	$\frac{400}{1,400} \times \frac{100}{1} = 28.6\%$
(iv) Inventory turnover	$\frac{1,500}{(440 + 490) \div 2} = 3.2 \text{ times}$	$\frac{900}{(144 + 240) \div 2} = 4.7 \text{ times}$
(v) ROCE	$\frac{60}{1,120} \times \frac{100}{1} = 5.4\%$	$\frac{100}{678} \times \frac{100}{1} = 14.7\%$
(vi) Current ratio	$\frac{1,250}{324} = 3.86$	$\frac{687}{90} = 7.63$
(vii) Acid test ratio	$\frac{760}{324} = 2.35$	$\frac{447}{90} = 4.97$
(viii) Accounts receivable : revenue ratio	$\frac{680}{2,000} \times 12 = 4.08 \text{ months}$	$\frac{320}{1,400} \times 12 = 2.74 \text{ months}$
(ix) Accounts payable : purchases ratio	$\frac{324}{1,550} \times 12 = 2.51 \text{ months}$	$\frac{90}{996} \times 12 = 1.08 \text{ months}$

- (b) T is obviously the more efficient company. It has made £100,000 profit compared with the £60,000 profit of R and also has achieved a return on capital employed of 14.7%, almost three times that of R (5.4%).

*Reasons:* These are conjecture – you really have to know more about the businesses before you can be definite.

- (i) Somehow T has managed to achieve a far greater percentage gross profit while maintaining a reasonable level of sales.
- (ii) Because expenses are lower, but gross profit is the same as for R, T has made the higher net profit.
- (iii) T has kept inventory down to relatively lower figures than R, something made possible by T's higher level of inventory turnover.
- (iv) T has almost three times R's rate of return on capital employed, helped by lower inventory, better accounts receivable : revenue ratio and relatively lower accounts payable.
- (v) T appears to have far better control over its accounts receivables and its accounts payables than R.

## Answer to Question 28.3A BA 2

### Calculations

### Income Statements for the year ending 31 May 2006

	6 months to 30 Nov		6 months to 31 May		Year to 31 May	
		%		%		%
Revenue	140,000	100	196,000	100	336,000	100
Cost of sales	42,000	30	70,000	36	112,000	33
Gross profit	98,000	70	126,000	64	224,000	67
Expenses	56,000	40	112,000	57	168,000	50
Net profit	42,000	30	14,000	7	56,000	17
Opening inventory	12,000		16,000		12,000	
Closing inventory	16,000		25,000		25,000	
Average inventory	14,000		20,500		18,500	

Average inventory could be calculated for the year as [(opening inventory 12,000 + closing inventory 25,000) ÷ 2] £18,500 or [(12,000 + 16,000 + 25,000) ÷ 3] £17,666 or [(14,000 + 20,500) ÷ 2] £17,250.

Inventory turnover	$\frac{\text{Cost of sales}}{\text{Average inventory}} =$	3	3.4	6.0
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### Influence of New Premises

	New premises		Existing business		6 months to 31 May	
		%		%		%
Revenue	70,000	100	126,000	100	196,000	100
Cost of sales	28,000	40	42,000	33	70,000	36
Gross profit	42,000	60	84,000	67	126,000	64
Expenses	21,000	30	91,000	72	112,000	57
Net profit/(loss)	21,000	30	(7,000)	(5)	14,000	7
Opening inventory	–		16,000		16,000	
Closing inventory	10,000		15,000		25,000	
Average inventory	5,000		15,500		20,500	
Inventory turnover	5.6		2.7		3.4	

*Note:* The New Premises average inventory is probably understated since it is assumed that inventory builds up gradually over the period from zero to £10,000. In reality it may have held £10,000 throughout the period of trading.

#### Report to Martha

The analysis of the results which are shown above indicates a major query associated with the expenses of the existing business in the second half of the year. Gross profit has declined by 3 per cent compared with the first half year but the expenses have increased from 40 per cent to 72 per cent of sales. Even if it is assumed that expenses are largely fixed for rent, business rates, etc. the absolute level has increased from £56,000 to £91,000, i.e. by £35,000 or 62.5 per cent in the six-month period. This is in a period when, for the existing business, revenue reduced from £140,000 to £126,000, i.e. by 10 per cent.

The inventory turnover figure indicates some improvement in the second half which is mainly attributable to the new business. This may not be an entirely acceptable measure until a further full half-year's funding had been completed.

The return on capital employed is as follows (using the capital employed balances at the end of the period):

	6 months to 30 Nov	6 months to 31 May	12 months to 31 May
Capital employed	£90,000	104,000	104,000
Net profit	£42,000	14,000	56,000
Return	47%	13%	54%

Despite the decline in profits during the second half of the year, the return on capital employed is high at 54 per cent. Future trends in gross profit margins and the level of expenses need to be examined.

### Answer to Question 28.5A BA 2

		2004	2005
(a) (i) Current ratio	Current assets	35,000	45,000
	Current liabilities	25,000	50,000
	Ratio	1.4 : 1	0.9 : 1
(ii) Acid test ratio	Current assets – inventory	15,000	20,000
	Current liabilities	25,000	50,000
	Ratio	0.6 : 1	0.4 : 1
(b) (i) The change in net working capital is as follows:			
	Items increasing working capital		
	Increase in inventory		5,000
	Trade accounts receivable increase		7,000
			12,000
	Items reducing working capital		
	Increase in trade accounts payable		4,000
	Reduction in net liquid assets:		
	reduced cash balance	2,000	
	increase in overdraft	27,000	29,000
	Net reduction in working capital		33,000
			21,000

The information explains the detailed changes in working capital that have taken place. The reasons behind these changes cannot be given since information is not given.

- (ii) The main issue is the trend of declining liquidity over the year to 31 March 2005. If this trend continues, the business will be unable to meet its liability to creditors. It could, of course, be that major new funding is imminent for the issue of new long-term capital or rising volume/projects. If this is not managed, the owner needs to be advised of the necessity of urgent action.
- (c) The balance sheet can be used to prepare a cash flow statement which indicates changes in source and application of cash balances. It will give some indication if comparisons are made over a period of time as to whether the business is investing and expanding or declining, and whether a proper capital structure is in place. The capital structure will depend on the nature of the business and the risks it is involved with, whether it is high or low geared for example. The balance sheet, being a position statement at one point in time, does not give a dynamic picture of future prospects which are essential in planning liquidity.

### Answer to Question 28.7A BA 2

Note how the question has the years in the 'wrong' columns – normally the previous year is on the far right. Examiners have been known to switch them, so always check which is which.

(a) **Witton Way Ltd**

The following six ratios could be calculated in answering this part of the question, but other relevant ratios would be acceptable:

	2005	2006
(i) <i>Gross profit ratio</i>		
$\frac{\text{Gross profit}}{\text{Revenue}} \times 100$	$\frac{1,850}{7,650} \times 100$ <u>= 24.2%</u>	$\frac{2,070}{11,500} \times 100$ <u>= 18.0%</u>
(ii) <i>Return on capital employed</i>		
$\frac{\text{Profit before tax + long-term interest}}{\text{Share capital + reserves + loans and other borrowings}} \times 100$	$\frac{1,650 + 50}{5,900 + 5,000 + 350} \times 100$ <u>= 15.1%</u>	$\frac{1,500 + 350}{5,900 + 5,700 + 3,350} \times 100$ <u>= 12.7%</u>
(iii) <i>Acid test or quick assets or liquidity ratio</i>		
$\frac{\text{Current assets – Inventory}}{\text{Current liabilities}}$	$\frac{3,600 - 1,500}{2,400}$ <u>= 0.9</u>	$\frac{6,300 - 2,450}{2,700}$ <u>= 1.4</u>
(iv) <i>Trade accounts receivable collection period</i>		
$\frac{\text{Trade accounts receivable}}{\text{Credit sales}} \times 365$	$\frac{1,200}{7,650} \times 365$ <u>= 57 days</u>	$\frac{3,800}{11,500} \times 365$ <u>= 121 days</u>
(v) <i>Inventory turnover ratio</i>		
$\frac{\text{Inventory}}{\text{Cost of sales}} \times 365$	$\frac{1,500}{5,800} \times 365$ <u>= 94 days</u>	$\frac{2,450}{9,430} \times 365$ <u>= 95 days</u>
(vi) <i>Gearing</i>		
$\frac{\text{Long-term borrowings}}{\text{Shareholders' interest + long-term borrowings}} \times 100$	$\frac{350}{10,900 + 350} \times 100$ <u>= 3.1%</u>	$\frac{3,350}{11,600 + 3,350} \times 100$ <u>= 22.4%</u>

- (b) In making a comparison between the two years to 30 April 2005 and 30 April 2006 respectively (as required by part (a) of the question), the following points could be made:
- 1 *Profitability*
    - (a) In absolute terms, revenue has increased by £3,850,000 (50.3%), the cost of sales by £3,630,000 (62.6%), and gross profit by £220,000 (11.9%). The company's gross profit on revenue has fallen from 24.2% to 18.0%, presumably because it reduced its selling price.
    - (b) Other expenses have increased by £20,000 (13.3%), probably as a result of the increased sales activity.
    - (c) To fund the extra expansion, it would appear that the company has borrowed another £3 million as a long-term loan. Hence, the interest charges have increased by £300,000.
    - (d) Overall, the profit before tax has *decreased* by £100,000 although the tax based on profits is down by £50,000.
    - (e) Not surprisingly, the company's return on its long-term funds employed was down from 15.1% to 12.7%. This is a most disappointing result after experiencing such a marked increase in its sales activity. A decrease in the selling price of goods apparently led to an increase in sales volume, but at the expense of overall profitability.
    - (f) In brief, it appears that the increase in the company's sales did not lead to a corresponding increase in profits. Indeed, the company was less profitable in 2006 than it was in 2005. It should also be noted that these results do not take into account the effects of inflation on the company's performance. Allowing for inflation would make the 2006 results even more disappointing.
  - 2 *Liquidity*
    - (a) At the end of 2005 the company has a healthy cash balance of £900,000. By the end of 2006, it was down to £50,000 notwithstanding that the company had raised £3 million in long-term loans during the year.
    - (b) However, its *liquidity* position appears to have improved in 2006 even though its cash position has declined so dramatically during the year. The company's current assets (excluding its inventory) more than cover its current liabilities in 2006, while in 2005 its current liabilities exceeded the current assets (excluding inventory) by some £300,000.
  - 3 *Efficiency*
    - (a) Bearing in mind the company's increased sales activity, its inventory at the end of 2006 compared with 2005 was proportionate to the increase in trading activity. At each year end the company held the equivalent of 95 days' sales in hand.
    - (b) Its efficiency in dealing with its trade accounts receivable has, however, worsened. At the end of 2006, they represented 121 days' sales, whereas at the end of 2005 they represented just 57 days' sales (itself not a particularly low level). Of course this is not a surprising result since more generous credit terms were offered in 2006 in order to stimulate sales. The company has been able to finance this policy by running down its cash reserves and by increasing its long-term loans. In subsequent years it may not be possible to carry on with this policy unless it is able to raise even more long-term funds.
  - 4 *Shareholders' interests*
    - (a) Although the volume of its business increased dramatically, its profitability was down. Hence the company has maintained its dividend at the same level as in 2005.
    - (b) By borrowing an extra £3 million, the company's interest charges have increased substantially, although interest charges on loans outstanding at the year end fell from 14.2% to 10.5%. Thus at a time when profits were falling, the ordinary shareholders' dividend may have to be reduced in order to help pay the interest on the long-term debt, especially if even more funds have to be raised in 2007 and onwards.
    - (c) In 2005 the gearing ratio was only 3.1% but by the end of 2006 it had risen to 22.4%. Nonetheless, Witton Way is still a low-g geared company, and provided no more long-term loans are raised, the ordinary shareholders have little to fear – unless profitability continues to decline.
  - 5 *Conclusion*

In the short term the company's new policy appears to have failed. While its revenue has increased substantially, its overall profit is down, its liquidity is threatened and it has had to finance its increased sales activity by a considerable amount of extra borrowing. It would appear that the extra borrowing enabled it to finance its extended credit terms, as well as help to purchase new non-current assets – presumably to cope with the extra activity.



- (c) The following points could be made in answering part (c) of the question:
- 1 What was the effect of inflation upon the company's sales?
  - 2 How many new customers were attracted to the company as a result of the extended credit terms and what extra volume of business did they bring?
  - 3 What increase in sales was achieved by individual products?
  - 4 Were the extended credit terms applied to all products?
  - 5 Were all customers offered the extended credit terms?
  - 6 Were more profitable products displaced by less profitable products?
  - 7 Has the proportion of bad debts increased?
  - 8 What effect has the increase in sales activity had on other costs?
  - 9 To what extent has the expected depreciation rate on non-current assets been affected by the increased sales activity?
  - 10 What facilities has the company arranged in order to finance the more generous credit terms in later years?

## Answer to Question 28.9A BA 2

- (a) To: The Chairman  
 From: The Accountant  
 Subject: State and progress of the business

- 1 The last three years' trading may be summarised thus:

	2004		2005		2006	
	£000	%	£000	%	£000	%
Sales	260	100.0	265	100.0	510	100.0
Cost of sales	207	79.6	215	81.1	373	73.1
Trading profit	53	20.4	50	18.9	137	26.9
Depreciation	15	5.8	15	5.7	45	8.8
Loan interest	—	—	—	—	30	5.9
Net profit before tax	38	14.6	35	13.2	62	12.2

Gross profit fell in 2005 but rose sharply in 2006 – was this caused by an increase in sales prices or a decrease in cost of sales? The additional investment in plant has brought a higher charge for depreciation and created a loan interest cost, but the amount of net profit is sharply up, almost in line with sales.

- 2 *Inventory*

Closing inventory represent the following days' cost of sales:

$$\frac{20}{207} \times 365 = 35 \text{ days} \quad \frac{45}{215} \times 365 = 76 \text{ days} \quad \frac{85}{373} \times 365 = 83 \text{ days}$$

Inventory now seem very high. Is this level necessary?

- 3 *Accounts receivable*

$$\frac{33}{260} \times 365 = 46 \text{ days} \quad \frac{101}{265} \times 365 = 139 \text{ days} \quad \frac{124}{510} \times 365 = 89 \text{ days}$$

89 days seems high, even though a big improvement on 2005 figure. What terms are customers given?

- 4 *Accounts payable*

Turnover of accounts payable should be calculated on purchases, not cost of goods sold. Purchases cannot be calculated for 2004 but for the later years is:

	2005	2006
Cost of goods sold	215	373
Add Closing inventory	45	85
	260	458
Less Opening inventory	20	45
Purchases	240	413

Purchases for 2004 are taken as cost of goods sold.

$$\frac{20}{207} \times 365 = 35 \text{ days} \quad \frac{80}{240} \times 365 = 122 \text{ days} \quad \frac{35}{413} \times 365 = 31 \text{ days}$$

The figures of 35 days and 31 days indicate a normal monthly credit period, but the figure of 122 days in 2005 seems strange, unless some large purchases were made just before the balance sheet date.

5 *Working capital or current ratio*

$$\frac{63}{24} = 263\%$$

$$\frac{161}{97} = 166\%$$

$$\frac{209}{66} = 317\%$$

6 *Quick ratio or acid test*

$$\frac{43}{24} = 179\%$$

$$\frac{116}{97} = 120\%$$

$$\frac{124}{66} = 188\%$$

Both the above series of figures show a satisfactory position but the difference between the two 2006 figures underlines the large investment in inventory at that date.

7 *Gearing*

317 : 0

325 : 0

445 : 200

Gearing is comfortably low after loan taken up in 2006.

8 *Return on shareholders' funds*

$$\frac{38}{317} = 12.0\%$$

$$\frac{35}{325} = 10.8\%$$

$$\frac{62}{345} = 18.0\%$$

2006 shows a welcome rise but all percentages are probably overstated as freehold land and buildings in the balance sheet are probably at original cost; if they have increased in value, shareholders' funds will be understated.

