**Lecture 6 notes**

* Company financial statements for D Ltd and SR Ltd with a marking guide.
* Please work on the above [D Ltd and SR Ltd] and revise M Ltd and R plc [see Lecture 5 notes]. All of them are previous exam questions and so a good standard of what to expect in the exam.

**Question**

The following trial balance is for D Ltd as at 31/12/2019:

|  |
| --- |
| £ £ |
| £1 Ordinary share capital 400,000 |
| 5% Debentures 120,000 |
| Purchases & sales 1,003,000 1,702,000 |
| Opening inventory 65,000 |
| Receivables & payables 100,000 64,000 |
| Rent, rates & insurance 67,000 |
| Heating & lighting 25,000 |
| Communication expenses 6,000 |
| Miscellaneous expenses 3,000 |
| Audit fee 9,000 |
| Bad debt 3,000 |
| Salaries and Wages 180,000 |
| Directors’ remuneration 107,000 |
| Debenture interest 5,000 |
| Land & buildings at cost 700,000 |
| Machinery |
| - at cost 200,000 |
| - provision for depreciation 50,000 |
| Fittings |
| - at cost 100,000 |
| - provision for depreciation 20,000 |
| Cash 1,000 |
| Bank 3,000 |
| Retained profit 270,000 |
| Ordinary dividend paid 55,000 |
| ------------ ------------ |
| 2,629,000 2,629,000 |
| ======= ======= |

**Additional information as at 31/12/2019**:

* Inventory was valued at £70,000.
* Prepayments for: Rates - £5,000; Miscellaneous expenses - £1000
* Accruals for: Salaries £5,000; Audit fee £1000; Rent £2000
* Machinery to be depreciated by 20% on reducing balance basis.
* Fittings to be depreciated by 10% on straight line.
* Provide £70,000 for taxation.
* The directors propose a final ordinary dividend of 25p per share

**Required for D Ltd:**

**a) Income Statement for the y/e 31/12/2019. [20 marks]**

**b) SOFP as at 31/12/2019. [20 marks]**

**Answer**

**a)**

**D Ltd**

**Income Statement for the y/e 31/12/2019. [in £000s)**

|  |  |  |
| --- | --- | --- |
| Sales |  | 1702 |
| Cost of sales |  |  |
| Opening inventory | 65 |  |
| Purchases | 1003 |  |
| Closing inventory | (70) | (998) |
| GP |  | 704 |
| Expenses |  |  |
| Rent, rates & insurance (67 – 5 + 2) | 64 |  |
| Miscellaneous expenses (3 – 1) | 2 |  |
| Salaries & Wages (180 + 5) | 185 |  |
| Audit fee (9 + 1) | 10 |  |
| Depreciation of fittings (100 x 0.1) | 10 |  |
| Depreciation of machinery (200 – 50) x 0.2 | 30 |  |
| Heating & lighting | 25 |  |
| Communication expenses | 6 |  |
| Bad debt | 3 |  |
| Directors’ remuneration | 107 |  |
| Debenture interest (5 +1) | 6 | (448) |
| Profit before taxation / PBT |  | 256 |
| Corporation tax / CT |  | (70) |
| Profit after taxation / PAT |  | 186 |
| Dividends - Interim paid | 55 |  |
| - Final proposed (400 x 0.25) | 100 | (155) |
| Retained profit for the year |  | 31 |
| Retained profit b/f |  | 270 |
| Retained profit c/f |  | 301 |

**D Ltd.**

**SOFP as at 31/12/2019 [in £000s]**

|  |  |  |  |
| --- | --- | --- | --- |
| Non-current assets | Cost | Accumulated  Depreciation | NBV |
| Land & buildings | 700 | ---- | 700 |
| Machinery | 200 | 50 + 30 = 80 | 120 |
| Fittings | 100 | 20 + 10 = 30 | 70 |
|  | 1000 | 110 | 890 |
| Current assets |  |  |  |
| Inventory | 70 |  |  |
| Receivables | 100 |  |  |
| Prepayments [5 + 1] | 6 |  |  |
| Cash | 1 |  | 177 |
| Total assets |  |  | 1067 |
|  |  |  |  |
| Share capital |  |  |  |
| £1 Ordinary shares |  |  | 400 |
| Reserves |  |  |  |
| Retained profit |  |  | 301 |
| Shareholders’ funds |  |  | 701 |
| Non-current liabilities |  |  |  |
| 5% Debentures |  |  | 120 |
| Current liabilities |  |  |  |
| Accruals [2 + 5 + 1 +1] | 9 |  |  |
| CT | 70 |  |  |
| Bank overdraft | 3 |  |  |
| Proposed dividends | 100 |  |  |
| Payables | 64 |  | 246 |
| Shareholders’ funds & liabilities |  |  | 1067 |

