



Limited Company Accounts (IAS) Workbook Activities, Chapters 1-3

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PURPOSE OF FINANCIAL STATEMENTS

1.1 Which one of the following is not a private sector organisation?

- (a) a local authority
- (b) a private limited company
- (c) a partnership
- (d) a public limited company

1.2 Which one of the following statements is correct?

	<i>Assets</i>	<i>Liabilities</i>	<i>Equity</i>
	£	£	£
(a)	30,500	10,250	40,750
(b)	17,250	31,500	14,250
(c)	22,300	10,100	16,500
(d)	26,450	10,850	15,600

1.3 Which one of the following is commonly the most important objective for the private sector?

- (a) environmental issues
- (b) profit
- (c) training for employees
- (d) increased market share

- 1.4** Which one of the following statements best describes the accounting concept of going concern?
- (a) Income and expenses are matched to the same time period in which they relate.
 - (b) The business entity will continue to trade for the foreseeable future.
 - (c) When a business produces its financial statements it should always adopt a conservative figure for profit and/or the valuation of its assets.
 - (d) Items with a low value should not be reported separately in the financial accounts.
- 1.5** The International Accounting Standards Board's *Framework for the Preparation and Presentation of Financial Statements* states that:
- “The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.”*
- Illustrate this objective by selecting one external user and one internal user of financial statements and showing how each uses financial statements to make economic decisions
- 1.6** Briefly explain the following concepts which are used in accountancy:
- (a) Materiality
 - (b) Going concern
 - (c) Accruals
- 1.7** The *Framework for the Preparation and Presentation of Financial Statements* has been developed by the International Accounting Standards Committee (now Board). Explain the reasons for the need to develop such a framework.

1.8 The accounting equation of a business is as follows:

Assets £2,000 – Liabilities £1,200 = Equity £800

The business subsequently makes two transactions:

- (1) it purchases inventories (stock) for £250 cash, and
- (2) it sells the inventories purchased in (1) on credit for £350

Required:

- (a) Explain what each of the terms 'assets', 'liabilities' and 'equity' means.
 - (b) Explain the effect of each of the two transactions on the elements in the balance sheet.
 - (c) State the accounting equation for the business after the two transactions have taken place.
 - (d) Draft a simple income statement for the two transactions.
 - (e) Give an example of a user who might be interested in an income statement. Describe one type of decision which might be made by the user based on information in the income statement.
- 1.9** Distinguish between 'economic decisions' and 'stewardship' in relation to financial statements.

2

INTRODUCTION TO LIMITED COMPANY ACCOUNTS

- 2.1** The abbreviation PLC stands for:
- (a) public limited company
 - (b) private limited company
 - (c) personal liability company
 - (d) public liability clause
- 2.2** A PLC in the UK must have a minimum authorised share capital of:
- (a) £100,000
 - (b) £75,000
 - (c) £50,000
 - (d) £25,000
- 2.3** Which document issued by a limited company forms the constitution of the company, regulating its affairs to the outside world?
- (a) Articles of Association
 - (b) Memorandum of Association
 - (c) Annual return
 - (d) Corporate report
- 2.4** Reserves in a company belong to the:
- (a) ordinary shareholders
 - (b) directors
 - (c) debenture holders
 - (d) preference shareholders
- 2.5** Identify the advantages of forming a limited liability company.
- 2.6** List the five main clauses of the Memorandum of Association.
- 2.7** Explain the difference between the nominal value and the market value of shares.

- 2.8 The following trial balance has been extracted from the books of account for Gooch PLC as at 31 May 20-5:

	<i>Dr</i>	<i>Cr</i>
	<i>£000</i>	<i>£000</i>
Administrative expenses	210	
Distribution costs	190	
Wages and salaries	350	
Directors fees	200	
Motor and travel costs	100	
Rent, rates and insurance	150	
General expenses	120	
Issued share capital		500
Trade receivables	500	
Cash and cash equivalents	50	
Share premium account		100
Buildings:		
At cost	1,000	
Accumulated depreciation at 1 June 20-4		100
Plant and equipment:		
At cost	800	
Accumulated depreciation at 1 June 20-4		320
Purchases	900	
Revenue		2,500
Trade payables		400
Inventories at 1 June 20-4	110	
Retained earnings at 1 June 20-4		760
	<u>4,680</u>	<u>4,680</u>

Additional Information

- Inventories at 31 May 20-5 are valued at £130,000.
- The tax liabilities based on the profits for the year are £80,000.
- The company's authorised and issued share capital consists of 1,000,000 ordinary shares of 50p each.
- The company operates the following policy with regard to depreciation:
 - Buildings 2% per annum on cost
 - Plant and equipment 20% per annum on cost

REQUIRED**Task 1**

Prepare the company's income statement (including a statement of the change in retained earnings) for the year to 31 May 20-5.

Task 2

Prepare the company's balance sheet as at 31 May 20-5.

Task 3

Explain briefly how the balance on the share premium account arose.

Task 4

List three differences between ordinary shares and preference shares.