9 *Conclusion*

Business appears sound and profitable. The investment in the new plant, part financed by a loan, has caused liquidity problems but these are probably only of a temporary nature.

(b) *Answers to specific questions*

(i) A statement of cash flows best shows how a company can make a profit but still be short of cash.

Cash flows from operating activities		
Operating profit before taxation (62 + 30)		92
Adjustment for		
Depreciation		45
Operating cash flows before movements in working capital		137
Increase in inventories	( 40)	
Increase in accounts receivable	( 23)	
Decrease in accounts payable	( 45)	
		(108)
Cash generated by operations		29
Tax paid (17 + 1 - 6)	( 12)	
Interest paid	( 30)	
		( 42)
Net cash used in operating activities		(13)
Cash flows from investing activities		
Payments to acquire tangible non-current assets	(300)	
Net cash used in investing activities		(300)
Cash flows from financing activities		
Dividends paid	( 12)	
Issue of share capital	100	
Loan	200	
Net cash from financing activities		288
Net decrease in cash and cash equivalents		( 25)
Cash and cash equivalents at beginning of year		15
Cash and cash equivalents at end of year		( 10)

(ii) A balance sheet is not a valuation of a business but more like a historic record where non-current assets are concerned. Revaluations of non-current assets do take place in many companies, but these are usually based on the views of professional valuers (e.g. chartered surveyors) and it is not good practice to introduce guesses of current values. Any revaluation surplus would go to a revaluation reserve and would not affect the declaration of annual profits (unless there were consequential changes to the depreciation charge for the year).

## Answer to Question 28.11A BA 2

(a) An Investor  
Sometown, UK

Dear Sir

### Report on AA plc and BB plc

- 1 In accordance with your instructions, I give below my report on these companies which I hope may help you in deciding whether to proceed with a purchase of shares in either.

#### *Balance sheets*

- 2 AA has substantial freehold property. Such freehold property gives a large measure of solidarity to an investment, and also provides a useful security on which to borrow money if required. BB appears to own no freehold or leasehold property – at least, no entry for either appears in its balance sheet.
- 3 If one assumes that plant is depreciated on a straight line basis with no residual value, AA's plant is 67% time-expired while BB's is much newer at only 22%. AA may therefore have to face the cost of replacement before long.
- 4 AA has more than twice as much as BB tied up in inventory. Expressed in relation to usage (and taking sales less operating profit as the measure of cost of sales), AA's finished goods are 10 weeks' sales, while BB's are only 5 weeks'. The work in progress of AA is equal to 7 weeks' sales, while that of BB is 3 weeks'. As both companies carry on a similar trade, it is surprising that AA appears to need a much larger investment in inventory – or is it just inefficiency?
- 5 Debtors of AA approximate to 17 weeks' sales, but those of BB are only 10 weeks'. Again, is this inefficiency on the part of AA?
- 6 AA needs a bank overdraft, while BB is comfortably liquid. The current or working capital ratio of AA is 188% against 133% of BB. The quick ratio in both companies is 100%. The working capital situation in both companies is satisfactory but the need for the overdraft in AA underlines the high stock and slow-paying debtors in that company.
- 7 Creditors in AA appear as 15 weeks' supplies and expenses, while in BB they are 25 weeks'. Both these figures are astonishingly high when one considers that monthly account is the normal basis of trade. How does BB get nearly half a year's credit?
- 8 Expressing gearing as Loans/Loans + Shareholders' funds, the gearing in AA is 1,400/3,700 or 38%, while that in BB is 1,000/2,500 or 40%. Neither of these figures is regarded as high gearing.

#### *Profit and loss accounts*

- 9 Turning to the income statements, we find the following:

	AA	BB
Operating profit as a percentage of revenue	16%	24%
Net profit before tax	£70,000	£360,000
Effective rate of tax	29%	25%
Dividend yield on market price	2.7%	9.6%
Dividend cover	1.25 times	2.1 times

- 10 BB appears both more efficient and more attractive to its shareholders, and of the two is clearly to be preferred as an investment.

Yours faithfully

I C Essay

- (b) The P/E ratio of 30 for AA is surprisingly high, since even blue chip companies usually reach only 26 to 28, and there the expected profit growth is seen to be realised every year. What is AA's attraction to investors? It is not to be seen in the 2007 financial statements. The market price of £1.50 still compares badly with its net asset value of £2.30, and one is left to guess that perhaps the trading results for 2007 were unexpectedly bad, and that it is the asset backing rather than the profits which has kept the market price up.

By contrast, the P/E ratio of 5 for BB is exceptionally low and such a figure is normally a warning to prospective investors that the profits may be in danger of drying up shortly. The asset backing is £3.00 per share. At 9.6% yield, does the market know something bad about the company which we do not? A dividend yield of only 4% or 5% is the normal expectation (and as low as 2% for many blue chip companies).

## Answer to Question 28.13A BA 2

### (a) Profitability ratio

	2004	2005
Gross profit as % revenue	$528/2,400 = 22\%$	$588/2,800 = 21\%$
Net profit as % revenue	$138/2,400 = 5.7\%$	$142/2,800 = 5.1\%$
Return on capital employed (using operating profit)	$138/900 = 15.3\%$	$174/1,362 = 12.8\%$
Operating profit/revenue	$138/2,400 = 5.7\%$	$174/2,800 = 6.2\%$
Distribution costs/revenue	$278/2,400 = 11.6\%$	$300/2,800 = 10.7\%$
Administration expenses/revenue	$112/2,400 = 4.7\%$	$114/2,800 = 4.1\%$
Return on shareholders' funds	$138/900 = 15.3\%$	$142/1,042 = 13.6\%$

### (b) Liquidity ratios

Current ratio	$936/256 = 3.7:1$	$1414/338 = 4.2:1$
Acid test ratio	$392/256 = 1.5:1$	$754/338 = 2.2:1$
Inventory turnover*	$1,872/554 = 3.4$	$2,212/660 = 3.4$
Accounts receivable/credit sales	$384/2,200 \times 52 = 9.1$ weeks	$644/2,640 \times 52 = 12.7$ weeks
Accounts payable/purchases*	$256/1,872 \times 52 = 7.1$ weeks	$333/2,328 \times 52 = 7.5$ weeks

\* Opening inventory not known for 2004. Therefore the 2004 ratios must be calculated on closing inventory figures if comparison is to be drawn between the two years. The 2005 ratio if average inventory is used is  $2,216/602 = 3.7$ .

Calculation of Purchases for 2005 is Opening inventory 544 + Purchases ? – Closing inventory 660 = 2,212. By arithmetical deduction, Purchases is therefore 2,328. Purchases for 2004 is taken (opening inventory not being known) as same as Cost of sales.

### Comments

#### (a) Profitability

Loan notes of £320,000 have been issued during the year. The income statement has thus had to bear an extra charge of £32,000 interest. If the rate of interest was 10%, this would mean the loan notes were issued on 1 January 2005, thus financing a full year's expansion.

The extra sales generated of 16.7% have been at the cost of cutting the gross profit percentage from 22% to 21%.

The operating profit percentage has improved from 5.7% to 6.2%, possibly due partly to the fixed element in distribution and administration costs and also improved efficiency by the use of the extra loan capital being invested in better equipment.

The return on capital employed, based on operating profit, has fallen from 15.3% to 12.8%. This is because the profit generated from an increase in sales at a lower rate of profitability has not been sufficient to compensate for the extra capital employed.

Possibly the programme of expansion was only partly completed during 2005 with benefits not capable of being shown up until 2006 and later. Similar remarks also would apply to the return on shareholders' funds.

#### (b) Liquidity

Both the current ratio and the acid test (or quick) ratio have improved. This will be largely due to cash received from the issue of loan notes.

The debtors are taking much longer to pay: 12.7 weeks instead of 9.1 weeks as previously. This raises the question as to the creditworthiness of the businesses to whom the extra sales have been made. Every sensible effort should be made to reverse the trend in the accounts receivable ratio.

There is a large cash balance which does not seem to be making a return on its funds. This should be utilised more fully. It may of course be planned already to use it profitably.

## Answer to Question 28.15A BA 2

From the ratios provided, you can obtain various indicators of whether the Eastown branch is being properly managed:

**Return on capital employed:** The better return of the Eastown branch suggests it is being well managed – it is earning £6 more (i.e. 37.5% more) per £100 invested than the overall average. However, some caution is needed in that analysis – while a consistent basis for the figures in the ratio is probable (as all the branches are in the same company), there is no guarantee that all have similar assets, either in nature or in age. Unless all the branches have similar asset profiles, the ratio result will be distorted. Further information will be needed.

*Gross profit:* Over 15% lower than the overall average (at 38% compared with 45%), which suggests Eastown is not being managed as well as other branches. However, this could have arisen because the Eastown branch has been competing locally and has had to cut prices and offer incentives to retain and/or expand its customer base. Further information will be needed.

*Selling and promotion costs/sales:* The Eastown branch is spending 50% more per £100 of sales on promotion. While this could be an indicator of poor management, it is consistent with the suggestion, made above under *gross profit*, that the branch may have been competing locally (but, of course, promotion costs do not directly impact gross profit). Further information will be needed.

*Wages/sales:* Eastown is spending 35.7% more on wages per £100 of sales than the average (19% vs. 14%) – another possible indicator of poor management. However, it is also consistent with an attempt to retain and/or expand its customer base through an increased level of service (as a result of employing more staff). Further information will be needed.

*Accounts receivable turnover:* Eastown allows its customers 21% more time to settle their accounts than the average (63 days vs. 52 days) – another possible indicator of poor management. However, it is also consistent with an attempt to retain and/or expand its customer base through an increased level of service (as a result of employing more staff). Further information will be needed.

*Inventory turnover:* Turning over inventory virtually 25% quicker than the average (37 days vs. 49 days) suggests good management of this aspect of working capital. However, it may be caused by inefficient buying policies that are causing inventory shortages and loss of customers. Further information will be needed.

*Overall:* The ratios indicate a higher cost and lower profit profile exists at Eastown compared with the average. This may indicate poorer management, or may be due to the environment in which the branch is operating – it may, for example, be in competition with a price-cutting competitor.

Control over debtors appears weak, but may be due to a need to compete. The only positive ratio result is the lower inventory turnover period. However, it could actually be an indication that mismanagement is occurring.

The ratios in themselves are insufficient to draw any firm conclusions regarding the quality of management of the branch. However, they do indicate questions that should be asked and points that should be raised if an objective view on the quality of the branch's management is to be reached.

### Answer to Question 28.16A BA 2

Ratios are used to assess managerial performance, and managers may be tempted to focus on producing 'good' ratio results, rather than on producing the 'best' performance for the company and its shareholders. Thus, short-termism may be adopted in order that profits are maximised in the short term.

For example, a policy may be adopted to purchase expensive assets that remain 90% unused, rather than renting them when required, as renting would reduce the profit of the company more than the depreciation charge on the assets. Another example would be whether or not to invest in a new production facility. If the company does, it will appear less profitable in the period up to when the new facility becomes productive and, thereafter, it will start becoming more profitable. A further example would be a form of 'window dressing' whereby debtors are encouraged by discounts, or even coerced to settle their balances immediately before the end of the financial period – this could have the effect of customers moving their business elsewhere.

By their nature, accounting ratios take a short-term view. Shareholders are interested in the longer term. An aware reader of the financial statements will be able to apply the ratios to the longer-term horizon, and it is the aware reader that managers should be concerned about. By adopting a short-term focus, managers may actually be subject to harsher and more informed criticism than would have been the case had they focused upon the longer-term interests of the company.

### Answer to Question 30.2A BA 2

(a) F (b) F (c) T (d) F (e) T

### Answer to Question 30.3A BA 2

Ascertaining an index for highly specialised assets can be difficult, and applying a general index may not give an accurate valuation. In addition, calculation of current costs takes time, particularly if the enterprise has a large number of different classes of assets.

**Answer to Question 30.5A BA 2**

Historical cost depreciation is  $\pounds 30,000 \times 10\% = \pounds 3,000$

Current cost depreciation is  $\pounds 3,000 \times \frac{160}{90} = \pounds 5,333$

**Answer to Question 30.7A BA 2**

<i>Balance Sheet as at:</i>	31.12.2004	31.12.2005
Equipment at current cost	60,000	80,000
Less Accumulated depreciation	<u>15,000</u>	<u>40,000</u>
	<u>45,000</u>	<u>40,000</u>
<i>Adjustments to current cost reserve:</i>		
<i>Asset revaluation</i>		
Equipment at cost		40,000
Credit to current cost reserve at 31.12.2004		<u>20,000</u>
		<u>60,000</u>
Credit to current cost reserve at 31.12.2005		<u>20,000</u>
		<u>80,000</u>
<i>Depreciation</i>		
Historical cost depreciation for year ended 31.12.2004	10,000	
Adjustment to current cost income statement	<u>5,000</u>	
Current cost depreciation ( $10,000 \times \frac{150}{100}$ )		15,000
Historical cost depreciation for year ended 31.12.2005	10,000	
Adjustment to current cost income statement	<u>10,000</u>	
Current cost depreciation ( $10,000 \times \frac{200}{100}$ )		<u>20,000</u>
		<u>35,000</u>
Adjustment debit to current cost reserve at 31.12.2005 for backlog depreciation		<u>5,000</u>
Current cost depreciation as per balance sheet at 31.12.2005		<u>40,000</u>

**Answer to Question 30.9A BA 2**

Opening working capital	= 7,000	
Closing working capital	= 10,000	
Change in the year	= 3,000	
At average values:		
Opening working capital	= $7,000 \times \frac{150}{120}$	= 8,750
Closing working capital	= $10,000 \times \frac{150}{180}$	= 8,333
Change in the year		= 417
The monetary working capital adjustment is	$3,000 - 417$	= 2,583

**Answer to Question 30.11A BA 2**

<i>Current Cost Income Statement for the year ending 30 June 2004</i>		
Revenue		<u>2,500,000</u>
Historical cost operating profit		1,400,000
Current cost adjustments:		
Additional depreciation	500,000	
Cost of sales	<u>750,000</u>	
Monetary working capital	<u>25,000</u>	<u>1,275,000</u>
Current cost operating profit		<u>125,000</u>

## Answer to Question 30.13A BA 2

### Current Cost Income Statement for the year ending 30 June 2003

Revenue		9,000,000
Historical cost trading profit		4,000,000
Current cost adjustments:		
Additional depreciation	200,000	
Cost of sales	800,000	
Monetary working capital	<u>370,000</u>	1,370,000
Current cost operating profit		2,630,000
Gearing adjustment (20% × 1,370,000)		<u>274,000</u>
		2,904,000
Interest payable		<u>500,000</u>
Profit before tax		2,404,000
Taxation		<u>1,500,000</u>
Profit for the year		<u><u>904,000</u></u>

Note: Dividends proposed are £600,000.