**Question**

**SR Ltd.**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1 | The trial balance below is for SR Ltd as at 31st December 2022:   |  |  |  | | --- | --- | --- | |  | £000 | £000 | | £1 Ordinary share capital |  | 500 | | 10% Debentures |  | 100 | | Retained profits |  | 60 | | Land and buildings at cost | 485 |  | | Fixtures and fittings at cost | 200 |  | | Fixtures and fittings – accumulated depreciation |  | 40 | | Motor vehicles at cost | 100 |  | | Motor vehicles - accumulated depreciation |  | 20 | | Sales |  | 900 | | Inventory 1 July 2019 | 55 |  | | Purchases | 400 |  | | Receivables | 85 |  | | Payables |  | 69 | | Rates and insurance | 50 |  | | General expenses | 2 |  | | Energy bills | 30 |  | | Audit fee | 20 |  | | Bad debt | 2 |  | | Directors’ remuneration | 63 |  | | Debenture interest | 10 |  | | Salaries and wages | 160 |  | | Interim ordinary dividends | 20 |  | | Cash | 2 |  | | Bank | 5 |  | | Totals | 1689 | 1689 |   **Notes as at 31/12/2022**:   * Inventory was valued at £65,000. * Insurance prepaid £3,000. * Accruals for energy bills £1,000 and audit fee £2000. * Depreciation of fixtures and fittings at 20% on straight line and motor vehicles by 20 % on reducing balance. * The director s wish to provide £20,000 for taxation. * The directors propose a final ordinary dividend of 9p per share.   (a) Prepare the income statement for the year ended 31/12/2022**.**  **[18 marks]**  (b) Prepare the statement of financial position as at 31/12/2022.  [**18 marks]** |  |  |

**Answer**

**(a)**

**SR Ltd**

**Income statement for the year ended 31/12/2022.** √√

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sales |  |  | 900 |  |
| Cost of sales |  |  |  |  |
| Opening inventory | 55 |  |  |  |
| Purchases | 400 |  |  |  |
| Closing inventory | (65) | √ | (390) | √√ |
| Gross profit |  |  | 510 |  |
| Expenses |  |  |  |  |
| Rates and insurance (50 -3) | 47 | √ |  |  |
| Energy bills (30 +1) | 31 | √ |  |  |
| Audit fee (20 + 2) | 22 | √ |  |  |
| Bad debt | 2 |  |  |  |
| Depreciation of fixtures and fittings (200 x 0.20) | 40 | √ |  |  |
| Depreciation of motor vehicles (100 – 20) x 0.2 | 16 | √ |  |  |
| General expenses | 2 |  |  |  |
| Directors’ remuneration | 63 |  |  |  |
| Debenture interest | 10 |  |  |  |
| Salaries and wages | 160 |  | (393) | √√ |
| Profit before tax |  |  | 117 |  |
| Taxation |  |  | (20) | √ |
| Profit after tax |  |  | 97 |  |
| Dividends  – Interim paid  -- Final proposed (500 x £0.09) | 20  45 |  | (65) | √ |
| Retained profit for the year |  |  | 32 |  |
| Retained profit b/f |  |  | 60 |  |
| Retained profit c/f |  |  | 92 | √ |

Presentation/Accuracy – Max 3 marks. √√√

**(b)**

**SR Ltd**

**Statement of financial position as at 31/12/2022 [in £000s**]. √√

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Non-current assets** | **Cost** |  | **Acc Dep** | **NBV** |  |
| Land and buildings | 485 |  | -- | 485 |  |
| Fixtures and fittings | 200 |  | 40 + 40 = 80√ | 120 |  |
| Motor vehicles | 100 |  | 20 + 16 = 36√ | 64 |  |
|  | 785 |  | 116 | 669 | √ |
| **Current assets** |  |  |  |  |  |
| Inventory | 65 |  |  |  |  |
| Receivables | 85 |  |  |  |  |
| Prepayment | 3 |  |  |  |  |
| Bank | 5 |  |  |  |  |
| Cash | 2 |  |  | 160 | √√ |
| Total assets |  |  |  | 829 | √ |
|  |  |  |  |  |  |
| **Share capital & reserves** |  |  |  |  |  |
| £1 Ordinary shares |  |  |  | 500 |  |
| Retained profits |  |  |  | 92 | √ |
| Shareholders’ funds |  |  |  | 592 | √ |
| **Non-current liabilities** |  |  |  |  |  |
| 10% Debentures |  |  |  | 100 | √ |
| **Current liabilities** |  |  |  |  |  |
| Accruals [1 + 2] | 3 | √ |  |  |  |
| Payables | 69 |  |  |  |  |
| Taxation | 20 | √ |  |  |  |
| Proposed dividends | 45 | √ |  | 137 | √ |
| **Shareholders’ funds & liabilities** |  |  |  | 829 | √ |

Presentation/Accuracy – Max 2 marks. √√