Chapter 5
Published accounts of limited companies

Statutory Accounts of a limited company

The company act 1985 requires the five documents must be published annually. These are known as statutory accounts. The statutory accounts are produced in accordance with company law and must be filed with the registrar of companies.
The documents that make up the statutory accounts are:

- An Income Statement
- A statement of financial position
- A statement of changes in equity
- A statement of cash flows
- Notes to the accounts
- A directors' report
- An auditors' report

Income statement

Following is an illustrative example of an Income Statement prepared in accordance with the format prescribed by IAS 1 Presentation of Financial Statements**.**

Business name		
Income Statement for the year ended 31st December 2020		
	Notes	**2020**
		$
Revenue	**1**	XX
Cost of sales	**2**	XX
Gross profit		XX
Other income	**3**	XX
Distribution costs	**4**	XX
Administrative expenses	**5**	XX
Operating Profit (PBIT)		**XXX**
Finance cost	**6**	XX
Profit before tax		XX
Income tax expense		XX
Profit for the year		XX

Statement of Changes in Equity

This statement shows the movement in shareholders' equity

X Limited
Statement of changes in equity for the year ended 31 December 2020

	Share capital $	Share premium $	Revaluation reserve $	General Reserve $	Retained Earnings $	Total $
Balance at 1 January 2017	XX	XX	-	XX	XX	XXX
Share issue (Right issue)	XX	XXX	-	-	-	XXX
Share issue (Bonus Issue)	XX	(XX)		(XX)	(XX)	-
Revaluation of land (property)			XX			XX
Profit for the year					XX	XX
Dividend paid (final last year)					(XX)	(XX)
Dividend paid (interim current)					(XX)	(XX)
Transfer to general reserve				XX	(XX)	
Balance at 31 December 2017	XX	XX	XX	XX	XX	XX

Stewardship

Stewardship is the responsibility which managers have for the management of resources within a business on behalf of the owners.

Directors' responsibilities (Stewardship)

- Companies are owned by shareholders, but the responsibility of looking after the affairs of a company is held by the directors. The directors are stewards of limited companies.
- The directors of a limited company must ensure that the provisions of the Companies Act 1985 are followed.
- The company director is responsible for ensuring that the statutory accounts are produced and filed with the Registrar of Companies.
- The company's Board of Directors must approve the annual accounts.
- The directors must prepare a directors' report which must be approved by the board.

Director Report

A directors' report must be prepared and sent to shareholders along with the accounts. There is no recommended layout for this report but it must include:

- Names of directors, their interests in any trading contracts, the number of shares and debentures held at the start of the year
- A statement of the principal activities of the company
- A review of the development of the company during the year and details of any likely future developments
- Information on changes in fixed assets i.e. Purchase, sale or valuation of assets
- Details of proposed dividends
- Significant differences between the book value and market value of land and buildings

- Details of proposed dividends
- Details of transfer to reserves
- Particulars of any significant events since the end of the financial year
- Details of political and charitable donations
- A health and safety statement including employee statistics
- Policy on employment of disabled people
- Details of action taken on employee involvement and consultation
- Policy on payment of creditors.

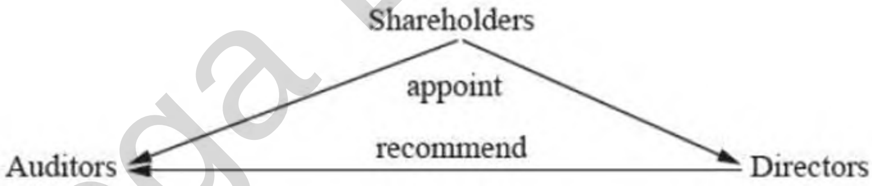
The report is audited along with the final accounts and may be reported upon by the auditors.

Audit

An end of year, audit is the process of checking the financial records of a business by an independent person, in order to ensure that the records show a true and fair view.

Meaning of true and fair view

- Indicates that the annual accounts to be prepared in a manner to give true and fair view of financial information
- Emphasizing on accuracy
- Should have particulars required by the articles and the statue
- The words "true and fair view" were considered to be fair usage in the place of true and correct view.
- The expression 'true and correct' indicated exactitude or precision
- Balance sheet and P/L Account to be true and fair



Types of Auditor

- Internal auditor
- External auditor

Internal Auditor

- Internal auditors are employees
- Review the business practices and internal control system to prevent mistakes
- Report to the senior management

External Auditor

- External auditors are external independent persons
- Examine the financial statements and give opinion whether the financial statements present a true and fair view and comply with legal requirements
- Report to shareholders

Duties of an auditor

- Checking financial data
- Examining accounts and systems
- Reviewing accuracy of records and reports
- Reviewing security of assets
- Check trade and other receivables/payables
- Attend stock counts
- Recommending changes after review
- Produce audit report
- Comment on true and fair view
- Independent check
- Ensure company directors comply with international accounting standards and company law
- Verify that the records do not have any material errors

Difference between qualified and unqualified report

The opinion is **'unqualified'** if the auditors are of the opinion that:

- the financial statements have been prepared properly, and
- they give a true and fair view of the company's affairs in accordance with company law and international financial reporting standards, and
- the information given in the directors' report is consistent with the financial statements

The auditors' report may be 'qualified' if the auditors feel that certain parts of the financial statements have not been dealt with correctly and that this is important enough to be brought to the attention of the Registrar of Companies and other users of the financial statements, such as investors or suppliers.