## Answer to Question 30.15A BA 2

- (a) Historical cost ratios:
- (i) Gross profit:
- |   |                                       |                                       |
|---|---------------------------------------|---------------------------------------|
| $\frac{\text{Gross profit}}{\text{Revenue}} \times 100$ | $\frac{650}{1,300} \times 100 = 50\%$ | $\frac{630}{1,400} \times 100 = 45\%$ |
|---|---------------------------------------|---------------------------------------|
- (ii) Net profit:
- |  |  |  |
|--|--|--|
| $\frac{\text{Profit before tax}}{\text{Revenue}} \times 100$ | $\frac{115}{1,300} \times 100 = 8.8\%$ | $\frac{130}{1,400} \times 100 = 9.3\%$ |
|--|--|--|
- (iii) Inventory turnover:
- |  |  |  |
|--|--|--|
| $\frac{\text{Inventory}}{\text{Cost of sales}} \times 365$ | $\frac{105}{650} \times 365 = 59 \text{ days}$ | $\frac{130}{770} \times 365 = 64 \text{ days}$ |
|--|--|--|
- (iv) Accounts receivable collection period:
- |   |  |  |
|---|--|--|
| $\frac{\text{Accounts receivable}}{\text{Turnover}} \times 365$ | $\frac{142}{1,300} \times 365 = 40 \text{ days}$ | $\frac{190}{1,400} \times 365 = 50 \text{ days}$ |
|---|--|--|
- (v) Non-current assets revenue:
- |  |   |   |
|--|---|---|
| $\frac{\text{Revenue}}{\text{Non-current assets at net book value}}$ | $\frac{1,300}{340} = 3.8 \text{ times}$ | $\frac{1,400}{255} = 5.5 \text{ times}$ |
|--|---|---|
- (b) (i) Revenue (millions)
- |                 |   |  |
|-----------------|---|--|
| Historical cost | 2004<br>$1,300 \times \frac{111}{85}$<br><u>= 1,698</u> | 2005<br>$1,400 \times \frac{111}{111}$<br><u>= 1,400</u> |
|-----------------|---|--|
- (ii) Additional adjustment for depreciation
- |                                   |           |           |
|-----------------------------------|-----------|-----------|
| Replacement cost (10%)            | 114       | 120       |
| Less Historical cost depreciation | <u>85</u> | <u>85</u> |
| Additional depreciation           | <u>29</u> | <u>35</u> |
- (iii) It does not make sense to compare historical cost turnover in 2004 with that for 2005. In real terms it has fallen from 1,698 to 1,400.

When deciding dividends to be paid, directors should look at the amount needed to replace non-current assets, based on replacement costs rather than historical costs.

## Answer to Question 31.6A BA 2

There is no set answer to this question. Students should bear in mind the types of information which the various user groups may find useful, distinguishing between quantitative (numerical) and qualitative (narrative) information. In addition, consideration should be given to how useful the information is in helping a user to make a decision about the company.

## Answer to Question 35.2A BA 2

- |                                |                           |
|--------------------------------|---------------------------|
| (i) t, v.                      | (ii) n.                   |
| (iii) b, d, h, o, y.           | (iv) c, g, i, p, q, u, z. |
| (v) e, f, j, l, m, r, s, w, x. | (vi) a, k.                |

## Answer to Question 35.4A BA 2

Raw materials consumed (11,400 + 209,000 – 15,600)		204,800
Carriage on raw materials		1,800
Direct labour (150,000 × 60%)		90,000
Royalties (this is a direct expense)		400
(a) <b>Prime cost</b>		<u>297,000</u>
<i>Factory overhead</i>		
Factory indirect labour (150,000 × 40%)	60,000	
Rent and rates (factory block)	4,900	
Travelling expenses of factory workers	200	
Depreciation of factory machinery	1,800	
Other factory indirect expenses	<u>6,000</u>	<u>72,900</u>
(b) <b>Production cost</b>		<u>369,900</u>
<i>Administrative expenses</i>		
Wages and salaries	26,000	
Rent and rates: admin. block	1,100	
Travelling expenses	300	
Depreciation: Cars of administrative staff	400	
Office machinery	200	
Other administrative expenses	<u>4,000</u>	<u>32,000</u>
<i>Selling and distribution expenses</i>		
Salaries: sales force	15,000	
Carriage costs on deliveries	1,100	
Rent and rates: Sales department	1,000	
Travelling expenses: Sales staff	3,400	
Depreciation: Sales staff cars	500	
Delivery vehicles	300	
Other selling expenses	<u>1,000</u>	<u>22,300</u>
<i>Finance costs</i>		
Interest costs		<u>800</u>
(c) <b>Total cost</b>		<u><u>425,000</u></u>

## Answer to Question 35.5A BA 2

- (a) Cost behaviour refers to the manner in which costs arise, e.g. are they fixed for a period; do they change in proportion to the level of activity, etc. Analysis of total cost refers to the elements of specific total costs.
- (b) • **Factory power and lighting:** would have a fixed element (light) and a variable element (power), and therefore semi-variable; however, would normally be classified as indirect factory expenses unless it was clear how much was incurred in producing each unit of the products, in which case, it could be split partly between direct costs and partly as indirect overheads.
- **Production line workers' wages:** a variable cost; would be analysed as a direct cost.
  - **Sales manager's salary:** a fixed cost; would be analysed as a selling and distribution expense.
  - **Office rent:** a fixed cost; would be analysed as an indirect administrative expense.



## Answer to Question 36.2A BA 2

Answers to be drafted by students in proper memo form.

Introduction:

Marginal cost is  $3.2 + 4.8 + 1.6 = 9.6$

Selling price – Marginal cost = Contribution to overheads and profit.

Projects which give negative contributions should be rejected.

A change in volume can only be favourable where total contributions with new project are greater than total contributions without new project.

(a) Total contributions with new project  $\text{£}14.80 - \text{£}9.60 = \text{£}5.20 \times 240,000 = \text{£}1,248,000$

Total contributions without new project  $\text{£}15 - \text{£}9.60 = \text{£}5.40 \times 200,000 = \text{£}1,080,000$

Therefore accept reduction in selling price to  $\text{£}14.80$

<i>Proof</i>	<i>At £14.80</i>	<i>At £15</i>
Direct materials	768,000	640,000
Direct labour	1,152,000	960,000
Indirect manufacturing costs		
Variable	384,000	320,000
Fixed	160,000	160,000
Selling and distribution	80,000	80,000
Administrative expenses	120,000	120,000
Finance	40,000	40,000
	<u>2,704,000</u>	<u>2,320,000</u>
Sales revenue	<u>3,552,000</u>	<u>3,000,000</u>
Net profit	<u>848,000</u>	<u>680,000</u>

(b) Total contributions with new project  $\text{£}15.4 - \text{£}9.6 = \text{£}5.8 \times 160,000$

928,000

Add saving in finance costs

4,000

932,000

Total contributions without new project  $\text{£}15 - \text{£}9.6 = \text{£}5.4 \times 200,000$

1,080,000

Therefore reject new project.

*Proof*

(i) At  $\text{£}15$  net profit is

680,000

(ii) At  $\text{£}15.4$

Revenue ( $160,000 \times \text{£}15.4$ )

2,464,000

Direct materials ( $160,000 \times \text{£}3.2$ )

512,000

Direct labour ( $160,000 \times \text{£}4.8$ )

768,000

Indirect manufacturing costs: Variable ( $1,600 \times \text{£}1.6$ )

256,000

Fixed

160,000

Selling and distribution

80,000

Administrative expenses

120,000

Finance ( $\text{£}40,000 - \text{£}4,000$ )

36,000

1,932,000

Net profit

532,000

(c) Marginal cost is  $\text{£}9.6$ : the extra order at  $\text{£}9.80$  would therefore be worthwhile.

(d) Marginal cost is  $\text{£}9.6$ : the extra order at  $\text{£}9.20$  should be rejected.

## Answer to Question 36.4A BA 2

Year 1	(a) Marginal cost (£000)	(b) Absorption cost (£000)
Revenue $36,000 \times £64$	2,304	2,304
Less: Variable costs		
Direct labour $£16 \times 40,000$	640	640
Direct materials $£12 \times 40,000$	480	480
Variable overheads $£20 \times 40,000$	<u>800</u>	<u>800</u>
Total variable costs	1,920	1,920
Less: Closing inventory valuation (A)		
$\frac{4,000}{40,000} \times £1,920,000$	<u>192</u>	
	1,728	
Fixed factory indirect expenses	<u>64</u>	<u>64</u>
		1,984
Less: Closing inventory valuation (B)		
$\frac{4,000}{40,000} \times £1,984,000$		<u>198.4</u>
Total costs	<u>1,792</u>	<u>1,785.6</u>
Gross profit	<u>512</u>	<u>518.4</u>
Year 2	(a) Marginal cost (£000)	(b) Absorption cost (£000)
Revenue $40,000 \times £64$	2,560	2,560
Less: Variable costs		
Direct labour $£16 \times 48,000$	768	768
Direct materials $£12 \times 48,000$	576	576
Variable overheads $£20 \times 48,000$	<u>960</u>	<u>960</u>
Total variable costs	2,304	2,304
Less: Closing inventory valuation (A)		
$\frac{9,000}{40,000} \times £2,304,000$	<u>518.4</u>	
	1,785.6	
Fixed factory indirect expenses	64	<u>64</u>
		2,368
Less: Closing inventory valuation (B)		
$\frac{9,000}{40,000} \times £2,368,000$		<u>532.8</u>
		1,835.2
Add: Opening inventory b/d	<u>192</u>	<u>198.4</u>
Total costs	<u>2,041.6</u>	<u>2,033.6</u>
Gross profit	<u>518.4</u>	<u>526.4</u>
Year 3	(a) Marginal cost (£000)	(b) Absorption cost (£000)
Revenue $60,000 \times £64$	3,840	3,840
Less: Variable costs		
Direct labour $£16 \times 51,000$	816	816
Direct materials $£12 \times 51,000$	612	612
Variable overheads $£20 \times 51,000$	<u>1,020</u>	<u>1,020</u>
Total variable costs	2,448	2,448
Less: Closing inventory valuation (A)	<u>—</u>	
	2,448	
Fixed factory indirect expenses	64	<u>64</u>
		2,512
Less: Closing inventory valuation (B)		<u>—</u>
		2,512
Add: Opening inventory b/d	<u>518.4</u>	<u>532.8</u>
Total costs	<u>3,030.4</u>	<u>3,044.8</u>
Gross profit	<u>809.6</u>	<u>795.2</u>

Note how, as there is no closing inventory at the end of Year 3, the same total gross profit is made over the three years by both methods.

## Answer to Question 36.6A BA 2

(a) See text.

(b)

	(i) <i>Normal</i>	(ii) <i>+A</i>	(iii) <i>+B</i>
Direct labour	8	8	8
Direct materials	17	17	17
Variable overheads	11	11	11
Labour: overtime		2	2
Special treatment			6
Total variable cost	<u>36</u>	<u>38</u>	<u>44</u>
Contribution	<u>29</u>		
Selling price	<u><u>65</u></u>		

(i) *Normal production*

Contribution $2,000 \times £29$	58,000
Fixed costs	<u>29,400</u>
Profit	<u><u>28,600</u></u>

(ii) *Order A accepted*

Normal production contribution		58,000
Order A contribution: sales	20,000	
Less: Direct costs $600 \times £38$	<u>22,800</u>	( 2,800)
Total contribution		55,200
Fixed costs		<u>29,400</u>
Profit		<u><u>25,800</u></u>

(iii) *Order B accepted*

Normal production contribution		58,000
Order B contribution: sales	34,000	
Less: Direct costs $750 \times £44$	<u>33,000</u>	1,000
Total contribution		59,000
Fixed costs		<u>29,400</u>
Profit		<u><u>29,600</u></u>

(c) See text, but (iii) above demonstrates that.

## Answer to Question 36.8A BA 2

(a) Contribution per product

Variable costs:

	A	B	C
Labour	6	9	6
Materials	20	24	16
Variable overhead	<u>4</u>	<u>3</u>	<u>2</u>
	30	36	24
Selling price	<u>45</u>	<u>44</u>	<u>37</u>
Contribution per unit	<u>15</u>	<u>8</u>	<u>13</u>

However, September sees a shortage of materials, so work out contribution per kilo of materials. This shows:

A	$\text{£}15 \div 5 \text{ kilos} = \text{£}3$
B	$\text{£}8 \div 6 \text{ kilos} = \text{£}1.33$
C	$\text{£}13 \div 4 \text{ kilos} = \text{£}3.25$

Total kilos used per month:

A	$6,000 \times 5 = 30,000$
B	$8,000 \times 6 = 48,000$
C	$5,000 \times 4 = \underline{20,000}$
	<u>98,000</u>

September delivery of material =  $98,000 - 15\% = 83,300$  kilos; i.e. shortfall of 14,700.

B has the lowest contribution, therefore restrict production by  $14,700 \div 6 \text{ kilos} = 2,450$  units = 5,550.

Contributions:	July	August	September
A $6,000 \times \text{£}15$	90,000	90,000	90,000
B $8,000 \times \text{£}8$	64,000	64,000	(5,550) 44,400
C $5,000 \times \text{£}13$	<u>65,000</u>	<u>65,000</u>	<u>65,000</u>
	219,000	219,000	199,400
Fixed overhead:			
A $6,000 \times \text{£}5$	30,000		
B $8,000 \times \text{£}5$	40,000		
C $5,000 \times \text{£}6$	<u>30,000</u>		
	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
	119,000	119,000	99,400
		<u>£337,400</u>	

Maximum net profit possible:

NB: It is assumed that direct labour cut down for B in September does not have to be paid for.

(b) See text.

C

## Answer to Question 36.10A BA 2

### Firelighters Ltd Workings

	2010	2011
Opening inventory (units)	15,000*	20,000
Manufactured	<u>105,000</u>	<u>130,000</u>
	120,000	150,000
Closing inventory	<u>20,000</u>	<u>20,000</u>
Units sold	<u>100,000</u>	<u>130,000*</u>

\* Balancing figures

**Firelighters Ltd**  
*Revenue Statement for the years ended:*

	2010 £000		2011 £000
Revenue			
100,000 @ £10 per unit		1,000	
130,000 @ £10 per unit			1,300
Cost of sales			
Opening inventory: 15,000 @ £4	60		
20,000 @ £4			80
Manufactured: 105,000 @ £4	420		
130,000 @ £4			<u>520</u>
	<u>480</u>		<u>600</u>
Closing inventory: 20,000 @ £4	<u>80</u>		<u>80</u>
	400		520
Variable selling costs			
100,000 @ 1.25	<u>125</u>	<u>525</u>	
130,000 @ 1.50			<u>195*</u>
Contribution		475	585
Fixed manufacturing costs	105		117
Other fixed costs	<u>155</u>	<u>260</u>	<u>176*</u>
Operating profit before interest		215	292
Interest charges		<u>70</u>	<u>82*</u>
Net profit for the year		<u>145</u>	<u>210</u>

\* Balancing figures

**Answer to Question 36.11A BA 2**

- (a) (i) *Contribution* per unit is the difference between the variable costs of producing a unit of a product and the selling price of that unit.  
(ii) *Key factor* is anything that limits the activity of a business (also called the 'limiting factor').

	<i>Products</i>		
	A	B	C
Direct raw material	147	87	185
Direct labour:			
Grade 1	64	56	60
Grade 2	24	27	21
Variable overheads	<u>15</u>	<u>10</u>	<u>15</u>
	250	180	281
Selling price	<u>400</u>	<u>350</u>	<u>450</u>
Contribution	150	170	169
Fixed overheads	<u>12</u>	<u>12</u>	<u>12</u>
Profit	<u>138</u>	<u>158</u>	<u>157</u>

(c)

(i) Total production labour available

Grade 1 Full-time	28 × 40 × 4	4,480	
Part-time		<u>2,240</u>	
			6,720
Grade 2 Full-time	12 × 40 × 4	1,920	
Part-time		<u>1,104</u>	
			<u>3,024</u>
			<u>9,744</u>

(ii) Hours required to produce each unit

	A	B	C
	£ Hrs	£ Hrs	£ Hrs
Grade 1 labour cost per unit	64	56	60
Divide by hourly rate	<u>8</u>	<u>8</u>	<u>8</u>
	8	7	7.5
Grade 2 labour cost per unit	24	27	21
Divide by hourly rate	<u>6</u>	<u>6</u>	<u>6</u>
	4	4.5	3.5
Total hours per unit	<u>12</u>	<u>11.5</u>	<u>11.0</u>

(iii) Maximum possible production

There is a maximum number of hours available for each grade and therefore production will be limited to the smaller of the calculated figures as follows:

<i>Product</i>	<i>Total hours</i>	<i>Hours per unit</i>	<i>Possible units</i>	<i>Maximum possible</i>
A Grade 1	6,720	8	840	
Grade 2	3,024	4	756	756
B Grade 1	6,720	7	960	
Grade 2	3,024	4.5	672	672
C Grade 1	6,720	7.5	896	
Grade 2	3,024	3.5	864	864

(iv) The product which will give the greatest contribution in Period 7 is C:

	<i>A</i>	<i>B</i>	<i>C</i>
Units	<u>756</u>	<u>672</u>	<u>864</u>
Direct costs (A – £250, B – £180, C – £281)	189,000	120,960	242,784
Selling price (A – £400, B – £350, C – £450)	<u>302,400</u>	<u>235,200</u>	<u>388,800</u>
Contribution	<u>113,400</u>	<u>114,240</u>	<u>146,016</u>

(d) This part of the question would include material from a number of different parts of the book. It can be answered at a straightforward level from the material in Chapters 35 and 36. However, a more complete answer would need to include material from Chapters 3, 37, 41 and 44. The answer requires that you indicate that relevant costs and revenues would be identified; costs would be classified as fixed or variable, possibly across a range of different activity levels; contribution per unit would be identified; break-even analysis would be undertaken; product mix may also be considered when a multi-product company is involved; etc.

