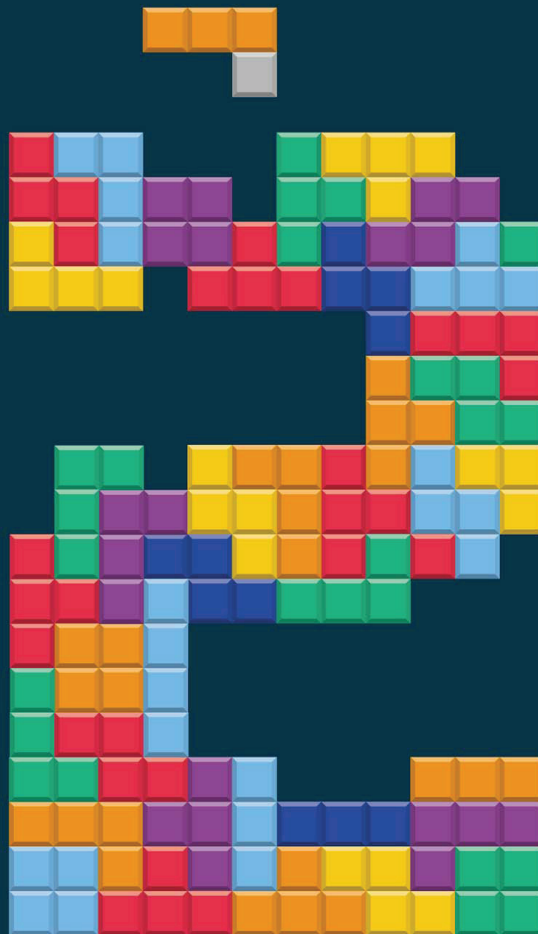


FRANK WOOD'S

# BUSINESS ACCOUNTING

FOURTEENTH EDITION



FRANK WOOD'S  
**BUSINESS ACCOUNTING 2**

## Review questions

**10.1** Below is the extended trial balance of Sabrina Ltd as at 31 December 2021 after all year end adjustments have been put through. Prepare the company income statement and an extract of statement of changes in equity (showing only the movement in retained profit) for the 12 months to 31 December 2021 and the balance sheet as at 31 December 2021.

Freehold land	983,000
Revaluation Reserve	100,000
Plant and machinery at cost	250,000
Motor vehicles at cost	40,000
Accumulated depreciation at 31 December 2021:	
Plant and machinery	100,000
Motor vehicles	16,000
Other payables	53,000
Sales	850,000
Various administrative expenses	75,000
Selling and distribution expenses	45,000
Inventory as at 31 December 2021	150,000
Cost of Sales	380,000
Wages and Salaries	54,000
Prepayment	12,000
Non-current investments	20,000
Current Investments	5,000
Investment income	5,000
Trade receivables	190,000
Cash at bank	90,000
Trade payables	100,000
10% debentures	150,000
Ordinary share capital of 50p each	350,000
Bank loan repayable in 2030	500,000
Retained earnings as at 1 January 2021	70,000
Tax payable	50,000
Ordinary share dividend	17,000
Other Payables	17,000
Debenture interest	10,000
Debenture interest payable	3,000
Bad debt write off	3,000
Allowance for doubtful debts at 31 December 2021	10,000

**10.2** Below is the extended trial balance of Pronse Ltd as at 31 December 2021 after all year end adjustments have been put through. Prepare the company income statement and an extract of statement of changes in equity (showing only the movement in retained profit) for the 12 months to 31 December 2021 and the balance sheet as at 31 December 2021.

	Dr £000	Cr £000
Trade payables		225
Trade receivables	300	
Overdraft		90
Loan-note interest	9	
Administrative expense	105	
Selling & distribution	30	
5% loan notes		180
Fixtures & fittings at cost	450	
Motor vehicles at cost	600	
Accumulated depreciation fixtures & fittings		180
Accumulated depreciation motor vehicles		306
Inventory at 1 January 2022	375	
Purchases	555	
Sales		525
Share capital		480
Revaluation reserve		105
Allowance for doubtful debts		30
Retained earnings at 1 January 2022		561
Prepayment	36	
Salaries	216	
Accountant's fees	9	
Computer consultancy	45	
Audit	36	
Accruals		84

*In addition, inventory count at the year ending 31 December 2022 showed stock/merchandise left worth £525,000.*

**10.3** The following is the trial balance of Trudi Ltd extracted from the company ledgers as at 31 December 2021 before year end adjustments have been posted.