Notes to the Accounts

The published accounts are generally kept short and simple. Any other details and breakdown of figures that are required by the Companies Act are shown in the accompanying notes to the accounts. These notes include:

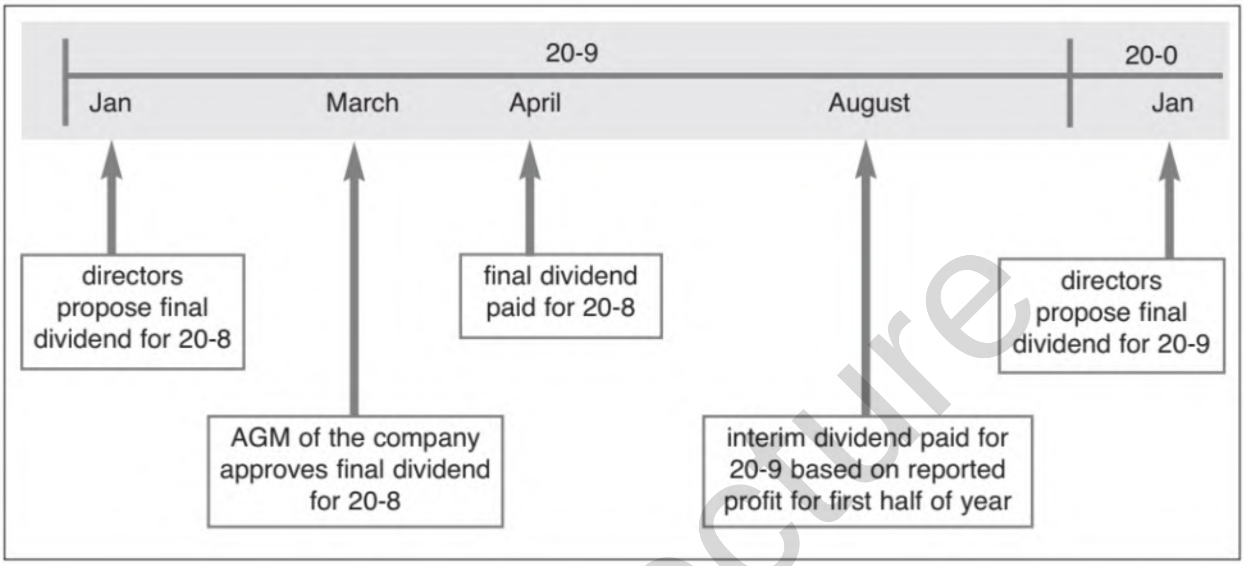
- Disclosure of accounting policies used e.g. relating to depreciation and any changes to these policies
- Explanation of any deviation from accounting standards
- Sources of turnover from different geographical markets
- Details of fixed assets, investments, share capital, debentures and reserves
- Directors' emoluments – pensions, earnings and other benefits
- Auditors' remuneration
- Statement of earnings per share

Advantages of notes to the accounts

- They provide additional information at the end of the financial statements.
- They provide further explanation of specific items in the financial statements.
- They explain the accounting methods and policies used to prepare the accounts.
- They ensure transparency of financial statement figures.

Accounting treatment for proposed dividends on ordinary shares

The proposed dividend has to be approved by shareholders at the annual general meeting. It is not regarded as liability at the statement of financial position date. According to IAS 10 Events After The Reporting Period, a proposed dividend should be treated as a non-adjusting event and entered as a note on the financial statements.



Schedule of Non Current Asset

Noncurrent Asset Cost

	Building	Machinery	Vehicles	Total
Cost at start	XX	XX	XX	XX
New Addition	XX	XX	XX	XX
Disposal cost	XX	XX	XX	XX
Cost at end	XX	XX	XX	XX

Depreciation

	Building	Machinery	Vehicles	Total
Depreciation at start	XX	XX	XX	XX
Charged during the year	XX	XX	XX	XX
Disposal depreciation	XX	XX	XX	XX
Depreciation at end	XX	XX	XX	XX

Net Book Value

	Building	Machinery	Vehicles	Total
NBV at start of year	XX	XX	XX	XX
NBV at end of year	XX	XX	XX	XX

Past Paper Questions

Q # 1 The trial balance of Ashbourne plc at 30 June 2011 was as follows:

	Dr. $000	Cr. $000
Land and buildings – cost	8 473	
Land and buildings – depreciation		2 173
Other non-current assets – cost	1 058	
Other non-current assets – depreciation		236
Revenue		7 216
Purchases	4 425	
Distribution costs	1 485	
Administrative expenses	1 098	
Finance charges	80	
Final dividend paid for year ended 30 June 2010	100	
Interim dividend paid for year ended 30 June 2011	125	
Inventories at 1 July 2010	1 596	
Trade receivables	897	
Trade payables		173
Prepaid and accrued expenses	265	146
Bank	74	
Ordinary share capital ($0.50 ordinary shares)		5 000
Share premium		2 500
8% debentures 2020 (issued in 2008)		2 000
Retained earnings		232
	19 676	19 676

Additional information:

1 The inventories at 30 June 2011 were valued at $1 730 000.
2 Land, included in the trial balance total at $4 million, is to be revalued at $5 million.
3 All of the depreciation on the relevant non-current assets has been accounted for.
4 There was a flood at the company's premises on 29 July 2011 resulting in a material uninsured loss of $215 000.
5 On 14 August 2011 the company declared its final dividend for the year ended 30 June 2011 of $0.03 per share.

REQUIRED

(a) Prepare the income statement for the year ended 30 June 2011. [12]
(b) Prepare the statement of financial position at 30 June 2011. [20]

November 2011

Q # 2 On 1 July 2011 Voronez plc issued 120 000 ordinary shares of $1 each at a premium of $0.10 per share and 40 000 5% redeemable preference shares of $1 each at a premium of $0.15 per share. The company made a profit for the year ended 30 June 2012 of $100 000.
On 30 June 2012 the company:

1 paid the dividend on the redeemable preference shares (treated as a financing cost);

2 paid a dividend of $0.10 per share on the ordinary shares;

3 made a bonus issue of one new fully paid ordinary share for every 4 shares held;

4 made a rights issue of one new ordinary share for every 6 shares held after the bonus issue at a price of $1.60 per share. The rights issue was fully subscribed.