## Answer to Question 36.12A BA 2

(a)

<i>Year 1</i>	<i>Marginal costing</i>	<i>Absorption costing</i>
Revenue	280,000	280,000
Less: Variable costs		
Direct materials	60,000	60,000
Direct labour	48,000	48,000
Variable overheads	<u>24,000</u>	<u>24,000</u>
Total variable costs	132,000	
Less: Closing inventory		
$\frac{2,000}{16,000} \times 132,000$	<u>16,500</u>	
	115,500	
Fixed costs	<u>40,000</u>	<u>40,000</u>
	155,500	
Total production costs		172,000
Less: Closing inventory		
$\frac{2,000}{16,000} \times 172,000$		<u>21,500</u>
		150,500
Gross profit	<u>124,500</u>	<u>129,500</u>

<b>Year 2</b>	<i>Marginal costing</i>	<i>Absorption costing</i>
Revenue	280,000	280,000
<i>Less: Variable costs</i>		
Direct materials	49,900	49,900
Direct labour	44,000	44,000
Variable overheads	<u>30,000</u>	<u>30,000</u>
Total variable costs	123,900	
<i>Add: Opening inventory</i>	<u>16,500</u>	
	140,400	
<i>Less: Closing inventory</i>		
2,000		
$\frac{2,000}{14,000} \times 123,900$	<u>17,700</u>	
	122,700	
Fixed costs	<u>40,600</u>	40,600
	<u>163,300</u>	
Total production costs		<u>164,500</u>
<i>Add: Opening inventory</i>		<u>21,500</u>
		186,000
<i>Less: Closing inventory</i>		
2,000		
$\frac{2,000}{14,000} \times 164,500$		<u>23,500</u>
		162,500
Gross profit	<u>116,700</u>	<u>117,500</u>
 <b>Year 3</b>	 <i>Marginal costing</i>	 <i>Absorption costing</i>
Sales	300,000	300,000
<i>Less: Variable costs</i>		
Direct materials	52,200	52,200
Direct labour	45,000	45,000
Variable overheads	<u>40,000</u>	<u>40,000</u>
Total variable costs	137,200	
<i>Add: Opening inventory</i>	<u>17,700</u>	
	154,900	
<i>Less: Closing inventory</i>		
1,000		
$\frac{1,000}{14,000} \times 137,200$	<u>9,800</u>	
	145,100	
Fixed costs	<u>41,300</u>	41,300
	<u>186,400</u>	
Total production costs		<u>178,500</u>
<i>Add: Opening inventory</i>		<u>23,500</u>
		202,000
<i>Less: Closing inventory</i>		
1,000		
$\frac{1,000}{14,000} \times 178,500$		<u>12,750</u>
		189,250
Gross profit	<u>113,600</u>	<u>110,750</u>

(b) See text, Section 36.6.

## Answer to Question 36.14A BA 2

(a)	P	Q	R	S	T	U
Direct labour and materials	45	51	114	147	186	342
Variable cost	<u>18</u>	<u>33</u>	<u>30</u>	<u>63</u>	<u>66</u>	<u>69</u>
	63	84	144	210	252	411
Fixed cost	<u>12</u>	<u>21</u>	<u>21</u>	<u>30</u>	<u>48</u>	<u>39</u>
	75	105	165	240	300	450
Add: Profit 10%	<u>7.5</u>	<u>10.5</u>	<u>16.5</u>	<u>24</u>	<u>30</u>	<u>45</u>
Selling price	<u>82.5</u>	<u>115.5</u>	<u>181.5</u>	<u>264</u>	<u>330</u>	<u>495</u>

(b) Discontinue Q and T. All other items are above marginal cost.

(c)	(i) <i>Followed advice</i>	(ii) <i>Produced all items</i>
Sales revenue		
P 600 × £78	46,800	46,800
Q 600 × £78	–	46,800
R 600 × £198	118,800	118,800
S 600 × £225	135,000	135,000
T 600 × £240	–	144,000
U 600 × £660	396,000	396,000
	<u>696,600</u>	<u>887,400</u>
Less: Costs		
Direct labour and materials		
(i) 600 × (45 + 114 + 147 + 342)	388,800	
(ii) 600 × (45 + 51 + 114 + 147 + 186 + 342)		531,000
Variable overheads		
(i) 600 × (18 + 30 + 63 + 69)	108,000	
(ii) 600 × (18 + 33 + 30 + 63 + 66 + 69)		167,400
Fixed overheads	<u>34,200</u>	<u>34,200</u>
	<u>531,000</u>	<u>732,600</u>
Net profit	<u>165,600</u>	<u>154,800</u>

(d) Discontinue S and U. All other items are above marginal cost.

(e)	(i) <i>Followed advice</i>	(ii) <i>Produced all items</i>
Sales revenue		
P 600 × £ 90	54,000	54,000
Q 600 × £ 99	59,400	59,400
R 600 × £225	135,000	135,000
S 600 × £198	–	118,800
T 600 × £435	261,000	261,000
U 600 × £390	–	234,000
	<u>509,400</u>	<u>862,200</u>
Less: Costs		
Direct labour and materials		
(i) 600 × (45 + 51 + 114 + 186)	237,600	
(ii) 600 × (45 + 51 + 114 + 147 + 186 + 342)		531,000
Variable overheads		
(i) 600 × (18 + 33 + 30 + 66)	88,200	
(ii) 600 × (18 + 33 + 30 + 63 + 66 + 69)		167,400
Fixed overheads	<u>34,200</u>	<u>34,200</u>
	<u>360,000</u>	<u>732,600</u>
Net profit	<u>149,400</u>	<u>129,600</u>



## Answer to Question 36.15A BA 2

(a) and (b) *see* text.

(c) (i)

	A S Teriod Ltd					
	<i>Ceres</i>	<i>Eros</i>	<i>Hermes</i>	<i>Icarus</i>	<i>Vesta</i>	<i>Total</i>
	£		£	£	£	£
Unit price						
Direct labour	14	8	22	18	26	88
Direct material	8	10	13	12	17	60
Variable overhead	11	9	16	15	19	70
Total variable cost	33	27	51	45	62	218
Fixed cost	17	13	19	15	18	82
Total cost	50	40	70	60	80	300
Profit 20%	10	8	14	12	16	60
Selling price	<u>60</u>	<u>48</u>	<u>84</u>	<u>72</u>	<u>96</u>	<u>360</u>

(ii) Produce only those where marginal cost is lower than selling price, i.e. produce Ceres, Hermes and Vesta.

(iii) All produced at new prices (100 of each):

	<i>Ceres</i>	<i>Eros</i>	<i>Hermes</i>	<i>Icarus</i>	<i>Vesta</i>	<i>Total</i>
Total variable cost	3,300	2,700	5,100	4,500	6,200	21,800
Fixed cost	<u>1,700</u>	<u>1,300</u>	<u>1,900</u>	<u>1,500</u>	<u>1,800</u>	<u>8,200</u>
Total cost	5,000	4,000	7,000	6,000	8,000	30,000
Profit/(loss)	900	(1,500)	1,000	(1,600)	1,200	—
Selling price	<u>5,900</u>	<u>2,500</u>	<u>8,000</u>	<u>4,400</u>	<u>9,200</u>	<u>30,000</u>

If only Ceres, Hermes and Vesta produced:

Revenue (5,900 + 8,000 + 9,200)	23,100
Less Variable cost (3,300 + 5,100 + 6,200)	(14,600)
Contribution	8,500
Total fixed costs	( 8,200)
Profit	<u>300</u>

## Answer to Question 37.3A BA 2

	Production departments				Service departments		
	<i>P</i>	<i>Q</i>	<i>R</i>	<i>S</i>	<i>T</i>	<i>F</i>	<i>G</i>
Indirect labour	15,000	21,000	9,000	18,000	12,000	20,000	18,000
Other expenses	<u>2,000</u>	<u>3,000</u>	<u>4,000</u>	<u>4,500</u>	<u>1,500</u>	<u>8,000</u>	<u>10,000</u>
	17,000	24,000	13,000	22,500	13,500	28,000	28,000
Apportionment of costs							
Dept F	4,200	2,800		11,200	5,600	(28,000)	4,200
							32,200
Dept G	<u>6,440</u>	<u>4,830</u>	<u>9,660</u>	<u>8,050</u>	<u>3,220</u>	—	(32,200)
	<u>27,640</u>	<u>31,630</u>	<u>22,660</u>	<u>41,750</u>	<u>22,320</u>	—	—

(a) Overhead rates per direct labour hour

Dept R	$\frac{22,660}{8,000}$	=	£2.83
Dept T	$\frac{22,320}{5,000}$	=	£4.46

(b) Overhead rates per machine hour

Dept P	$\frac{27,640}{7,000}$	=	£3.95
Dept Q	$\frac{31,630}{9,000}$	=	£3.51
Dept S	$\frac{41,750}{14,000}$	=	£2.98

## Answer to Question 37.4A BA 2

Job Cost Sheet, Job 701, Dept R		
Direct materials		345
Direct labour	$105 \times 8.0$	840
Factory overhead	$105 \times 2.83$	<u>297.15</u>
		<u>1,482.15</u>

Job Cost Sheet, Job 702, Dept T		
Direct materials		3,240
Direct labour	$540 \times 10$	5,400
Factory overhead	$540 \times 4.46$	<u>2,408.4</u>
		<u>11,048.4</u>

Job Cost Sheet, Job 703, Dept P		
Direct materials		1,560
Direct labour	$400 \times 6$	2,400
Factory overhead	$280 \times 3.95$	<u>1,106</u>
		<u>5,066</u>

Job Cost Sheet, Job 704, Dept S		
Direct materials		196
Direct labour	$620 \times 11$	6,820
Factory overhead	$90 \times 2.98$	<u>268.2</u>
		<u>7,284.2</u>

Job Cost Sheet, Job 705, Dept Q		
Direct materials		11,330
Direct labour	$860 \times 9$	7,740
Factory overhead	$610 \times 3.51$	<u>2,141.1</u>
		<u>21,211.1</u>

Job Cost Sheet, Job 706, Depts P and T		
Dept P Direct materials		1,480
Direct labour	$600 \times 6$	3,600
Factory overhead	$540 \times 3.95$	<u>2,133</u>
Dept T Direct materials		32
Direct labour	$36 \times 10$	360
Factory overhead	$36 \times 4.46$	<u>160.56</u>
		<u>7,765.56</u>

## Answer to Question 37.6A BA 2

(a) See text, Section 37.5.

(b) Earith Industries

(i) Equivalent production during April:

	Units completed	75% completed	65% completed	55% completed
Units	<u>6,000</u>	<u>800</u>	<u>800</u>	<u>800</u>
Equivalent production:				
Material		<u>6,600</u>		
Labour			<u>6,520</u>	
Overhead				<u>6,440</u>

(ii) Cost per complete unit:	Total cost	Equiv. prodn	Cost per unit
Material	12,540	6,600	1.90
Labour	8,476	6,520	1.30
Overhead	7,084	6,440	<u>1.10</u>
Cost per complete unit			<u>4.30</u>

(iii) Value of work-in-progress:

Materials	$600 \times 1.90 =$	1,140
Labour	$520 \times 1.30 =$	676
Overhead	$440 \times 1.10 =$	<u>484</u>
Total value of WIP		<u>2,300</u>

## Answer to Question 37.8A BA 2

(a) Current factory overhead rate

$$= \frac{\text{Total factory overheads}}{\text{Total direct labour costs}} \times \frac{100}{1} = \frac{180 + 225 + 75}{450 + 500 + 250} \times \frac{100}{1}$$

$$= \frac{480}{1,200} = 40\% \text{ factory overhead rate.}$$

*Job 131190*

Direct labour costs (2,500 + 2,200 + 4,800)	9,500
Add: Materials (100 + 400 + 500)	<u>1,000</u>
	10,500
Add: Factory overheads (40% × 9,500)	<u>3,800</u>
Total factory costs	14,300
Add: General administration (20% × 14,300)	<u>2,860</u>
Total cost	17,160
Add: Profit (25% total cost)	<u>4,290</u>
Selling price	<u><u>21,450</u></u>

(b) (i) Direct labour hour rate per department:

Assembly	£180,000 ÷ 150,000 hours = £1.20 per hour
Painting	£225,000 ÷ 140,625 hours = £1.60 per hour
Packing	£75,000 ÷ 100,000 hours = £0.75 per hour

(ii) Overhead per department as percentage of direct labour costs:

Assembly	£180,000 ÷ £450,000 = 40%
Painting	£225,000 ÷ £500,000 = 45%
Packing	£75,000 ÷ £250,000 = 30%

(i) *Job 131190* (using direct labour hour rate)

Assembly: Labour	2,500	
+ 1,000 hours × £1.20	<u>1,200</u>	3,700
Painting: Labour	2,200	
+ 900 hours × £1.60	<u>1,440</u>	3,640
Packing: Labour	4,800	
+ 960 hours × £0.75	<u>720</u>	5,520
+ Materials (100 + 400 + 500)		<u>1,000</u>
		13,860
Add: General administration (20% × 13,860)		<u>2,772</u>
Total cost		16,632
Add: Profit 25% × 16,632		<u>4,158</u>
Selling price		<u><u>20,790</u></u>

(ii) *Job 131190* (using percentage direct labour costs)

Assembly: Labour	2,500	
+ 40%	<u>1,000</u>	3,500
Painting: Labour	2,200	
+ 45%	<u>990</u>	3,190
Packing: Labour	4,800	
+ 30%	<u>1,440</u>	6,240
		12,930
Add: General administration (20% × 12,930)		<u>2,586</u>
Total cost		15,516
Add: Profit 25% × 15,516		<u>3,879</u>
Selling price		<u><u>19,395</u></u>

(c) It depends on where there are direct relationships to overheads. Number of hours worked is more appropriate in (b) (i) and (ii). However, machine hours method for its two departments has not yet been investigated.

(d) There is no set answer. Basically, the absorption rate may be too high, making for an uncompetitive selling price; or too low, making the product too cheap and uneconomic.

## Answer to Question 37.10A BA 2

(a)	A	B	C	Total
Power 55:30:15	66,000	36,000	18,000	120,000
Rent, etc. 30:20:10	45,000	30,000	15,000	90,000
Insurance 22:16:2	11,000	8,000	1,000	20,000
Depreciation 22:16:2	44,000	32,000	4,000	80,000
Indirect materials	23,000	35,000	57,000	115,000
Indirect wages	21,000	34,000	55,000	110,000
	<u>210,000</u>	<u>175,000</u>	<u>150,000</u>	<u>535,000</u>
Direct wages	140,000	200,000	125,000	
Percentage absorption rate	<u>150%</u>	<u>87.5%</u>	<u>120%</u>	

(b) Selling price of Job No. 347	£
Dept A	
Materials	152
Direct wages	88
Overhead 150% of £88	<u>132</u>
	372
Dept B	
Materials	85
Direct wages	192
Overhead 87.5% of £192	<u>168</u>
	817
Dept C	
Materials	52
Direct wages	105
Overhead 120% of £105	<u>126</u>
	1,100
Total production cost	1,100
Add: 30%	<u>330</u>
Selling price	<u>1,430</u>

- (c) (i) Absorption rate based direct labour hours  
 Dept A £210,000 divided by 25,000 hours = £8.4 per hour  
 Dept B £175,000 divided by 50,000 hours = £3.5 per hour  
 Dept C £150,000 divided by 60,000 hours = £2.5 per hour

- (ii) Absorption rate based on machine hours  
 Dept A £210,000 divided by 100,000 hours = £2.1 per hour  
 Dept B £175,000 divided by 40,000 hours = £4.375 per hour  
 Dept C £150,000 divided by 10,000 hours = £15 per hour

- (d) (i) Allotment: this term is not generally used in relation to overheads. Presumably, the examiner wanted students to demonstrate that they realised it was not another term for either 'allocation' or 'apportionment'.  
 (ii) Allocation: attribution of costs to a cost centre or product based on some base that clearly identifies the expenditure that was incurred on that cost centre or product. This is used for the attribution of costs that can be specifically identified with a cost centre or product.  
 (iii) Apportionment: attribution of costs between a number of cost centres or products on the basis of some common base. For example, rates could be allocated to cost centres on the basis of the dimensions of their floor space. This is used for the attribution of costs that cannot be specifically identified as arising from the activities of one cost centre or product.