	£000s
Fixtures & fittings (at cost)	180
Motor vehicles (at cost)	100
Accumulated depreciation at 1 January 2021:	
Fixtures & fittings	20
Motor vehicles	30
Inventory at 1 January 2021	60
Sales	200
Purchases	100
Accrual for audit fees	6
Share capital	100
Reserves	20
Retained earnings as at 1 January 2021	94
Payables	40
Receivables	50
Cash	25
10% loan stock	30
Admin. expenses	25
Loan stock interest	2
Allowance for doubtful debts	2





The following remains to be adjusted for at the year end:

- 1 Depreciation: The policy is to disclose all depreciation as administrative expenses:  
F&F – reducing balance method @ 10%  
MV – straight line method @ 30%
- 2 Allowance doubtful debt should be equal to 10% debtors.
- 3 Audit fee accrual should be increased to £10,000.
- 4 Administrative expenses include a prepayment of £17,000.
- 5 A inventory count at 31 December 2021 confirmed that closing inventory is £90,000.
- 6 Any other year adjustments that you as an accountant think are required given the above information.

Show the workings and double entries required to deal with the year end adjustments then prepare the company financial statements (excluding notes to the accounts).

**10.4** The following balances remained in the books of AK Ltd on 31 March 2020, *after* the income statement had been drawn up. You are to draft the balance sheet as at 31 March 2020 in accordance with the relevant accounting standards.

	<i>Dr</i>	<i>Cr</i>
	<i>£000s</i>	<i>£000s</i>
Ordinary share capital: £1 shares		1,000
Preference share capital: 50p shares		400
Calls account (ordinary shares)		2
Development costs	128	
Goodwill	416	
Land and buildings – at cost	1,000	
Plant and machinery – at cost	300	
Provision for depreciation: Buildings		80
Provision for depreciation: Plant and machinery		120
Shares in undertakings in which the company has a participating interest	280	
Inventory: Raw materials	24	
Inventory: Finished goods	144	
Accounts receivable: Trade	96	
Amounts owed by associate entities	20	
Prepayments		4
Loan notes (see Note 1)		200
Bank overdraft (repayable on demand)		62
Accounts payable: Trade (payable within one year)		68
Bills payable (see Note 2)		16
Share premium		200
Capital redemption reserve		40
General reserve		80
Retained profits	<u>2,438</u>	<u>172</u>
		<u>2,438</u>

*Notes:*

- 1 Of the loan notes, £80,000 is repayable in five months' time, while the other £12,000 is repayable in four years' time.
- 2 Of the bills payable, £12,000 is in respect of a bill to be paid in eight months' time and £4,000 for a bill payable in 14 months' time.
- 3 The depreciation charged for the year was: Buildings £10,000, Plant and machinery £15,000.

**10.5** After the income statement and statement of changes in equity have been prepared for the year ending 30 April 2020, the following balances remain in the books of Tree plc. Prepare a balance sheet in accordance with the relevant accounting standards.

	£000s	£000s
Ordinary share capital		100
Share premium		60
Revaluation reserve		24
General reserve		30
Foreign exchange reserve		8
Retained profits		36
Patents, trade marks and licences	6	
Goodwill	42	
Land and buildings	280	
Provision for depreciation: Land and buildings		80
Plant and machinery	90	
Provision for depreciation: Plant and machinery		48
Inventory of raw materials: 30 April 2020	24	
Work in progress: 30 April 2020	10	
Finished goods: 30 April 2020	26	
Accounts receivable: Trade	84	
Accounts receivable: Other	4	
Prepayments and accrued income	2	
Loan notes (redeemable in 6 months' time)		50
Loan notes (redeemable in 4½ years' time)		40
Bank overdraft (repayable in 3 months)		4
Trade accounts payable (payable in next 12 months)		26
Trade accounts payable (payable after 12 months)		2
Bills of exchange (payable within 12 months)		6
Corporation tax (payable in 9 months' time)		38
National insurance (payable in next month)		2
Pensions contribution owing		8
Deferred taxation		6
	<u>568</u>	<u>568</u>