REQUIRED

Calculate the amounts which will be included in the company's statement of financial position at 30 June 2012 for each of the following:
Ordinary share capital,
Preference share capital,
Share premium,
Retained earnings [17] **November 2013**

Q # 3 The directors of Aston plc provided the following financial information at 1 June 2013.

	$000
Ordinary share capital ($1 shares)	25 000
Share premium	5 000
Revaluation reserve	1 000
Retained earnings	2 950
Land	6 000

On 1 July 2013 $1800000 8% debentures were issued.
For the year ended 31 May 2014 profit from operations was $3752000.
The tax charge for the year was 25% of the profit before taxation.

REQUIRED

(a) Prepare the income statement for the year ended 31 May 2014. [6]

Additional information

On 1 September 2013 a final dividend relating to the previous year of $0.04 per ordinary share was paid.
On 1 October 2013, 5000000 ordinary shares of $1 each were issued at a premium of $0.10 per share.
On 1 November 2013 a rights issue was made of 1 ordinary share for every 5 ordinary shares owned at $1 per share. This was fully subscribed.
On 1 February 2014 land was revalued at $7500000.
On 1 February 2014 an interim dividend of $0.03 per ordinary share was paid.

On 1 March 2014 a transfer of $500 000 was made from retained earnings to a newly formed general reserve.
On 1 April 2014 the directors proposed a final dividend for the year 50% higher per share than the previous year.

REQUIRED
(b) Copy the following table into your answer booklet and prepare a statement of changes in equity for the year ended 31 May 2014.

Statement of changes in equity

	Share capital $000	Share premium $000	Revaluation reserve $000	General reserves $000	Retained earnings $000	Total $000
Balance at 1 June 2013						
Balance at 31 May 2014						

[20]

(c) Explain the treatment of the final dividend proposed on 1 April 2014. [4]

Additional information

The directors are hoping to expand the business. They are planning a bonus issue of 1 new ordinary share for every 5 ordinary shares held on 31 May 2014.

REQUIRED

(d) Explain what is meant by a bonus issue and also explain whether it would help the expansion plans for the business. [4]

Nov 2014

Q # 4 Pitman plc has been trading for many years. The following balances have been extracted from the books of account at 30 June 2015.

	Dr	Cr
	$	$
Administrative expenses	141 970	
Cash and cash equivalents	650	
Distribution costs	36 120	
Land and buildings		
Cost	135 000	
Provision for depreciation at 1 July 2014		21 840
Fixtures and fittings		
Cost	18 110	
Provision for depreciation at 1 July 2014		5 310
Motor vehicles		
Cost	41 600	
Provision for depreciation at 1 July 2014		19 200
Inventories at 1 July 2014	62 400	
Purchases	268 200	
Retained earnings		30 740
Revenue		563 800
Ordinary share capital ($1 shares)		60 000
Trade payables		80 250
Trade receivables	76 920	
Other payables		870
Other receivables	1 040	

Additional information

1 Inventories were valued at cost $70300 on 30 June 2015.

2 At 30 June 2015 land and buildings were revalued. Land was valued at $90 000 and buildings at $65000.

3 Depreciation is to be charged to administrative expenses as follows:

Buildings	2% per annum using the straight-line method
Fixtures and fittings	15% per annum using the reducing balance method
Motor vehicles	25% per annum using the reducing balance method

4 Goods with a cost price of $6000 had been sold on credit at a mark up of 20%. The customer who had purchased these goods has been declared bankrupt and the debt is to be written off. The bad debt is to be charged to administrative expenses.

5 A provision for doubtful debts is to be provided at 2.5% of the closing trade receivables balance. This is to be charged to administrative expenses.

6 On 1 April 2015 the company issued a 5% debenture for $50 000 repayable in 2024. On the same day it also made a fully subscribed rights issue of 1 ordinary share for every 4 ordinary shares held for $1.50 per share. No entries have been made in the books of account in respect of either of these items.

7 The taxation charge for the year is $12 650.

REQUIRED

(a) Prepare an income statement for the year ended 30 June 2015 in line with International Accounting Standards. [12]
(b) Prepare the statement of financial position at 30 June 2015 in line with International Accounting Standards. [18]

Nov 2015

Q # 5 The following information is available about Whittlesford plc on 31 December 2011.

	$
500 000 ordinary shares of $1 each	500 000
Share premium	200 000
General reserve	70 000
Retained earnings	298 300

Further information is as follows:

1 The draft profit for the year ended 31 December 2012 was $122 800.
2 On 1 January 2012 property was revalued from $520 000 to $780 000.
3 On 31 January 2012 a rights issue of 1 share for every 5 held was made at a premium of $0.25 each.
4 On 30 June 2012 an interim dividend of $0.08 per share was paid.
5 On 31 October 2012 a bonus issue of shares of 1 for every 4 held was made. The directors decided to keep the reserves in their most flexible form.
6 On 31 December 2012 $40 000 was transferred to general reserve and a final dividend of $0.12 per share was proposed.
7 On 5 January 2013 it was discovered that a customer who had owed $4200 at the year end had been declared bankrupt. It was also discovered that goods in inventory at the year end, with a cost of $3000, had been water damaged and could now only be sold for $600.
8 On 17 January 2013 a burglary at the business premises resulted in the loss of computer equipment, $15 700.