## Answer to Question 37.11A BA 2

- (a) (i) See text, Section 37.6.  
 (ii) See text, Section 37.6.  
 (iii) See text, Section 37.5.  
 (iv) See text, Section 37.9.  
 (v) Split-off point: the point at which joint products are separately identifiable.

- (b) (i) True: scrap has value, waste has none.  
(ii) True: a joint product is one that is produced by the same process and at the same time as another; a by-product is one that is produced incidentally as a result of manufacturing the main product. They are further distinguished by their value. By-products have relatively little value compared with the main products whose manufacturing process created them. Joint products are each of significant value compared with their own joint product(s).

### Answer to Question 38.3A BA 2

- (a) (i) Always able to satisfy customers' demands; strike in firm's production could stop production of new inventory; strike at suppliers of part could stop production of new inventory.  
(ii) So as not to have to lay-off workers; lower costs of production; administratively easier and cheaper.

	<i>J</i>	<i>A</i>	<i>S</i>	<i>O</i>	<i>N</i>	<i>D</i>
Opening inventory	270	290	390	430	370	270
Produced	300	300	300	300	300	300
	570	590	690	730	670	570
Less Sales	280	200	260	360	400	420
Closing inventory	290	390	430	370	270	150

Inventory (by deduction) 1 July: 270 units.

- (c) Where higher sales could be made but there is a shortage of: skilled labour, or materials, or finance.

### Answer to Question 39.4A BA 2

<b>Mtoto Ltd</b>					
<i>Cash Budget for the four months ending 31 December 2011 (£)</i>					
	<i>Sept</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>	<i>Total</i>
<b>Receipts</b>					
Cash sales: Main store	18,000	26,300	19,200	24,700	88,200
Depot 1	19,700	18,000	17,600	17,900	73,200
Depot 2	26,300	19,700	21,000	19,100	86,100
Credit sales: Main store*	21,000	32,500	26,000	25,400	104,900
Plant surplus	26,500				26,500
Shop-soiled inventory		17,000			17,000
	<u>111,500</u>	<u>113,500</u>	<u>83,800</u>	<u>87,100</u>	<u>395,900</u>
* Per balance sheet, debtors pay 1 month after sale.					
<b>Payments</b>					
Purchases	55,800	61,200	64,300	41,000	222,300
Fixed overheads	9,500	9,500	9,500	9,500	38,000
Wages and salaries	17,000	19,000	13,000	12,000	61,000
Redundancy				12,000	12,000
Variable costs	5,600	6,800	6,100	7,400	25,900
	<u>87,900</u>	<u>96,500</u>	<u>92,900</u>	<u>81,900</u>	<u>359,200</u>
Surplus/(deficit)	23,600	17,000	(9,100)	5,200	36,700
Balance b/d	(240,000)	(216,400)	(199,400)	(208,500)	(240,000)
Balance c/d	<u>(216,400)</u>	<u>(199,400)</u>	<u>(208,500)</u>	<u>(203,300)</u>	<u>(203,300)</u>

- (b) Briefly: full answer to be in report form.  
(i) Current ratio 31.8.2011 is 420,900 : 350,500 = 1.2 : 1.  
However, acid test ratio shows 21,000 : 350,500 = 0.06 : 1.  
This latter ratio reveals considerable liquidity problems.  
Forecast shows a fall in bank overdraft of £36,700 over the period. The overdraft is still far too high.  
(ii) Find out contributions made by each depot.  
Reduce inventory.  
Sell off some non-current assets?  
Reduce overhead costs.  
See if gross profit margins can be increased, either by increasing prices or by better buying policies at cheaper prices.

## Answer to Question 39.7A BA 2

(a)

### Belinda Raglan Cash Budget (£000)

	May	June	July	Aug
Opening overdraft	5	8	54.6	22.2
Receipts	<u>85.2</u>	<u>72.8</u>	<u>82.4</u>	<u>56</u>
	<u>80.2</u>	<u>64.8</u>	<u>27.8</u>	<u>33.8</u>
Payments				
Purchases	58.2	116.4	40	43
Rent	12	–	–	12
Other	8	3	10	14
Compensation	<u>10</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>88.2</u>	<u>119.4</u>	<u>50</u>	<u>69</u>
Closing overdraft	<u>8</u>	<u>54.6</u>	<u>22.2</u>	<u>35.2</u>

(b) See text.

(c) Items in the letter should include reference to the 3% discount on purchases in May and June. It is probably unwise to attempt to take advantage of the discount. The increase in the overdraft facility required is entirely due to it and the increased overdraft costs would make the actual saving much less than at first appeared. If June purchases were kept to around £76,000 it appears that the overdraft limit would not need to be raised. It may be worthwhile for Belinda to consider negotiating purchasing on credit from her suppliers. She may also consider offering less credit to her customers, etc.

## Answer to Question 39.8A BA 2

(a)

### Periods

	1	2	3	4
<i>Receipts:</i>				
Capital		34,000		
Hire charges paid in cash (W1)	1,248	1,664	1,664	1,664
Hire charges (chauffeured cars) (W2)	<u>35,248</u>	<u>1,664</u>	<u>2,400</u>	<u>2,400</u>
			<u>4,064</u>	<u>4,064</u>
<i>Payments:</i>				
Cars bought 6 × 5,340	32,040			
Cars bought 3 × 5,850				17,550
Petrol			360	360
Servicing		300	300	300
Fixed costs	200	200	200	200
Drawings	400	400	800	800
Initial staff	960	960	960	960
Chauffeurs	<u>33,600</u>	<u>720</u>	<u>720</u>	<u>720</u>
		<u>2,580</u>	<u>3,340</u>	<u>20,890</u>
Balance at period end	1,648	732	1,456	
Deficit at period end				15,370

### Workings:

(W1) Per week: Weekdays 5 × £10 × 4 cars	= 200
Weekends 2 × £18 × 6 cars	= 216
	<u>416</u>

3 weeks in period 1; 4 weeks other periods.

(W2) Assumed additional to cars in (W1):  
Per period: £60 × 5 × 4 × 2 cars = 2,400

(b) Per text.

(c) Internal: Profits, factoring debts, revising payment and receipt schedules where possible, extra own capital.

External: Loans from individuals, bank loans and overdrafts, buying cars on hire purchase.

## Answer to Question 40.2A BA 2

(a)		Cash Budget 2007 (£000)			
<i>Receipts</i>		<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>
Accounts receivable: Previous month's sales $\frac{1}{3}$		134.2	136.8	141.2	153.6
Sales two months ago $\frac{2}{3}$		265.6	268.4	273.6	282.4
					9.6
		<u>399.8</u>	<u>405.2</u>	<u>414.8</u>	<u>445.6</u>
<i>Payments:</i>					
Materials:	Current production $\frac{1}{4}$	20.4	21.2	23.4	22.8
	Previous production $\frac{3}{4}$	58.8	56.1	61.2	63.6
New equipment			19.0		
Wages:	Last month $\frac{1}{3}$	5.3	5.4	5.6	6.1
	Current month $\frac{2}{3}$	10.8	11.2	12.2	12.4
Overheads:	Payable same month	50.0	50.0	50.0	50.0
	Last month's portion	<u>215.2</u>	<u>223.6</u>	<u>232.4</u>	<u>256.7</u>
		<u>360.5</u>	<u>367.5</u>	<u>403.8</u>	<u>411.6</u>
Closing bank balance		+28.7	+66.4	+77.4	+111.4
(b)					
Assets:	Accounts receivable April		456.3		
	$\frac{2}{3}$ March $\times$ 460.8		<u>307.2</u>	763.5	
Liabilities:	Items owing				
	Materials	$\frac{3}{4} \times 93.6$	70.2		
		$\frac{3}{4} \times 91.2$	<u>68.4</u>	138.6	
	Equipment			19.0	
	Wages			6.2	
	Overheads			254.5	

## Answer to Question 40.4A BA 2

(a)		Cash Budget				
	<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>Aug</i>	<i>Sept</i>
Opening balance	+60,000	+6,700			+27,540	+35,440
Opening overdraft			-7,760	+2,140		
Received ( <i>see</i> schedule)	<u>—</u>	<u>—</u>	<u>26,000</u>	<u>45,500</u>	<u>28,000</u>	<u>28,000</u>
	60,000	6,700	18,240	47,640	55,540	63,440
Payments ( <i>see</i> schedule)	<u>53,300</u>	<u>14,460</u>	<u>16,100</u>	<u>20,100</u>	<u>20,100</u>	<u>20,660</u>
Closing balance	+6,700		+2,140	+27,540	+35,440	+42,780
Closing overdraft		-7,760				
		Cash Receipts Schedule				
	<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>Aug</i>	<i>Sept</i>
Receipts from debtors	—	—	26,000	28,000	28,000	28,000
Legacy	—	—	—	<u>17,500</u>	<u>—</u>	<u>—</u>
				<u>45,500</u>	<u>28,000</u>	<u>28,000</u>
		Cash Payments Schedule				
	<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>Aug</i>	<i>Sept</i>
Payments of accounts payable		10,000	12,000	16,000	16,000	16,000
Wages and salaries	2,100	2,100	2,100	2,100	2,100	2,100
General expenses		200	200	200	200	200
Insurance						560
Business rates		360				
Drawings	1,800	1,800	1,800	1,800	1,800	1,800
Machinery	8,000					
Motor vehicles	6,400					
Premises	<u>35,000</u>					
	<u>53,300</u>	<u>14,460</u>	<u>16,100</u>	<u>20,100</u>	<u>20,100</u>	<u>20,660</u>

(b)

**M Lamb***Forecast Income Statement for the 6 months ending 30 September 2005*

Revenue			166,000
Less Cost of goods sold			
Purchases	102,000		
Less: Closing inventory	<u>8,000</u>		<u>94,000</u>
Gross profit			72,000
Less Expenses:			
Wages and salaries	12,600		
General expenses	1,200		
Insurance	280		
Business rates	720		
Depreciation: Motors	800		
Premises	875		
Machinery	<u>800</u>	<u>2,475</u>	<u>17,275</u>
Net profit			<u><u>54,725</u></u>

*Balance Sheet as at 30 September 2005*

<i>Non-current assets</i>	<i>Cost</i>	<i>Depn</i>	
Premises	35,000	875	34,125
Machinery	8,000	800	7,200
Motors	<u>6,400</u>	<u>800</u>	<u>5,600</u>
	<u>49,400</u>	<u>2,475</u>	<u>46,925</u>
<i>Current assets</i>			
Inventory		8,000	
Debtors Accounts receivable		56,000	
Prepayments (insurance)		280	
Cash and bank		<u>42,780</u>	
			<u>107,060</u>
			153,985
<i>Current liabilities</i>			
Accounts payable for goods		32,000	
General expenses		200	
Business rates		<u>360</u>	
			( 32,560)
			<u>121,425</u>
Capital			77,500
Add Net profit			<u>54,725</u>
			132,225
Less Drawings			( 10,800)
			<u>121,425</u>

**Answer to Question 40.5A BA 2**

(a) See text.

(b)

**Madingley Ltd***Forecast Operating Statement for the six months ending 30 November 2010 (£000)*

Revenue			1,185.20
Cost of sales:			
Opening inventory (91.7 + 142.4)	234.1		
Materials	<u>205.6</u>		
	439.7		
Less Closing inventory (91.7 + 136.2)	<u>227.9</u>		
	211.8		
Wages	36.7		
Variable overheads	340.2		
Depreciation: Plant	<u>0.47</u>		<u>589.17</u>
Gross profit			596.03
Fixed overheads	226.8		
Depreciation: Fixtures	<u>0.27</u>		<u>227.07</u>
Profit for the year			<u>368.96</u>



*Forecast Balance Sheet as at 30 November 2010 (£000)*

	<i>Cost</i>	<i>Aggregate depreciation</i>	
<i>Non-current assets</i>			
Land and buildings	134.00	–	134.00
Plant and machinery	9.40	4.23	5.17
Fixtures and fittings	2.30	1.32	0.98
	<u>145.70</u>	<u>5.55</u>	<u>140.15</u>
<i>Current assets</i>			
Inventory: Raw materials		91.70	
Finished goods		136.20	
Accounts receivable		574.50	
Bank		<u>282.20</u>	<u>1,084.60</u>
			<u>1,224.75</u>
<i>Current liabilities</i>			
Accounts payable: Raw materials		41.00	
Overheads		<u>42.60</u>	<u>83.60</u>
			<u>1,141.15</u>
<i>Equity</i>			
Share capital			500.00
Retained profits		272.19	
Profit for year		<u>368.96</u>	<u>641.15</u>
			<u>1,141.15</u>
<i>Workings</i>			
	<i>Accounts Receivable Control</i>		
Opening balance	594.4		
Sales	1,185.2		
Cash			1,205.1
Balance c/d			<u>574.5</u>
	<u>1,779.6</u>		<u>1,779.6</u>
	<i>Purchases Ledger Control</i>		
Opening balance			82.2
Materials			205.6
Cash	246.8		
Balance c/d	<u>41.0</u>		
	<u>287.8</u>		<u>287.8</u>
	<i>Overheads</i>		
Opening balance			127.4
Incurred			567.0
Cash	651.8		
Balance c/d	<u>42.6</u>		
	<u>694.4</u>		<u>694.4</u>
	<i>Cash Book</i>		
Opening balance	12.4		
Receipts	1,205.1		
Payments:			
Suppliers			246.8
Wages			36.7
Overheads			651.8
Balance c/d			<u>282.2</u>
	<u>1,217.5</u>		<u>1,217.5</u>

## Answer to Question 40.10A BA 2

- (a) (i) Sales: June, July, August, November,  $12\frac{1}{2}\%$  of total  $\times 4 = 50\%$   
 September and October,  $25\%$  of total  $\times 2 = 50\%$

Sales budgets:	June	100,000	
	July	100,000	
	August	100,000	
	September	200,000	
	October	200,000	
	November	<u>100,000</u>	<u>800,000</u>

- (ii) Cost of sales  $800,000 - 25\% = 600,000$

Opening inventory 210,000 + Purchases ? – Closing inventory 252,000 = Cost of sales 600,000.

Therefore by deduction purchases = 642,000.

June	75,000
July	75,000
Aug	75,000
Sept	150,000
Oct	150,000
Nov 75,000 + 42,000	<u>117,000</u>
Total purchases	<u>642,000</u>

### Newland Traders

*Budgeted Income Statement for the 6 months ending 30 November 2007*

	£000	£000
Revenue		800
Less Cost of goods sold:		
Inventory 30.5.2007	210	
Purchases	<u>642</u>	
	852	
Less Inventory 30.11.2007	<u>252</u>	600
Gross profit		200
Less Expenses:		
Wages and expenses	120	
Depreciation ( $6 \times 5,000 + (10\% \times 80,000 \times \frac{3}{12})$ )	<u>32</u>	152
Net profit		<u>48</u>

- (b)\* *Budgeted Balance Sheet as at 30 November 2007*

	£000	£000
Non-current assets at cost	690	
Less Depreciation	<u>296</u>	394
Current assets		
Inventory	252	
Accounts receivable	300	
Cash at bank and in hand	<u>10</u>	562
Total assets		956
Current liabilities		
Accounts payable		(117)
		<u>839</u>
Equity		
Issued capital		600
General reserve		150
Retained profits (48 + 41)		<u>89</u>
		<u>839</u>

\* Best to tackle (c) cash budget before (b) balance sheet.