**10.6** The following trial balance has been extracted from the books of Baganza plc as at 30 September 2020:

	£000	£000
Administrative expenses	400	
Called-up share capital (1,200,000 ordinary shares of £1 each)		1,200
Cash at bank and in hand	60	
Corporation tax (overpayment for the year to 30 September 2019)		20
Deferred taxation (at 1 October 2019)		460
Distribution costs	600	
Dividends received (on 31 March 2020)		249
Freehold property:		
at cost	2,700	
accumulated depreciation (at 1 October 2019)		260
Interim dividend (paid in June 2020)	36	
Investments in United Kingdom companies	2,000	
Plant and machinery:		
at cost	5,200	
accumulated depreciation (at 1 October 2019)		3,600
Purchases	16,000	
Research expenditure	75	
Retained profits (at 1 October 2019)		2,022
Inventory (at 1 October 2019)	2,300	
Trade accounts payable		2,900
Trade accounts receivable	2,700	
Revenue		21,360
	<u>£32,071</u>	<u>£32,071</u>

*Additional information:*

- The inventory at 30 September 2020 was valued at £3,600,000.
- Depreciation for the year to 30 September 2020 is to be charged on the historic cost of the non-current assets as follows:  
Freehold property: 5%  
Plant and machinery: 15%
- The basic rate of income tax is assumed to be 27%.
- The directors propose a final dividend of 60p per share.
- The company was incorporated in 2013.
- Corporation tax based on the profits for the year at a rate of 35% is estimated to be £850,000.
- A transfer of £40,000 is to be made to the deferred taxation account.

**Required:**

In so far as the information permits, prepare Baganza plc's income statement for the year ending 30 September 2020, and a balance sheet as at that date in accordance with the appropriate accounting standards.

However, formal notes to the accounts are not required, although detailed workings should be submitted with your answer, which should include your calculation of earnings per share.

(Association of Accounting Technicians)

**10.7A** The trial balance of Jeremina plc as at 31 March 2019 is as follows:

	<i>Dr</i>	<i>Cr</i>
	£	£
Preference share capital: 50p shares		200,000
Ordinary share capital: £1 shares		300,000
General reserve		25,000
Exchange reserve		15,000
Retained profits as on 31 March 2018		21,000
Inventory 31 March 2018	184,000	
Revenue		1,320,000
Returns inwards	34,000	
Purchases	620,000	
Carriage inwards	6,000	
Wages (putting goods into a saleable condition)	104,000	
Wages: Warehouse staff	40,000	
Wages and salaries: Sales staff	67,000	
Wages and salaries: Administrative staff	59,000	
Motor expenses (see Note (ii))	29,000	
General distribution expenses	17,000	
General administrative expenses	12,000	
Loan-note interest	2,000	
Royalties receivable		5,000
Directors' remuneration	84,000	
Bad debts	10,000	
Discounts allowed	14,000	
Discounts received		11,000
Plant and machinery at cost (see Note (iii))	240,000	
Provision for depreciation: Plant and machinery (see Note (iv))		72,000
Motor vehicles at cost (see Note (ii))	120,000	
Provision for depreciation: Motors (see Note (iv))		48,000
Goodwill	200,000	
Development costs	24,000	
Trade accounts receivable	188,000	
Trade accounts payable		45,000
Bank overdraft (repayable on demand)		7,000
Bills of exchange payable (all due within one year)		7,000
Loan notes (redeemable in three years' time)		30,000
Preference dividend	12,000	
Ordinary dividend	40,000	
	<u>2,106,000</u>	<u>2,106,000</u>

**Notes:**

- (i) Inventory of finished goods on 31 March 2019 £163,000.
- (ii) Motor expenses and depreciation on motors to be apportioned: distribution  $\frac{4}{5}$ , administrative  $\frac{1}{5}$ .
- (iii) Plant and machinery depreciation to be apportioned: cost of sales  $\frac{7}{10}$ , distribution  $\frac{1}{5}$ , administrative  $\frac{1}{10}$ .
- (iv) Depreciate the following non-current assets on cost: motor vehicles 20%, plant and machinery 15%.
- (v) Accrue corporation tax on profits of the year £38,000. This is payable on 31 December 2019.

**You are to draw up:**

- (a) a detailed income statement for the year ending 31 March 2019 for internal use, and
- (b) an income statement for publication, also a balance sheet as at 31 March 2019.