REQUIRED

(a) Explain what is meant by keeping reserves in their most flexible form. [3]
(b) Prepare the statement of changes in equity for Whittlesford plc for the year ended 31 December 2012. [13]

SP 2016

Q # 6 ACM plc provided the following information about its non-current assets.

	Accumulated depreciation at 1 January 2015	Cost at 1 January 2015	Cost at 31 December 2015
	$	$	$
Property	17 000	200 000	200 000
Plant and machinery	210 000	258 000	310 000
Delivery vans	10 000	23 000	23 000

Additional information
1 Half of the value of property relates to land. Property is depreciated at the rate of 1% per annum using the straight-line method.

2 Plant and machinery is depreciated at the rate of 10% per annum using the straight-line method. A full year's depreciation is provided in the year of purchase and none in the year of disposal.
On 1 June 2015 a machine, bought on 10 July 2007, was sold for $17 800. This resulted in a profit on disposal of $13 000.
3 The delivery vans are depreciated at the rate of 25% per annum on the reducing balance basis.

REQUIRED

(a) Prepare the disposal of machinery account for the year ended 31 December 2015. [6]
(b) Prepare the non-current assets schedule for inclusion in the published financial statements of the company for the year ended 31 December 2015 in accordance with International Accounting Standards. [8]
(c) Explain why a business depreciates its non-current assets. [3]

Additional information

The Return on Capital Employed (ROCE) of the company was 9.81%. This was lower than the industry average and the directors wished to find a way to increase it.
Some of the machinery was 10 years old at the start of January 2016 and it had become unreliable and unproductive. The marketing director suggested that it should be scrapped and replaced at a cost of $120000, to be financed by the issue of 8% debentures. This would increase production. Annual sales and costs would be as follows:

	$
Revenue	62 000
Prime costs	39 000
Selling and distribution costs	3 000

He calculated that the return from the new machinery would be 62 000 / 120 000 or 51.67%, which, being higher than the existing 9.81%, would cause the Return on Capital Employed (ROCE) to increase.

REQUIRED

(d) Evaluate the marketing director's proposal. Support your answer with calculations. [8] **June 2016**

Q # 7 Scrumpton plc has been trading successfully for many years. The company required additional finance to renew its plant.
The following selected balances are available at 1 October 2015:

	$
Property, plant and equipment	400 000
Ordinary share capital	1 200 000
Share premium	300 000
Retained earnings	125 000

A draft profit of $167 500 was recorded for the year ended 30 September 2016 **before** making the following adjustments:
1 Property, plant and equipment with a net book value of $200 000 was sold for $180 000 and replaced by new items at a cost of $250 000.

Depreciation is charged at 15% using the reducing balance method. A full year's depreciation is charged in the year of acquisition and none in the year of disposal.
2 A trade receivable owing $15 000 was declared bankrupt.
3 Distribution costs of $7500 were still owing at the year-end.
4 The nominal value of the ordinary share capital is $1 each. The final dividend of $0.02 per share for the year ended 30 September 2015 was paid on shares held at that date.
5 During the year ended 30 September 2016 there was a rights issue of one share for every four held. The shares were issued at $1.20 each and were fully taken up.

REQUIRED

(a) Explain what is meant by a 'rights issue'. [3]
(b) Prepare the statement of changes in equity for the year ended 30 September 2016. [10]
(c) State how a proposed dividend would be treated in the financial statements. [2]

Nov 2016

Q # 8 The turnover of Soames Limited has been increasing and the directors have been advised that they must now produce audited accounts. They are therefore required to appoint an auditor to provide the company with an audit report.

REQUIRED

(a) List **five** duties which the auditor would carry out during an audit. [5]

Additional information

The first audit report was qualified. Included in current assets was inventory valued at cost price of $1 million. This had become damaged and now could only be sold for $750 000 after repairs costing $200000.

REQUIRED

(b) Explain what is meant by a qualified audit report. [2]
(c) Explain, with reference to the relevant International Accounting Standard, the necessary adjustment that must be made to the financial statements. [8]
(d) Analyse the importance to the shareholders of Soames Limited of the auditors providing atrue and fair view of the company's accounts. [6]

Additional information

The audit report was signed by Aamir, the brother of the finance director of Soames Limited.
Aamir was an unqualified auditor.

(e) Evaluate the validity of this audit report. [4]

Nov 2016

Q # 9 The following are the selected balances from the trial balance produced for the year ended 31 March 2016.

	$
Revenue	680 000
Purchases	378 000
Distribution costs	70 152
Administrative expenses	145 267
Inventories at 1 April 2015	117 257
Provision for doubtful debts	1 569
6% Debenture (2022)	150 000
Trade receivables	87 450
Trade payables	26 550

The directors of XY Limited also provided the following information:
1 The inventories at 31 March 2016 were valued at cost, $108 543. This included a batch of inventory which had been valued at its cost price of $50 000. It can now only be sold for $35 000.
2 The debenture was issued on 1 October 2015 and no interest has been paid at 31 March 2016.
3 The provision for doubtful debts is to be increased to 2% of trade receivables. The increase is to be split equally between distribution costs and administrative expenses.
4 There was an amount of $2480 outstanding for administrative expenses.
5 There was a prepayment of $3635 for distribution costs.
6 The tax charge for the year is estimated to be $12 385.

REQUIRED

Prepare the income statement for XY Limited for the year ended 31 March 2016. [13]

March 2017

Q # 10 The following balances were extracted from the books of XY plc on 31 January 2017.