(c)	<i>Cash Flow Budget (£000)</i>					
	<i>June</i>	<i>July</i>	<i>Aug</i>	<i>Sept</i>	<i>Oct</i>	<i>Nov</i>
Opening bank balance	+48	+50	+120	+125	+130	-20
Accounts receivable paid	<u>150</u>	<u>165</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>200</u>
	<u>198</u>	<u>215</u>	<u>220</u>	<u>225</u>	<u>230</u>	<u>180</u>
<i>Payments</i>						
Accounts payable	128	75	75	75	150	150
Wages and expenses	20	20	20	20	20	20
Non-current assets					<u>80</u>	
	<u>148</u>	<u>95</u>	<u>95</u>	<u>95</u>	<u>250</u>	<u>170</u>
Closing bank balance	+50	+120	+125	+130	-20	+10

Extra finance needed October. Assumed that capital expenditure paid one month after incurred. As it appears short term, a bank overdraft or extra capital would be the best options.

### Answer to Question 40.11A BA 2

(a)	<b>Len Auck and Brian Land, trading as Auckland Manufacturing Co.</b>		
	<i>Forecast Income Statement for the 4 months ending 30 April 2006</i>		
Revenue			86,000
Less Cost of raw materials:			
Inventory 31.12.2005		10,500	
Purchases (43,000 + 1,500)		<u>44,500</u>	
		55,000	
Less Inventory 30.4.2006		<u>12,000</u>	
		43,000	
Direct wages		17,200	
Overhead expenses		<u>15,050</u>	75,250
Inventory of finished goods 31.12.2005		<u>18,500</u>	
Inventory of finished goods 30.4.2006		<u>18,500</u>	
Net profit			<u>10,750</u>
Len Auck		5,375	
Brian Land		<u>5,375</u>	<u>10,750</u>

#### *Forecast Balance Sheet as at 30 April 2006*

<i>Non-current assets</i>			
Plant and machinery at cost		90,000	
Less Depreciation		<u>30,800</u>	59,200
<i>Current assets</i>			
Inventory: Raw materials		12,000	
Finished goods		18,500	
Accounts receivable		<u>46,000</u>	76,500
			<u>135,700</u>
<i>Current liabilities</i>			
Accounts payable		25,500	
Bank overdraft (see part (b))		<u>23,650</u>	( 49,150)
			<u>86,550</u>
Capital accounts:	<i>Len Auck</i>	<i>Brian Land</i>	
Balance 1.1.2006	40,000	39,000	
Add Share of profit	<u>5,375</u>	<u>5,375</u>	
	45,375	44,375	
Less Drawings	<u>1,600</u>	<u>1,600</u>	
	<u>43,775</u>	<u>42,775</u>	86,550

(b)	<i>Cash Budget</i>			
2006	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>
Receipts: accounts receivable	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>22,000</u>
Payments:				
Raw materials	13,000	13,000	10,500	11,000
Direct wages	3,600	4,400	4,400	4,800
Overheads:				
Wages and salaries	900	1,000	1,000	1,000
Other overheads	1,550	1,550	2,150	2,150
Drawings	800	800	800	800
Plant	<u>25,000</u>			
	<u>44,850</u>	<u>20,750</u>	<u>18,850</u>	<u>19,750</u>
Opening balance	+4,550	-22,300	-25,050	-25,900
Closing balance	-22,300	-25,050	-25,900	-23,650

Maximum amount of finance needed £25,900 in March.

(c) Repayment of overdraft:

Cash flows:		<i>May</i>		<i>June</i>
Accounts receivable		22,000		24,000
Less Materials	11,000		12,000	
Wages	4,800		4,800	
Overheads	2,500		2,500	
Wages overheads	1,000		1,000	
Drawings	<u>800</u>	<u>20,100</u>	<u>800</u>	<u>21,100</u>
Net cash inflows		<u>1,900</u>		<u>2,900</u>
Overdraft 30.4.2006		23,650		
– Net cash inflow May		<u>1,900</u>		
Overdraft 31.5.2006		<u>21,750</u>		

As following months are at the rate of £2,900 net cash inflows then it will take 7½ months to clear overdraft:

$$\frac{21,750}{2,900} = 7\frac{1}{2} \text{ months, i.e. cleared by middle of January 2007.}$$

### Answer to Question 41.2A BA 2

- (i) Standard costing: a technique that compares standard costs and revenues with actual costs and revenues to obtain variances.
- (ii) Standard cost: the cost that should have been incurred.
- (iii) Standard hours: the amount of work achievable at standard efficiency levels in an hour.
- (iv) Variance: the difference between a standard cost or revenue and the actual cost or revenue incurred.

## Answer to Question 42.2A BA 2

		£
(i)	Actual cost per unit	$171 \times £11$
	Standard cost per unit	$176 \times £11$
	Materials usage variance (favourable)	<u>55</u>
(ii)	Actual cost per unit	$50 \times £45$
	Standard cost per unit	$50 \times £42$
	Materials price variance (adverse)	<u>150</u>
(iii)	Actual cost per unit	$83 \times £22$
	Standard cost per unit	$79 \times £22$
	Materials usage variance (adverse)	<u>88</u>
(iv)	Actual cost per unit	$41 \times £10$
	Standard cost per unit	$41 \times £8$
	Materials price variance (adverse)	<u>82</u>
(v)	Actual cost per unit	$60 \times £30$
	Standard cost per unit	$60 \times £29$
	Materials price variance (adverse)	<u>60</u>
(vi)	Actual cost per unit	$78 \times £27.5$
	Standard cost per unit	$84 \times £27.5$
	Materials usage variance (favourable)	<u>165</u>

## Answer to Question 42.4A BA 2

		£
(i)	Favourable labour efficiency variance	$24 \times £5.20$
	Adverse wage rate variance	$426 \times 40p$
	Net adverse labour variance	<u>45.60</u>
(ii)	Favourable wage rate variance	$660 \times 20p$
	Adverse labour efficiency variance	$20 \times £4.70$
	Net favourable labour variance	<u>38.00</u>
(iii)	Favourable wage rate variance	$140 \times 40p$
	Favourable labour efficiency variance	$10 \times £5.30$
		<u>109.00</u>
	This compares with: Standard cost	$150 \times £5.30$
	Actual cost	$140 \times £4.90$
		<u>686.00</u>
		<u>109.00</u>
(iv)	Adverse wage rate variance	$520 \times 30p$
	Adverse labour efficiency variance	$10 \times £5.10$
	Total adverse labour variance	<u>207.00</u>
(v)	Favourable wage rate variance	$420 \times 40p$
	Adverse labour efficiency variance	$30 \times £4.80$
	Net favourable labour variance	<u>24.00</u>
(vi)	Favourable labour variance	$30 \times £4.60$
	Adverse wage rate variance	$780 \times 40p$
	Net adverse labour variance	<u>174.00</u>

## Answer to Question 42.6A BA 2

### Central Grid plc

It can be assumed that there has been a planning change concerning the volume of production, reducing it from 16,000 units to 12,000. Flexible budgeting can be adopted (*see* Section 39.5 in the text) and a revised original budget of 12,000 units used. Assume that all the various standard costs and usage level relationships would be unchanged at the lower level of output and calculate the variances requested on the basis that the budgeted volume was 12,000. This produces the following:

(a)	<i>Total Direct Material Variance for April 2008</i>			
	$£60,000 - £60,390$	=	£390	Adverse
(i)	<i>Material Usage Variance</i>			
	$(12,000 - 12,830) \times £5$	=	£4,150	Adverse
(ii)	<i>Material Price Variance</i>			
	$(£5 - £4.70694) \times 12,830$	=	£3,760	Favourable
(b)	<i>Total Direct Labour Variance for April 2008</i>			
	$£144,000 - £153,000$	=	£9,000	Adverse
(i)	<i>Labour Efficiency Variance</i>			
	$(36,000 - 34,000) \times £4$	=	£8,000	Favourable
(ii)	<i>Labour Rate Variance</i>			
	$(£4.00 - £4.50) \times 34,000$	=	£17,000	Adverse

#### Workings:

Material usage	$£64,150 \div £5$	= 12,830
Material unit price	$£60,390 \div 12,830$	= £4.70694
Standard labour cost for output	$£12 \times 12,000$	= £144,000

- (c) *Material*: Shows an overall adverse variance of £390.  
*Usage*: Adverse £4,150. Used more material than expected for this level of output. Could have been because the material was of poorer quality (it was cheaper than expected).  
*Price*: Favourable variance £3,760. Purchasing obtained material at a lower price than expected.
- Labour*: Shows an overall adverse variance of £9,000.  
*Efficiency*: Favourable £8,000. Perhaps using a different machine from usual? Or, perhaps working harder in order to receive the higher than expected wage rate.  
*Rate*: Adverse £17,000. Higher labour hourly cost, possibly because the amount of work was lower than expected.
- Polishing labour efficiency variance*: The £3,000 adverse variance may have been due to the possibly poorer quality material used in machining having caused polishing to take longer than expected.
- (d) Briefly:  
*Material*: Possibly poorer quality material was used (it was cheaper than expected), resulting in waste. If so, it appears it cost more (in waste) than it saved (in reduced purchasing costs). It also appears that it may have led to the adverse polishing labour efficiency variance.  
*Labour*: Higher wage rates than were expected led to a significant increase in cost. These increased wage rates may have resulted from the change in the planned level of activity from 16,000 units to 12,000.

**Answer to Question 42.8A BA 2**

(a) See text.

- (b) (i) Total materials variance:  
 $(\text{Standard price} \times \text{standard quantity}) - (\text{actual price} \times \text{actual quantity})$   
 $= (£8.42 \times 1,940) - (£8.24 \times 2,270) = £16,334.8 - £18,704.8 = £2,370$  adverse.
- (ii) Materials price variance:  
 $(\text{Standard price} - \text{actual price per unit}) \times \text{quantity purchased}$   
 $= (£8.42 - £8.24) \times 2,270 = £408.60$  favourable.
- (iii) Material usage variance:  
 $(\text{Standard quantity required} - \text{actual quantity}) \times \text{standard price}$   
 $= (1,940 - 2,270) \times £8.42 = £2,778.60$  adverse.
- (iv) Total labour variance:  
 $(\text{Standard rate} \times \text{standard hours}) - (\text{actual rate} \times \text{actual hours})$   
 $= (£6.53 \times 800) - (£6.14 \times 860) = £5,224 - £5,280.4 = £56.4$  adverse.
- (v) Wage rate variance:  
 $(\text{Standard rate} - \text{actual rate}) \times \text{actual hours worked}$   
 $= (£6.53 - £6.14) \times 860 = £335.40$  favourable.
- (vi) Labour efficiency variance:  
 $(\text{Standard hours} - \text{actual hours}) \times \text{standard rate}$   
 $= (800 - 860) \times £6.53 = £391.80$  adverse.

**Answer to Question 42.9A BA 2**

*Direct material variances*

**Boards**

Price variances:

*Gamesmaster*

Actual	5,050	26,000	
Budget	$5,050 \times 5$	<u>25,250</u>	
Adverse			(750)

*Gotchya*

Actual	2,010	28,390	
Budget	$2,010 \times 10$	<u>20,100</u>	
Adverse			(8,290)

Usage variances:

*Gamesmaster*

Actual	$5,050 \times 5$	25,250	
Budget	$5,000 \times 5$	<u>25,000</u>	
Adverse			(250)

*Gotchya*

Actual	$2,010 \times 10$	20,100	
Budget	$2,000 \times 10$	<u>20,000</u>	
Adverse			(100)

## Components

Price variances:

### *Gamesmaster*

Actual	5,060	75,000	
Budget	$5,060 \times 20$	<u>101,200</u>	
Favourable			26,200

### *Gotchya*

Actual	2,025	56,409	
Budget	$2,025 \times 30$	<u>60,750</u>	
Favourable			4,341

Usage variances:

### *Gamesmaster*

Actual	$5,060 \times 20$	101,200	
Budget	$5,000 \times 20$	<u>100,000</u>	
Adverse			( 1,200)

### *Gotchya*

Actual	$2,025 \times 30$	60,750	
Budget	$2,000 \times 30$	<u>60,000</u>	
Adverse			( 750)

Total direct material variance: Favourable 19,201

## *Direct labour variances*

### **Assembly**

#### Wage rates

Actual		49,000	
Budget	$10,000 \times 5$	<u>50,000</u>	
Favourable			1,000

#### Efficiency

Actual	$10,000 \times 5$	50,000	
Budget	$7,000 \times 5$	<u>35,000</u>	
Adverse			(15,000)

### **Testing**

#### Wage rates

Actual		35,700	
Budget	$7,000 \times 5$	<u>35,000</u>	
Adverse			( 700)

#### Efficiency

Actual	$7,000 \times 5$	35,000	
Budget	$9,000 \times 5$	<u>45,000</u>	
Favourable			10,000

Total direct labour variance: Adverse ( 4,700)

## **Answer to Question 42.10A BA 2**

- (i) Standard cost – BCDE – standard hours at standard rates.
- (ii) Actual cost – ACJG – actual hours at actual rates.
- (iii) Total labour cost variance – ABGH and EDJH – difference between (i) and (ii) above.
- (iv) Efficiency variance – EDJH – additional hours required.
- (v) Wage rate variance – ABGH – additional hours at wage rate differential.



