

**QUESTION**

ABC Ltd has share capital of 400,000 ordinary shares of £1 each and 200,000 5 per cent preference shares of £1 each.

- The net profits for the year ended 31 December are: 20X4, £250,000 & 20X5 £ 320,000.
- Transfers to reserves £60,000 and to Fixed assets replacement reserve, £35,000.
- Dividends were proposed for preference shares at 5 per cent and on the ordinary shares 10 per cent.
- Corporation tax, based on the net profit is £45,000.

You are required to compute Retained Earnings for the year ended 20X5.

**SOLUTION****Profit & Loss Appropriations Accounts**

Profit before tax for the year ended 20X5		320,000
Less Corporation Tax		<u>45,000</u>
Profit after tax for the year ended 20X5		275,000
Add Previous year profit		<u>250,000</u>
		525,000
<b>Less Appropriations</b>		
Transfer to reserve fund	60,000	
Fixed asset replacement reserve	35,000	
Preference Dividend - (W - a)	10,000	
Ordinary Dividend (W - b)	<u>40,000</u>	<u>145,000</u>
Retained Earnings for the year 20X5		<u><u>380,000</u></u>

**Working**

a. Preference Dividend

$$\frac{200,000 \times 5}{100} = \underline{\underline{10,000}}$$

b. Ordinary Dividend

$$\frac{400,000 \times 10}{100} = \underline{\underline{40,000}}$$