	$
Land and buildings - at cost	700 000
Equipment - at cost	320 000
Motor vehicles - at cost	230 000
Accumulated depreciation	
Land and buildings	100 000
Equipment	186 000
Motor vehicles	96 000
Ordinary shares of $5 each	500 000
Share premium	120 000
Retained earnings at 1 February 2016	125 000
Inventory at 1 February 2016	37 100
Trade receivables	102 000
8% Loan	150 000
Provision for doubtful debts	2 100
Revenue	985 000
Purchases	428 000
Administrative expenses	346 000
Distribution costs	144 000
Interim dividend paid	20 000

Additional information

1 Inventories at 31 January 2017 included 100 units of damaged items. These items, with a unit cost of $80, were all sold on 2 February 2017 for $65 each. At 31 January 2017 all other inventories were valued at cost, $36 000, and had a net realisable value of $85 400.

2 The administrative expenses include an amount of $30 000 for a machine purchased on 1 February 2016. The machine has a useful life of three years and will then be scrapped with nil proceeds. Any costs related to the machine should be charged to the cost of sales.

3 The figure for land and buildings (at cost) includes land which had cost $300 000.

4 During the year, XY plc purchased a motor vehicle which cost $60 000. This was settled by a payment of $40 000 from the bank and the part exchange of an old vehicle. This old vehicle had originally cost $75 000 and had been depreciated by $27 000. Only the bank payment had been recorded in the books of account.

5 Depreciation is to be charged on the following basis:
Land not depreciated

Buildings	straight-line method over 25 years, charged to cost of sales
Equipment	straight-line method over 5 years, charged to administrative expenses
Motor vehicles	reducing balance method at 20% per annum, charged to distribution costs.

The company policy is to charge a full year's depreciation in the year of purchase and none in the year of sale.

6 Trade receivables included an irrecoverable debt of $8800. A provision for doubtful debts of 4% is to be maintained. These items need to be included in administrative expenses.

7 The loan was obtained on 1 September 2016.

REQUIRED

(a) State **two** objectives of financial statements of a limited company. [2]

(b) Prepare the income statement for the year ended 31 January 2017 [15]

Additional information

In October 2016 XY plc made a bonus issue of 1 ordinary share for every 10 ordinary shares held. No entry had been made in the books of account.

Required

(c) Prepare the statement of changes in equity for the year ended 31 January 2017. (A total column is not required [4]

Additional information

The directors are considering making a further issue of bonus shares rather than paying a cash dividend

Required

(d) Advise the directors which course of action they should take. Justify your answer [4]

June 2017

Q # 11 FS plc's statement of financial position on 1 January 2016 showed the following:

	$000
Ordinary share capital (shares of $1 each)	1000
Share premium	300
General reserve	100
Retained earnings	220

During the year ended 31 December 2016 the following took place:

1 On 30 June 2016, an interim dividend of $55 000 was paid.
2 On 1 October 2016, an issue of 700 000 ordinary shares was made at $1.80 per share. All the funds raised from this share issue were used to buy a second factory on 7 January 2017.
3 On 1 November 2016, a bonus issue of shares was made with 3 new shares being issued for every 10 held. Reserves were maintained in their most flexible form.
4 For the year ended 31 December 2016, the company made a profit from operations of $288 000. Finance charges of $52 000 had been paid. The directors provided $41 000 for the tax liability for the year.
5 At 31 December 2016, $40 000 was transferred to general reserve and a final dividend of $75 000 was proposed.

REQUIRED

(a) Prepare the statement of changes in equity for the year ended 31 December 2016 (a total column is not required). [12]

(b) Explain how the proposed final dividend should be treated in the financial statements for the year ended 31 December 2016. [2]

(c) Explain the treatment in the financial statements for the year ended 31 December 2016 of the purchase of the second factory on 7 January 2017. [3]

Additional information

A shareholder at the Annual General Meeting said that the purchase of the new factory would cause non-current asset turnover to fall, with an adverse effect on shareholder confidence.

REQUIRED

(d) Advise the directors whether or not they should be concerned about the shareholder's comment. Justify your answer. [5]

(e) State how an upward revaluation of an existing non-current asset is recorded in the financial statements of a company. [3]

Nov 2017

Q # 12 W Limited has been trading for several years. The company is now in a position to expand operations and trade abroad. A new warehouse is required for this expansion, which will cost $550000.
An extract from the statement of financial position at 31 March 2016 showed the following:

	$
Ordinary shares of $1 each	400 000
Revaluation reserve	150 000
Share premium	50 000
Retained earnings	350 000

REQUIRED

(a) Explain how share premium arises. [2]

Additional information

The directors believe that the purchase of the new warehouse can be financed by:
A rights issue of ordinary shares on the basis of one share for every share currently held and any remaining balance by an issue of a 5% debenture.
The directors expect that 60% of the ordinary shareholders will take up the rights issue of ordinary shares at $1.75 per share.

REQUIRED

(b) Calculate the amount of finance that will need to be raised by the issue of the debenture. [3]

Additional information

The following information is available for the year ended 31 March 2017:

On 1 October 2016
An interim dividend of $0.02 was paid on the ordinary shares held at that date.

On 1 January 2017
The company made the planned rights issue on the ordinary shares. These were taken up as expected. A 5% debenture was also issued.

On 31 March 2017
The profit from operations for the year was $245 000.
Finance charges were $70 000 excluding any debenture interest.

A taxation charge of 20% was to be provided.
A final dividend of $0.04 was proposed on all the ordinary shares held at that date.

REQUIRED

(c) (i) Prepare the statement of changes in equity for the year ended 31 March 2017 (total column is not required) [9]

(ii) Prepare any supporting note to the financial statements in respect of the proposed dividend. [2]

Additional information

Profits have been constant for a number of years.
At the Annual General Meeting, the directors were confident that following the expansion next year the ordinary shareholders will see an increase in dividends as profits for the year were expected to increase by 20%.