## Answer to Question 43.2A BA 2

	£
(a) Actual fixed overhead	18,109
Budgeted fixed overhead	19,000
Favourable fixed overhead expenditure variance	891
(b) Actual hours × standard rate (280 × £12)	3,360
Budgeted hours × standard rate (300 × £12)	3,600
Favourable variable overhead efficiency variance	240
(c) Actual overhead	28,000
Overhead applied to production (13,800 × £2)	27,600
Adverse variable overhead expenditure variance	400
(d) Actual overhead	11,400
Overhead applied to production (6,000 × £2)	12,000
Favourable variable overhead expenditure variance	600
(e) Actual fixed overhead	88,700
Budgeted fixed overhead	84,100
Adverse fixed overhead expenditure variance	3,600
(f) Actual hours × standard rate (20,000 × £10)	200,000
Budgeted hours (14,600 × 1.33) × standard rate £10	194,667
Adverse variable overhead efficiency variance	5,333

## Answer to Question 43.4A BA 2

The variable overhead rate is:

$$\frac{£80,000}{60,000} = £1.33 \text{ per direct labour hour or } £0.33 \text{ per unit}$$

The fixed overhead rate is:

$$\frac{£120,000}{60,000} = £2 \text{ direct labour hour or } 50\text{p per unit}$$

The variances are:

### Variable overhead

(i) <i>Expenditure variance</i>	£
Actual overhead	78,000
Overhead applied to production 64,000 × £1.33	85,333
Favourable expenditure variance	7,333
(ii) <i>Efficiency variance</i>	
Actual hours × standard rate 64,000 × £1.33	85,333
Budgeted hours × standard rate (236,000 units which should be produced in 236,000 ÷ 4 = 59,000 hours × £1.33)	78,667
Adverse efficiency variance	6,666
	667

### Fixed overhead

(i) <i>Budget (or spending) variance</i>	
Actual overhead	104,000
Budgeted overhead	120,000
Favourable expenditure variance	16,000
(ii) <i>Efficiency variance</i>	
Actual units produced × standard rate 236,000 × 50p	118,000
Actual labour hours × standard rate per hour 64,000 × £2	128,000
Adverse efficiency variance	10,000
(iii) <i>Capacity variance</i>	
Actual volume × standard rate 64,000 × £2	128,000
Budgeted volume × standard rate 60,000 × £2	120,000
Favourable capacity variance	8,000
	6,000

The variances can be explained further:

*Variable overhead*

Actual overhead	78,000
Budgeted overhead for actual production 236,000 units × £0.33 per unit	78,667
Net favourable variance (made up of favourable expenditure variance £7,333 less adverse efficiency variance £6,666)	667

*Fixed overhead*

Actual overhead	104,000
Overhead based on units of production 236,000 × £0.50	118,000
Net adverse variance (made up of adverse efficiency £10,000 – favourable expenditure £16,000 less favourable capacity variance £8,000)	14,000

**Answer to Question 43.6A BA 2**

Actual units sold	75,000 × Budget price	£6.00 =	£450,000
	75,000 × Actual price	£6.40 =	£480,000
Favourable price variance		£0.40 =	£30,000
Actual units sold	75,000 × Budget gross profit	£3.30 =	£247,500
Budget units sold	80,000 × Budget gross profit	£3.30 =	£264,000
Adverse volume variance			£16,500

**Answer to Question 43.8A BA 2**

Product	Actual units sold	Budget price £	Actual price £	Unit price variance	Total price variance
A	1,000	60	58	–2	–2,000
B	800	50	54	+4	+3,200
C	3,000	80	78	–2	–6,000
	4,800			Adverse price variance	–4,800

	Actual units sold	Actual units in budget (%)	Budget sales units	Variance in units	Budget gross profit per unit £	Total variance £
A	1,000	686	800	–114	10	–1,140
B	800	1,027	1,200	–173	8	–1,384
C	3,000	3,087	3,600	–513	20	–10,260
	4,800	4,800	5,600	–800	Adverse volume variance	–12,784

	Actual units in budget (%)	Actual units sold	Variance in units	Budget gross profit per unit £	Total variance £
A	686	1,000	+314	10	+3,140
B	1,027	800	–227	8	–1,816
C	3,087	3,000	–87	20	–1,740
	4,800	4,800	—	Adverse mix variance	–416

*Summary of sales variance*

Adverse price variance	4,800
Adverse volume variance	12,784
Adverse mix variance	416
Net adverse variance	18,000

\* Note: either this figure must be rounded to 3,087 or if recorded as 3,086 the Product A figure shown of 686 needs to be rounded to 687. Either would be correct. It would not be correct to leave both at their possible lower amounts of 3,086 and 686 as the total of ‘actual units in budget %’ must add up to 4,800.

## Answer to Question 43.10A BA 2

### Flint Palatignium Ltd

(i) Trading Account part of the Income Statement for the month of April 2008

		Actual (£)	Budget (£)
Sales units	<u>31,000</u>		
Revenue (534,750 + 8,691)		543,441	534,750
Materials (155,000 – 4,662 + 1,743)		152,081	155,000
Labour (77,500 – 600 + 292)		77,192	77,500
Overhead (232,500 – 147 + 9)		<u>232,362</u>	<u>232,500</u>
		<u>461,635</u>	<u>465,000</u>
Operating profit		<u>81,806</u>	<u>69,750</u>
Valuation of inventory			
1.4.2008 1,000 at £5 =	£5,000		
30.4.1008 1,750 at £5 =	£8,750		

Workings:

Units sold = £sales ÷ selling price = £534,750 ÷ £17.25 = 31,000.

(ii) Standard costing uses standards of performance and of prices derived from studying operations and of estimating future prices. Each unit produced attracts a standard materials, labour and overhead cost.

Flint Palatignium negotiates fixed-price contracts utilising standard costing which enables it to set standards that will remain unchanged for long periods. For example, the average cost method of pricing material issues needs a price recalculation each time there are additional receipts. The standard cost of materials will remain unchanged for a long period.

Using the standard costing system would enable the company to check on the efficiency of the service provided. It would also enable faster reporting to be carried out.

## Answer to Question 43.11A BA 2

### HGW Limited

Income Statement for March 2004

	£	£
Revenue		46,750
Less: Materials	9,734	
Labour	18,720	
Overheads	<u>12,500</u>	
		40,954
Profit for the month		<u>5,796</u>

(b)

(i) Sales variance

Price			
Actual	550 × 85	46,750	
Budget	550 × 86	<u>47,300</u>	
Adverse			( 550)
Volume			
Actual	550 × 86	47,300	
Budget	520 × 86	<u>44,720</u>	
Favourable			2,580
Total sales variance: Favourable			<u>2,030</u>

(ii) Direct materials variance

Price			
Actual	785 × 12.40	9,734	
Budget	785 × 12	<u>9,420</u>	
Adverse			( 314)
Usage			
Actual	785 × 12	9,420	
Budget	825 × 12	<u>9,900</u>	
Favourable			480
Total direct material variance: Favourable			<u>166</u>

(iii) *Direct labour variance*

Rate			
Actual	$2,400 \times 7.80$	18,720	
Budget	$2,400 \times 7.50$	<u>18,000</u>	
Adverse			( 720)
Efficiency			
Actual	$2,400 \times 7.50$	18,000	
Budget	$2,420 \times 7.50$	<u>18,150</u>	
Favourable			<u>150</u>
Total direct labour variance: adverse			<u><u>570</u></u>

(c) *Reconciliation*

Budgeted profit on actual sales [ $550 \times 13(86 - 73)$ ]		7,150
Variances		
Sales (price variance only)	(550)	
Direct material	166	
Direct labour	(570)	
Overheads	<u>(400)</u>	
		(1,354)
Profit as per (a) above		<u><u>5,796</u></u>

(d) See text, Section 41.2.

**Answer to Question 44.3A BA 2**

- (a) (i) £24,000      (ii) £36,000      (iii) £44,000      (iv) £30,000  
(b) (i) £18,000      (ii) £48,000      (iii) £33,000

**Answer to Question 44.5A BA 2**

- (i) Loss £2,000  
(ii) Profit £12,000  
(iii) Neither profit nor loss  
(iv) Profit £6,000  
(v) Profit £9,000

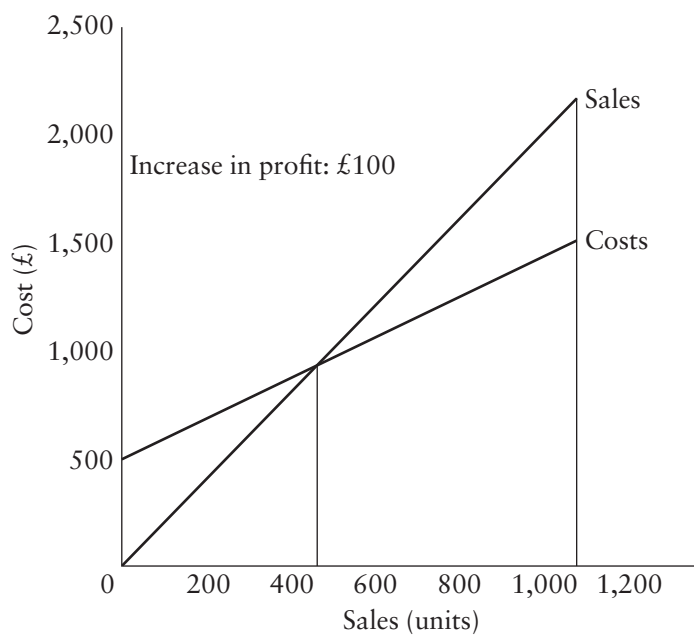
**Answer to Question 44.7A BA 2**

(a) *Workings:*

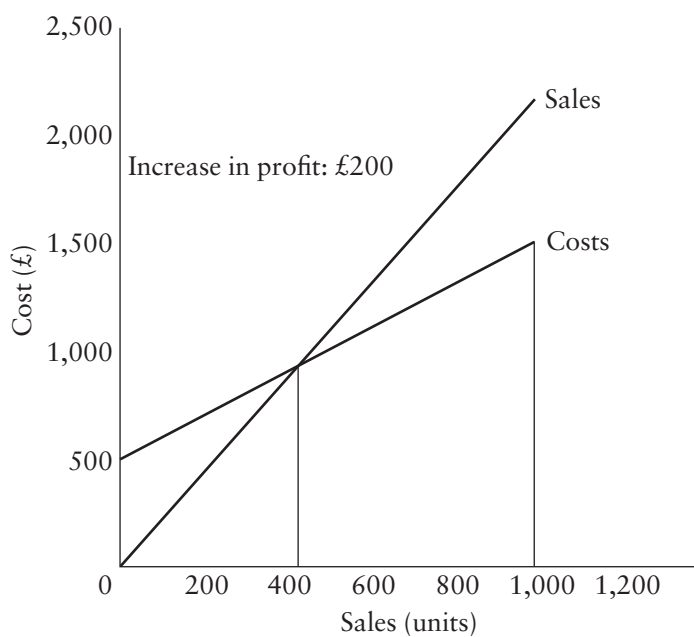
	<i>Current</i>		<i>Changes</i>			
		(i)	(ii)	(iii)	(iv)	
Sales volume – units	1,000	1,100	1,000	1,000	1,000	
Selling price (£)	2	2	2.20	2	2	
Sales (£)	<u>2,000</u>	<u>2,200</u>	<u>2,200</u>	<u>2,000</u>	<u>2,000</u>	
Variable cost (£)	1,000	1,100	1,000	900	1,000	
Fixed cost (£)	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>450</u>	
Profit (£)	<u><u>500</u></u>	<u><u>600</u></u>	<u><u>700</u></u>	<u><u>600</u></u>	<u><u>550</u></u>	

*Break-even charts:*

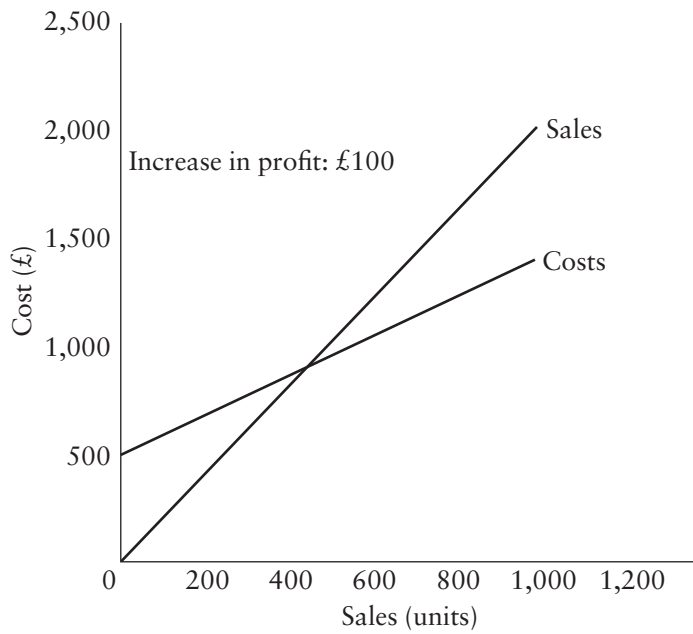
(i) 10% increase in volume



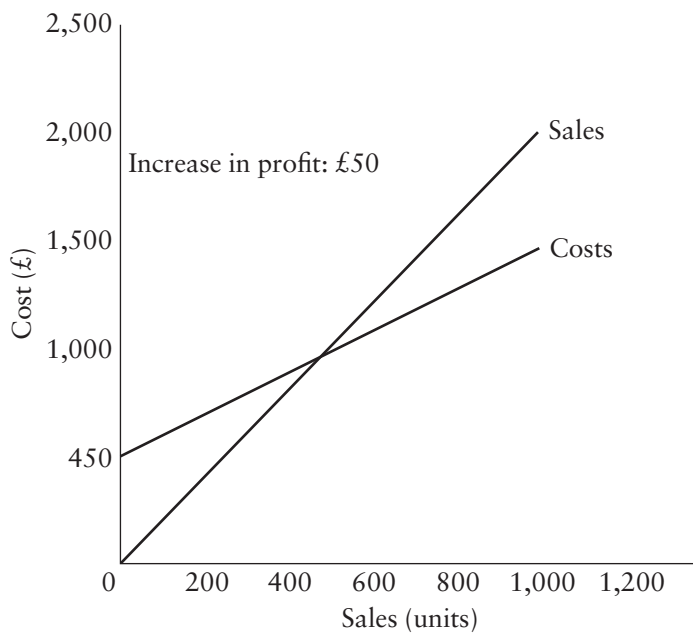
(ii) 10% increase in unit selling price



(iii) 10% decrease in unit variable cost



(iv) 10% reduction in fixed costs



## Answer to Question 44.9A BA 2

(a)	Monarch Ltd			
	Profit Statement			
	Original statement	(i)	Options (ii)	(iii)
Sales units (W1)	60,000	78,000	62,000	75,000
Unit selling price	<u>£30</u>	<u>£27</u>	<u>£30</u>	<u>£30</u>
			£000	
Revenue	<u>1,800</u>	<u>2,106</u>	<u>1,860</u>	<u>2,250</u>
Direct material	<u>480</u>	<u>585</u>	<u>496</u>	<u>577.5</u>
Direct labour	<u>240</u>	<u>312</u>	<u>248</u>	<u>300</u>
Variable overhead	<u>240</u>	<u>312</u>	<u>248</u>	<u>300</u>
	<u>960</u>	<u>1,209</u>	<u>992</u>	<u>1,177.5</u>
Contribution	<u>840</u>	<u>897</u>	<u>868</u>	<u>1,072.5</u>
Production cost	<u>260</u>	<u>290</u>	<u>260</u>	<u>285</u>
Administration	<u>90</u>	<u>95</u>	<u>90</u>	<u>94</u>
Selling, marketing and distribution	<u>100</u>	<u>110</u>	<u>127</u>	<u>147</u>
	<u>450</u>	<u>495</u>	<u>477</u>	<u>526</u>
Profit	<u>390</u>	<u>402</u>	<u>391</u>	<u>546.5</u>
Contribution per unit (£)	<u>14</u>	<u>11.50</u>	<u>14</u>	<u>14.3</u>

(W1) Contribution = £840,000 for 60,000 units = £14 each.

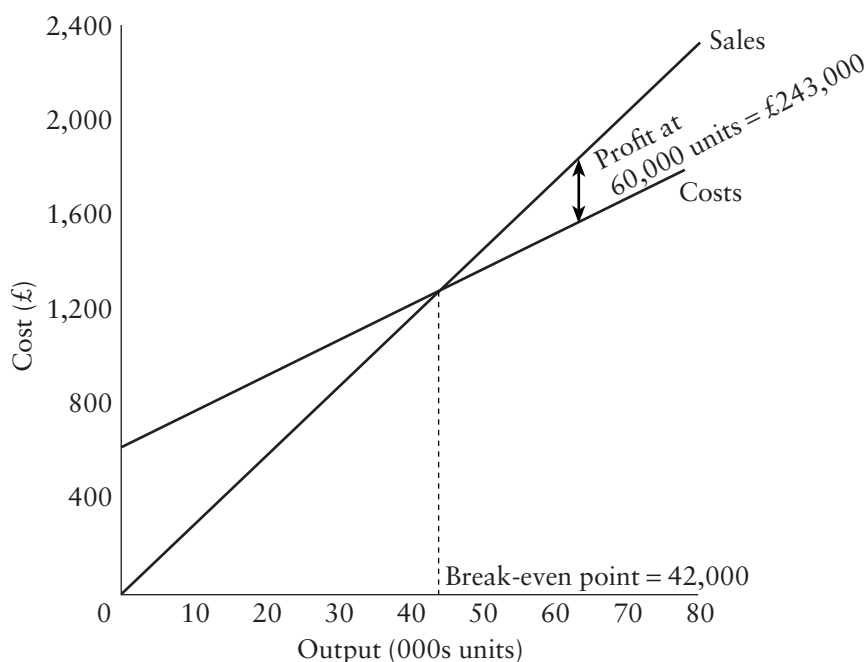
Contribution + total variable cost = selling price, therefore £14 + £16 = £30.