However, one of the ordinary shareholders expressed concerns that the Earnings Per Share would fall following the rights issue on 1 January 2017. He proposed that a further expansion planned for two years' time should be financed by a long-term loan instead.

REQUIRED

(d) Recommend whether the directors should finance the future expansion with loans or rights issues. Justify your choice using relevant calculations. [9]

Nov 2017

Q # 13 The directors of D plc are preparing the end of year financial statements including the notes to the accounts. The following information is available at 1 January 2017:

	$
Ordinary share capital (shares of $2 each)	2 000 000
Share premium	300 000
Revaluation reserve	400 000
General reserve	100 000
Retained earnings	1 500 000

During the year ended 31 December 2017 the following took place:

1 On 1 June an interim dividend of $0.20 per ordinary share was paid.

2 On 1 October an issue of 500000 ordinary shares was made at $2.40 per share to raise money to purchase an additional factory.

3 On 1 November there was a rights issue of 2 shares for every 5 currently held at $2.25.
The rights issue was necessary to fund the unexpected costs on the purchase of the factory. The issue was fully subscribed.

4 On 1 December there was a bonus issue of 4 shares for every 10 held on that date. The reserves were maintained in their most flexible form.

On 31 December 2017 the finance director informed the other directors that:

1 The profit from operations for the year was $520 000.

2 Finance charges of $64 000 had been paid during the year.

3 The end of year tax liability on profits had been calculated as $93 000.

4 There had been a transfer to the general reserve of $47 000.

5 A final dividend of $0.10 per ordinary share had been proposed.

Required

(a) State three uses of the notes to the accounts within the financial statements. [3]

(b) Prepare the statement of changes in equity for the year ended 31 December 2017. A total column is not required. [15]

Additional information

After the share issues there was a decrease in the market price of one ordinary share to $2.10.
One of the shareholders at the Annual General Meeting (AGM) stated that instead of the share issues the directors should have carried out the following:

1 Financed the purchase of the new factory through a loan of $2 200 000 repayable over 5 years with total interest payable of $68 000.

2 Paid the shareholders an extra $0.50 per share in their final dividend rather than a bonus issue of shares.

(c) Advise whether or not the directors acted in the best interests of the shareholders. Justify your answer with relevant calculations. [7]

June 2018

Q # 14 The trial balance of N plc at 31 December 2017 was as follows:

	$	$
Land and buildings		
cost	600 000	
provision for depreciation 1 January 2017		72 000
Equipment		
cost	278 000	
provision for depreciation 1 January 2017		112 000
Revenue		2 354 000
Purchases	1 322 000	
Administrative expenses	674 000	
Distribution costs	296 000	
Finance charges	9 000	
Inventory 1 January 2017	241 000	
Trade receivables	456 000	
Trade payables		394 000
Cash and cash equivalent	62 000	
Ordinary share capital		600 000
Share premium		140 000
6% debentures (2021)		200 000
Retained earnings		66 000
	3 938 000	3 938 000

The following information is also available.

1 Revenue included a deposit of $6000 from a customer for the goods to be delivered in March 2018.

2 Total inventory at 31 December 2017 cost $265 000. Of this the goods costing $24 600 had a net realisable value of $18 800.

3 Land and buildings were acquired in 2008. On 1 January 2017 they were revalued at $720 000 of which two-thirds was allocated to land and one-third to buildings. N plc had not recorded this revaluation.

4 During the year, a new photocopier was purchased for $80 000. The purchase consideration was settled by an exchange for a fully depreciated old photocopier with a trade-in value of $10 000. The old photocopier had been purchased in 2011 for $40 000. The balance of the purchase had been paid by cheque. N plc had recorded only the bank payment transaction.
There was no other purchase or sale of non-current asset during the year.

5 Depreciation is to be charged as follows:

Land	Nil
Buildings	over the useful life of 25 years
Equipment	25% per annum on cost

A full year's depreciation is charged in the year of purchase and none in the year of disposal.
All depreciation charged is to be included in administrative expenses.

6 An interim dividend of $30 000 was paid on 1 October 2017 and included in administrative expenses.

7 Interest for 3 months on the debentures had not been recorded.

Required

(a) Prepare the income statement for the year ended 31 December 2017. [15]

(b) Calculate the balance on the revaluation reserve account at 1 January 2017 following the revaluation. [5]

June 2018

Q # 15 The external auditor of Z Limited has raised some issues relating to the non-current assets. Information relating to the company's non-current assets at 30 June 2017 and 30 June 2016 is as follows:

	30 June 2017	30 June 2016
	$	$
Non-current assets		
Cost		
Land and buildings	2 400 000	2 400 000
Plant and machinery	540 000	420 000
Motor vehicles	320 000	240 000
Accumulated depreciation		
Land and buildings	192 000	160 000
Plant and machinery	264 000	195 000
Motor vehicles	184 000	150 000

The following additional information was available.

1 Land and buildings represent the company's office premises. One-third of the value is attributable to buildings and two-thirds to land.
On 1 July 2016 land and buildings were revalued at $2 700 000. No accounting entries to record this had been made.

2 A new motor vehicle was purchased for $110 000. This was paid for with a cheque for $80 000 and the part-exchange of an old motor vehicle. The old vehicle had cost $75 000 and had been depreciated by $27 000. The cheque payment had been recorded in the bank account and motor vehicle at cost account.
There were no other purchases or disposals of motor vehicles during the year.

3 A customer who owed $23 500 was unable to pay. The directors have agreed to take over one of the customer's machines at the value of $20 000 in full settlement of the debt. The machine was received on 15 May 2017. No record had been made of this arrangement.

4 Depreciation has been charged as follows and included as an expense when calculating the draft profit for the year.

Land	Nil
Buildings	4% per annum on cost
Plant and machinery	20% per annum using reducing balance method
Motor vehicles	20% per annum using reducing balance method

A full year's depreciation is charged in the year of purchase and no depreciation in the year of disposal

The draft profit for the year ended 30 June 2017 was $95 000.

Required

(a) Explain one benefit of a company's audited financial statements to each of the following:
(i) Shareholders [2]
(ii) Potential investors [2]
(iii) Bank. [2]
(b) Prepare a statement to calculate the adjusted profit for year ended 30 June 2017, taking into account additional information 1 to 4. [9]
(c) Prepare the motor vehicles column of the non-current assets schedule as shown in the note to the financial statements for the year ended 30 June 2017. [6]

Nov 2018

Q # 16 R plc has the year end of 30 September.
The directors have provided the following information before preparing the financial statements.

1 For the year ended 30 September 2017

	$
Administrative expenses	397 500
Carriage inwards	6 320
Carriage outwards	8 650
Distribution costs	156 850
Inventory at 1 October 2016	426 750
Provision for doubtful debts at 1 October 2016	12 150
Purchases	2 150 000
Returns inwards	24 200
Returns outwards	19 750
Sales revenue	3 832 500
Trade receivables	630 000

2 Inventory was valued at cost of $462 350 on 30 September 2017. This included inventory costing $85 000. This can now only be sold for $33 500.

3 The provision for doubtful debts was to remain at 2% of trade receivables. Any change in the provision is to be treated as an administrative expense.

4 A bank loan of $600 000 was taken on 1 May 2017. The agreed fixed rate of interest payable on the loan was 4% per annum. No capital repayments will be made on the loan for 5 years.

5 The taxation charge for the year was $162 600.

6 All sales are made on credit.

Required

Prepare the income statement for the year ended 30 September 2017. [13]

Nov 2018

Q # 17 The following information has been extracted from the property plant and equipment note to the financial statements of S plc for the year ended 30 September 2016:

	Land and buildings	Fixtures and fittings	Motor vehicles	Total
	$	$	$	$
Cost	200 000	95 000	43 000	338 000
Accumulated depreciation	70 000	28 000	13 000	111 000
Net book value	130 000	67 000	30 000	227 000

The following information is also available:

1 The cost of the land was $40000.

2 During the year ended 30 September 2017 the following events occurred:
On 1 January 2017 new fixtures and fittings were acquired at a cost of $20 000.
On 1 July 2017 a motor vehicle which had cost $10 000 was sold for $7000. There was a loss on disposal of $1000.

3 Depreciation is charged on a monthly basis as follows:

Buildings	5% per annum	straight-line method
Fixtures and fittings	15% per annum	straight-line method
Motor vehicles	20%	reducing balance method

(b) Calculate the depreciation charge for the year ended 30 September 2017 for:
(i) Buildings
(ii) Fixtures and fittings
(iii) Motor vehicles. [7]

(c) Prepare the property, plant and equipment note to the statement of financial position at 30 September 2017. Total columns are required. [8]
Additional information
The directors now wish to purchase more land. They propose to raise the required finance of $100 000 by the issue of:

6% preference shares of $1 each, or
Ordinary shares of $1 each at par, or
A 5% debenture redeemable in 2024

(d) Advise the directors of the most suitable option to finance the purchase of land. Justify your answer. [7]

Nov 2018

Q # 18 AH Limited has produced its trial balance for the year ended 30 September 2017

Trial Balance at 30 September 2017

	$	$
Sales revenue		558 000
Purchases	352 000	
Inventory at 1 October 2016	27 000	
Sales staff salaries	64 000	
Administrative staff salaries	27 000	
Carriage inwards	4 000	
Administrative expenses	18 000	
Interest on debentures	1 000	
Interim dividend paid	4 000	
Freehold land at cost	250 000	
Vehicles at cost	68 000	
Office machinery at cost	10 000	
Provision for depreciation on:		
Vehicles		18 000
Office machinery		2 000
Trade receivables	34 000	
Trade payables		29 000
Cash and cash equivalents	36 000	
Ordinary share capital ($1 each)		200 000
5% Debentures (2023 – 2025)		40 000
General reserve		20 000
Retained earnings		28 000
	895 000	895 000

Required

(a) Explain the difference between a bonus issue and a rights issue of shares. [3]

Additional information

The following information is also available:
1 Inventory at 30 September 2017 was $24000.

2 Depreciation is to be charged as follows:
Office machinery at 10% on cost
Vehicles at 20% on the net book value

3 The debentures were issued on 1 April 2017.

4 On 30 September 2017 an additional 20000 shares were issued at $1.20 each. These shares had not been entered in the books of account.

5 At 30 September 2017 the directors transferred $5000 to general reserve and decided to recommend a final dividend of $0.05 per share on shares held on that date. The transfer to general reserve has not yet been recorded.

(b) Calculate the profit for the year ended 30 September 2017. [7]

(c) Prepare the statement of changes in equity at 30 September 2017 (a total column is not required). [8]

(d) Prepare the statement of financial position at 30 September 2017. [7]

Nov 2018

Q # 19 The directors of K Limited have provided the following information at 31 December 2018

	$	
Land and building		
cost	400 000	
accumulated depreciation at 1 January 2018	40 000	
Plant and machinery		
cost	248 000	
accumulated depreciation at 1 January 2018	121 600	
Motor vehicles		
cost	153 000	
accumulated depreciation at 1 January 2018	84 800	
Trade receivables	126 000	
Other receivables	12 500	
Cash and cash equivalents	80 300	debit
Trade payables	108 000	
Other payables	13 200	
Ordinary shares of $1 each	500 000	
Retained earnings at 1 January 2018	94 300	
Draft profit for the year	152 000	

The following items have not been taken into account:

1 Administrative expense includes a payment of $7500 for insurance which covers the period from1 December 2018 to 31 May 2019.