Monarch Ltd			
Profit Statement			
	Original statement		Managing director's option (iv)
Sales units	60,000		78,000
Unit selling price	£30		£29
	£000		£000
Revenue	<u>1,800</u>	(F)	<u>2,262</u>
Direct material	480	(+ 30% × 93.75%)	585
Direct labour	240		312
Variable overhead	<u>240</u>		<u>312</u>
	<u>960</u>	(E)	<u>1,209</u>
Contribution	<u>840</u>	(C)	<u>1,053</u>
Production costs	260		417
Administration	90		—
Selling, marketing and distribution	<u>100</u>		<u>150</u>
	<u>450</u>	(B)	<u>567</u>
Profit	<u>390</u>	(A)	<u>486</u>
Contribution per unit (£)	<u>14</u>	(D)	<u>13.5</u>

(b) Break-even point – £567,000 = 42,000 units.

First insert (A) and (B). This means that (A) + (B) = (C). Given sales increase in units of 30% = 78,000 sales. Means that (C) ÷ 78,000 = contribution per unit of £13.50. (E) calculated so that (C) + (E) = (F).

### Contribution/sales graph



(c) The report should include the following:

- 1 Marginal costing takes account of the variable costs of products.
- 2 It states that fixed factory overhead is a function of time and should not be carried forward into the next period by including it in inventory valuations.
- 3 To apply marginal costing means splitting up fixed and variable costs. This is not always straightforward.
- 4 Not all variable costs are a hundred per cent variable.
- 5 Intelligent cost planning and control is dependent on the knowledge of how costs behave in a particular firm.
- 6 Raw materials are examples of variable costs. Labour costs usually move in steps.

### Answer to Question 44.11A BA 2

(a) See text, Section 44.1. (It should be remembered that a break-even point is relevant only to a specific range of activity and within a specific timescale. If the volume of activity shifts onto a new level, some fixed costs may alter – for example, a second warehouse may need to be rented. This will result in a different break-even point. Also, the break-even point will alter over time as the nature of all costs change.)

(b) (i) Cost of 2,000 additional units

Direct materials	(36,000 – 30,000)	6,000
Direct labour	(33,000 – 28,000)	5,000
Overheads	(24,100 – 20,500)	3,600
		<u>£14,600</u>

(ii) Based on the cost for 2,000 units calculated in (i), the variable costs of 10,000 units would be £73,000.

(iii) There appears to be a fixed element in both direct labour and overheads. In the case of direct labour, this would appear to be £3,000 [ $£28,000 - (5 \times £5,000)$ ]. In the case of overheads, it appears to be £2,500 [ $£20,500 - (5 \times 3,600)$ ].

(iv) On the basis of (ii) the variable cost of one unit is £7.30 and the contribution per unit is £5 [ $£12.30 - £7.30$ ]. Break-even point is 1,100 units [ $(£3,000 + £2,500)/£5$ ].

### Answer to Question 45.2A BA 2

The amount borrowed is £3,842.20 and the interest charged is £157.80.

Therefore, the real rate of interest:

$$r = \frac{157.80}{3,842.20 \times ({}^{64}/_{365})} = 0.2342 \text{ or } 23.42\%.$$



**Answer to Question 45.5A BA 2**

£5,000 will accumulate to  $£5,000 \times (1 + 0.035)^8 = £6,584.04$   
 Interest is  $£6,584.04 - £5,000 = £1,584.04$

**Answer to Question 45.6A BA 2**

$$r = \sqrt[5]{(4,400/2,500)} - 1$$

$$= 11.2\%$$

**Answer to Question 45.8A BA 2**

$$\frac{£50,000}{5,000} = 10$$

Therefore, from Table 4 in Appendix 1, and using the 12 year line, it lies between 2% and 3%:

$$\begin{array}{rcl} 2\% & = & 10.575 \\ 3\% & = & 9.954 \\ \text{Difference} & = & 0.621 \end{array}$$

Interpolating,  $10 - 9.954 = 0.046$  and  $= \frac{46}{621} \times 1 = 0.07$

Therefore the offer represents a rate of interest of  $3\% - 0.07\% = 2.93\%$ . This is well below the 6% compound interest you could obtain by investing the £50,000 and confirms that you should accept the offer.

**Answer to Question 45.10A BA 2**

$$\begin{aligned} \text{Paid in per year} &= \frac{\text{Value} \times (r)}{(1 + r)^n - 1} \\ &= \frac{£40,000 \times 0.07}{(1.07)^8 - 1} \\ &= £3,898.71 \text{ per year} \end{aligned}$$

**Answer to Question 46.4A BA 2**

Year:	0	<i>Cash flow budget for the project</i>				
		1 (start)	2	3	4	5
<i>Cash outflows</i>						
Machine	(60,000)					
Working capital	(30,000)					
Tax on profit @ 30%			(48,000)	(48,000)	(48,000)	(48,000)
<i>Cash inflows</i>						
Profit before tax and depn		160,000	160,000	160,000	160,000	
WDA			4,500	3,375	2,531	7,594
Working capital					30,000	
<i>Net cash flow</i>	<u>(90,000)</u>	<u>160,000</u>	<u>116,500</u>	<u>115,375</u>	<u>144,531</u>	<u>(40,406)</u>

**Notes**

- 1 Net outflows are shown in brackets.
- 2 WDA is 25% reducing balance on the machine multiplied by the tax rate of 30%.
- 3 At the end, as it has no residual value, the machine has an unexpired WDA that can be claimed of  $£60,000 - £34,688 = £25,312$ .

**Answer to Question 46.5A BA 2**

Year	Net cash flow	Discount factor (7%)	Present value
0	( 90,000)	1.000	( 90,000)
1	160,000	0.935	149,600
2	116,500	0.873	101,705
3	115,375	0.816	94,146
4	144,531	0.763	110,277
5	( 40,406)	0.713	( 28,809)
Net present value of the net cash flows			<u>336,919</u>

**Answer to Question 46.6A BA 2**

Year:	0	1 (start)	2	Cash flow statement			
				3	4	5	6
<i>Cash outflows</i>							
Machine	(90,000)						
Tax on savings @ 30%			(9,000)	(9,000)	(9,000)	(9,000)	(9,000)
Tax on sale of old machine			(1,800)				
<i>Cash inflows</i>							
Savings on material		30,000	30,000	30,000	30,000	30,000	
Sale of old machine		18,000					
WDA on new machine			5,400	4,320	3,456	2,765	11,059
<i>Net cash flow</i>	<u>(90,000)</u>	<u>48,000</u>	<u>24,600</u>	<u>25,320</u>	<u>24,456</u>	<u>23,765</u>	<u>2,059</u>

*Notes*

- 1 Net outflows are shown in brackets.
- 2 WDA is 20% reducing balance on the machine multiplied by the tax rate of 30%.
- 3 At the end, as it has no residual value, the machine has an unexpired WDA that can be claimed of £11,059.
- 4 The old machine is sold at a gain of £6,000 over its book value of £12,000 ( $4 \times £3,000$ ).

The impact on annual reported profits would be:

- (i) *operating profit* would increase by £30,000;
- (ii) *depreciation* would increase by £15,000 (assuming the straight line method was used);
- (iii) *tax payable* would change by the difference between the tax and WDA rows in the statement.

**Answer to Question 46.11A BA 2**

Year	Amount	Balance
0	(40,000)	(40,000)
1	26,000	(14,000)
2	16,000	–
3	10,000	–

Payback at 1 plus  $14,000/16,000$  years = 1.875 years.

**Answer to Question 46.12A BA 2**

Year	Cash flow	Discount factor (6%)	Present value
0	(40,000)	1.000	(40,000)
1	26,000	0.943	24,518
2	16,000	0.890	14,240
3	10,000	0.840	<u>8,400</u>
Net present value of the project			<u>7,158</u>

### Answer to Question 46.13A BA 2

Year	Amount	Discount factor (16%)	Present value	Discount factor (18%)	Present value
0	(40,000)	1.000	(40,000)	1.000	(40,000)
1	26,000	0.862	22,412	0.847	22,022
2	16,000	0.743	11,888	0.718	11,488
3	10,000	0.641	<u>6,410</u>	0.609	<u>6,090</u>
			<u>710</u>		<u>(400)</u>
16% discount rate gives NPV of			710		
18% discount rate gives negative NPV of			<u>400</u>		
			<u>1,110</u>		

The IRR is  $\frac{710}{1,110} \times 2\% = 1.28 + 16\% = 17.28\%$ .

### Answer to Question 46.14A BA 2

From Table 4 in Appendix 1, the present value of an annuity of £1 for three years at 6% is 2.673. The NPV accounting to the answer to Question 46.12A is £7,158. Therefore the annualised amount is:

$$\frac{£7,158}{2.673} = £2,677.89.$$

### Answer to Question 46.15A BA 2

Average return = 90,000  
Average investment =  $(128,000 + 8,000) \div 2 = 68,000$   
Accounting rate of return =  $\frac{90,000}{68,000}$   
= 132.35%

### Answer to Question 46.16A BA 2

Period	Amount	Discount factor (80%)	Present value	Discount factor (90%)	Present value
0	(128,000)	1.000	(128,000)	1.000	(128,000)
1	114,000	0.556	63,384	0.526	59,964
2	114,000	0.309	35,226	0.277	31,578
3	114,000	0.171	19,494	0.146	16,644
4	114,000	0.095	10,830	0.077	8,778
5	122,000	0.053	<u>6,466</u>	0.040	<u>4,880</u>
			<u>7,400</u>		<u>(6,156)</u>
80% discount rate gives NPV of			7,400		
90% discount rate gives negative NPV of			<u>6,156</u>		
			<u>13,556</u>		

The IRR is  $\frac{7,400}{13,556} \times 10\% = 5.46\% + 80\% = \underline{85.46\%}$

**Answer to Question 46.19A BA 2**

<i>Period</i>	<i>Discount factor (7%)</i>	<i>Project A net cash flows</i>	<i>Present value</i>	<i>Project B net cash flows</i>	<i>Present value</i>
0	1.000	(68,000)	(68,000)	(58,000)	(58,000)
1	0.935	30,000	28,050	42,000	39,270
2	0.873	–	–	–	–
3	0.816	48,000	<u>39,168</u>	21,000	<u>17,136</u>
			<u>( 782)</u>		<u>( 1,594)</u>

Neither should be selected on the basis of this criterion – both projects have a negative net present value.

**Answer to Question 46.20A BA 2**

Project X = 6.4%

Project Y = 5.2%

Project X would be preferred.

**Answer to Question 46.22A BA 2**

<i>Period</i>	<i>Discount factor (6%)</i>	<i>Project X net cash flows</i>	<i>Present value</i>	<i>Project Y net cash flows</i>	<i>Present value</i>
0	1.000	(50,000)	(50,000)	(110,000)	(110,000)
1	0.943	( 8,000)	( 7,544)	( 12,000)	( 11,316)
2	0.890	(12,000)	(10,680)	( 12,000)	( 10,680)
3	0.840	( 8,000)	( 6,720)	( 2,000)	( 1,680)
4	0.792	( 8,000)	( 6,336)	( 2,000)	( 1,584)
5	0.747	( 8,000)	<u>( 5,976)</u>	( 2,000)	<u>( 1,494)</u>
			<u>(87,256)</u>		<u>(136,754)</u>

The present value of an annuity of £1 for 5 years at 6% = £4.212

$$\therefore \text{the annualised cost of Project X} = \frac{£87,256}{4.212} = £20,716$$

$$\text{and the annualised cost of Project Y} = \frac{£136,754}{4.212} = £32,468$$

As the cost of project X is cheaper than that of project Y, project X should be selected.

## Answer to Question 46.25A BA 2

Hirwaun Pig Iron Co.				
(a) Exco	2005	2006	2007	2008
Tonnes	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>
Price:				
80% @	£150	£150	£150	£150
20% @	<u>£150</u>	<u>£140</u>	<u>£140</u>	<u>£160</u>
Revenue (£000)	18,000	17,760	17,760	18,240
Labour (£000)	( 1,200)	( 1,200)	( 1,200)	( 1,200)
Other payments	<u>(15,600)</u>	<u>(15,600)</u>	<u>(16,200)</u>	<u>(16,200)</u>
Net cash flow	<u>1,200</u>	<u>960</u>	<u>360</u>	<u>840</u>
<i>Ohio</i>	2005	2006	2007	2008
Tonnes	<u>240,000</u>	<u>240,000</u>	<u>240,000</u>	<u>240,000</u>
Price	<u>£130</u>	<u>£130</u>	<u>£140</u>	<u>£170</u>
Revenue (£000)	31,200	31,200	33,600	40,800
Labour (£000)	( 2,500)	( 2,500)	( 2,500)	( 2,500)
Other payments	<u>(28,800)</u>	<u>(28,800)</u>	<u>(30,000)</u>	<u>(30,000)</u>
Net cash flow	<u>( 100)</u>	<u>( 100)</u>	<u>1,100</u>	<u>8,300</u>

(b) Exco (£000)			PV factor for 12%	NPV
Period				
0	Capital outlay	(2,000)	1.00	(2,000)
2005	Net cash flow	1,200	0.893	1,072
2006	Net cash flow	960	0.797	765
2007	Net cash flow	360	0.712	256
2008	Net cash flow	840	0.636	534
Net present value				<u>627</u>
<i>Ohio</i> (£000)				
0	Capital outlay	(3,500)	1.00	(3,500)
2005	Net cash flow	( 100)	0.893	( 89)
2006	Net cash flow	( 100)	0.797	( 80)
2007	Net cash flow	1,100	0.712	783
2008	Net cash flow	8,300	0.636	5,279
Net present value				<u>2,393</u>

- (c) The calculations of net present values indicate that the Ohio investment produces a higher NPV over the four-year period. In order to determine whether this represents a reasonable decision, the management would need to consider the reliability of estimates used – on volumes, sales forces and costs. Exco involves a lower capital outlay, which is expected to produce a payback just before the end of 2006. Ohio does not achieve payback until over 6 months through the fourth year. Ohio only really comes into profit in the fourth year. If these fourth year estimates are reliable, and may extend into the future period after 2008, then Ohio is clearly preferable. The method using net present value is entirely appropriate, assuming that the cost of capital figure has been reliably estimated. However, the NPV can only be valued if the information on which it is based is accurate. Great care must be taken to assess the sensitivity of the data to changes in the inputs in order to be aware of the underlying risks involved.

## Answer to Question 46.27A BA 2

### Rovers Football Club

#### Exhibit A

##### Jimmy Jam

Year	0	1	2	3	4	5
Incremental receipts		200,000	200,000	200,000	200,000	200,000
Salary		( 50,000)	( 50,000)	( 50,000)	( 50,000)	( 50,000)
Transfer fee	(200,000)					
	<u>(200,000)</u>	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>

#### Exhibit B

##### Johnny Star

Year	0	1	2
Incremental receipts		400,000	400,000
Salary		(200,000)	(200,000)
Transfer fee	(100,000)		
	<u>(100,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>

#### Exhibit C

Year	Jimmy Jam			Johnny Star		
	Cash flow	PV factor	NPV	Cash flow	PV factor	NPV
0	(200,000)	1.00	(200,000)	(100,000)	1.00	(100,000)
1	150,000	0.893	133,950	200,000	0.893	178,600
2	150,000	0.797	119,550	200,000	0.797	159,400
3	150,000	0.712	106,800			<u>238,000</u>
4	150,000	0.636	95,400			
5	150,000	0.567	85,050			
			<u>340,750</u>			

#### Report to Rovers Football Club

The proposed transactions have been evaluated in Exhibits A, B and C to calculate the likely returns from the two players. On the figures quoted, both transactions produce a positive net present value using 12% interest, with the Jimmy Jam proposal providing the higher of the two. However, the club should consider the fact that the J Star proposal provides a payback in the first year whereas the J Jam transfer would not achieve payback until after six months through year 2.

If J Jam is successful, his five-year contract will provide benefits for three years more than J Star. In both cases the whole proposal hinges on the validity of the assumed increase in revenue and the probability that the players will be fit to play and be popular with the crowds.