2 Inventory at 31 December 2018 was valued at cost $94 100.

3 Trade receivables include $2000 for a customer who has gone bankrupt.
The directors are also of the opinion that a 3% provision for doubtful debts should be created.

4 Land, with the original cost of $150000, was revalued to $240 000 on 31 December 2018.

5 On 28 December 2018, a new motor vehicle was purchased at a cost of $25 000. An old motor vehicle was part-exchanged for $13 000. This had cost $20 000 and had been depreciated by $9760. The balance of the purchase price was paid on 31 January 2019.

6 Depreciation for the year ended 31 December 2018 has not been provided. Annual depreciation is to be charged on the following basis:

Land	Nil
Building	25 years using the straight-line method
Plant and machinery	10% using the straight-line method
Motor vehicles	20% using the reducing balance method

A full year's depreciation is charged in the year of purchase, but no depreciation is charged in the year of disposal

Required

(a) Identify the accounting concept to be applied in respect of:
(i) Item 1 [1]
(ii) Item 2. [1]
(b) Prepare a statement showing the revised profit for the year ended 31 December 2018. [9]
(c) Calculate the net book value of motor vehicles at 31 December 2018. [4]
(d) Prepare the statement of financial position at 31 December 2018. [10]

May 2019

Q # 20 The directors of Z Limited have produced a draft income statement for the year ended 30 June 2019. The following remaining balances have been extracted from the books of account

	Debit $	Credit $
8% Debentures (2021–2022)		250 000
Cash and cash equivalents	116 300	
Freehold property at valuation	525 000	
Inventory at 30 June 2019	69 000	
Plant and machinery at cost	386 800	
Plant and machinery accumulated depreciation		200 500
Ordinary shares of $1 each		500 000
Motor vehicles at cost	240 000	
Motor vehicles accumulated depreciation		147 000
Retained earnings		46 000
Revaluation reserve		165 000
Share premium		50 000
Trade and other payables		64 800
Trade and other receivables	86 200	
	1 423 300	1 423 300

During the year ended 30 June 2019, the following transactions had occurred in respect of non-current assets.

1 New machinery had been purchased at a cost of $43 000.

2 Machinery that had originally cost $2200, which had been fully depreciated, was scrapped. No sales proceeds were received.

3 A new motor vehicle had been purchased at a total cost of $36000. The cost had been settled by the payment of $20 800 by cheque and the part-exchange of an old motor vehicle. The part-exchange motor vehicle had originally cost $24 000 and at the date of sale had been depreciated by $10 000.

4 The freehold property had been revalued from its original cost of $360 000.

5 Depreciation charged during the year ended 30 June 2019 was as follows.

Freehold property	Nil
Plant and machinery	$20 700
Motor vehicles	$59 000

(a) Calculate the cost, accumulated depreciation and the net book value for each class of non-current asset at 30 June 2018

	Cost $	Accumulated depreciation $	Net book value $
Freehold property			
Plant and machinery			
Motor vehicles			

[7]

Additional information

The directors have decided that the following adjustments should be made to the financial statements for the year ended 30 June 2019 before they are finalised.

1 Irrecoverable debts of $18 000 should be written off.
2 Prepaid expenses amounted to $25000.
3 The value of closing inventory should be increased by $6000.

(b) Prepare a statement of financial position for Z Limited at 30 June 2019. [8]

(c) Explain the factors that should be considered before deciding which method to use when depreciating a non-current asset. [4]

Additional information

The directors of Z Limited wish to raise $1 million for expansion. They are considering the following two ways of raising the necessary finance.

1 Issue a further 8% debenture (2025–2027) for the full amount of funds required; or

2 Make an offer of a rights issue at a premium of $0.50 per share.

(d) Advise the directors which method of raising the finance they should use. Use any ratios as appropriate to support your answer. [6]

Nov 2019

Q # 21 An important feature of large limited companies, such as M plc, is stewardship

(a) Explain the term 'stewardship'. [2]
(b) Explain the need for an audit of a limited company. [4]

Additional information

M plc has been trading for many years.
The directors of M plc have agreed that the interim dividend will be based on the profit for six months ended 31 May 2018. A draft set of financial statements for the six months ended 31 May 2018 have been prepared and audited.

The following information is available for the six months ended 31 May 2018

	$
Revenue	320 000
Cost of goods sold	143 000
Share capital (ordinary shares of $0.50 each)	400 000
Distribution costs	35 100
Administrative expenses	60 100
Cash and cash equivalents	45 200
Finance charges	16 600

During the audit the following was discovered.

1 Included within revenue was a sales invoice for $2000 for goods sent to a customer on a sale or return basis. The mark-up on the goods was 33.33%.The customer had yet to decide whether or not to keep the goods.

2 All closing inventory had been valued at cost. However, it was discovered that goods with a cost price of $4200 had been damaged and now had a market value of $3500. The replacement value of the inventory was $4400.

(c) Prepare the revised income statement for the six months ended 31 May 2018. [6]

Additional information

Due to previous poor shareholder returns the directors want to make the maximum return they can to the shareholders. They are considering two options

Option 1: pay a dividend up to 75% of the profit for the six months.

Option 2: make a bonus issue to the shareholders of 1 ordinary share for every 10 shares currently held.

The current market value of an ordinary share is $0.55.

(d) (i) Calculate the dividend per share which would be paid to the shareholders under option 1. [3]
(ii) Discuss the implications for the business of each option that the directors should consider when deciding which option to choose. Support your answer with relevant calculations

Nov 2019