- 2.9** The following trial balance has been extracted from the books of Rafter plc for the year to 31 March 20-1:

	<i>Dr</i>	<i>Cr</i>
	<i>£000</i>	<i>£000</i>
Administrative expenses	1,300	
Advertising expenses	10	
Authorised and issued share capital:		
ordinary shares of £1 each		500
Bad debts written off	50	
Cash and cash equivalents	400	
10% Debenture loan		2,000
Debenture interest (to 30 September 20-0)	100	
Trade receivables and trade payables	1,500	2,300
Share premium account		185
Directors' fees	350	
Distribution costs	570	
Non-current assets: at cost	6,000	
accumulated depreciation (at 1 April 20-0)		800
General expenses	80	
Interim dividend paid on 1 October 20-0	40	
Purchases	5,600	
Retained earnings (at 1 April 20-0)		435
Rent, rates, and insurance	630	
Revenue		11,810
Inventories (at 1 April 20-0)	1,400	
	<u>18,030</u>	<u>18,030</u>

Additional information

- 1 Inventories at 31 March 20-1 are valued at £1,200,000.
- 2 The non-current assets are to be depreciated at a rate of 10% per annum on cost.
- 3 After the preparation of the above trial balance, it was discovered that £70,000 was owing for rent and rates, and £50,000 had been paid in advance for insurance.
- 4 The tax liabilities based on the profits for the year are £120,000.
- 5 The remaining debenture interest due in the year is to be accrued.

REQUIRED

Prepare the financial statements of Rafter plc for the year ended 31 March 20-1.

2.10 The following trial balance has been extracted from the books of Squire plc as at 31 March 20-1:

	<i>Dr</i>	<i>Cr</i>
	<i>£000</i>	<i>£000</i>
Cash and cash equivalents	230	
Commission paid	6	
Interest paid	30	
Non-current assets at cost	1,100	
Non-current assets accumulated depreciation (at 1 April 20-0)		400
Office expenses	40	
Office rent, rates, heat and light	170	
Office wages and salaries	450	
Retained earnings (at 1 April 20-0)		208
Dividends paid	100	
Purchases	1,200	
Revenue		2,800
Share capital (ordinary shares of £1 each)		1,500
Inventories at 1 April 20-0	200	
Trade receivables	1,180	
Trade payables		178
Vehicle delivery expenses	320	
Communication expenses	60	
	<u>5,086</u>	<u>5,086</u>

Additional information

The following items have not been taken into account in preparing the above trial balance:

- 1 Inventories at 31 March 20-1 are valued at £250,000.
- 2 Rates paid in advance at 31 March 20-1 amounted to £5,000.
- 3 Rent due at 31 March 20-1 amounted to £15,000.
- 4 The tax liabilities based on the profits for the year are £120,000.
- 5 Depreciation is charged on the non-current assets at a rate of 20% on cost (on the assumption that there is no residual value) using the straight-line method.

REQUIRED

Prepare the financial statements of Squire plc for the year ended 31 March 20-1.

- 2.11** The following information relates to Placate PLC a company which buys and sells electrical goods. The company's year end is the 30 June each year, and the Assistant Accountant has provided you with the draft accounts on an extended trial balance (see next page).
In order to complete the accounts corporation tax due on this year's profit has been calculated at £8,430.

REQUIRED**Task 1**

Prepare the company's income statement (including a statement of the change in retained earnings) for the year ended 30 June 20-6 and a balance sheet as at the same date.

Task 2

What are the main differences between a capital reserve and a revenue reserve on a limited company balance sheet?

EXTENDED TRIAL BALANCE		name: Piscate PLC		date: 30 June 20-6				
Description	Trial balance		Adjustments		Income statement		Balance sheet	
	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £
Revenue		425,000			207,500	425,000		
Purchases	207,500				17,600			
Salaries and wages	15,000		2,600		13,500			
Motor expenses	13,500							
Rates	10,100			1,100	9,000			
Light and heat	6,950		350		7,300			
Cleaning and maintenance costs	4,250				4,250			
Advertising	3,600				3,600			
Inventories	21,500		26,000	26,000	21,500	26,000	26,000	
Trade receivables	20,500						20,500	
Provision for doubtful receivables			1,110					2,060
Decrease in provision for doubtful receivables				1,110		1,110		
Cash and cash equivalents	7,500						7,500	
Trade payables		43,500						43,500
Bank loan		50,000						50,000
Buildings - cost	515,000						515,000	
Fixtures and fittings - cost	25,000						25,000	
Motor vehicles - cost	80,000						80,000	
Share premium account		26,500						26,500
Buildings - accumulated depreciation		50,000			25,750			75,750
Fixtures & fittings - accumulated depreciation		7,500			5,000			12,500
Motor vehicles - accumulated depreciation		40,000			20,000			60,000
Retained earnings		100,500						100,500
Depreciation - Buildings			25,750					
Depreciation - Fixtures & fittings			5,000					
Depreciation - Motor vehicles			20,000					
Dividends paid*								
Returns inwards	30,000							
Directors salaries	4,500							
Returns outwards	60,000							
General expenses		6,900						
Insurance	9,650							
Loan interest	12,250							
Accruals	6,260							
Prepayments			3,350					
Share capital		300,000						300,000
Profit for the year					3,600			3,600
* to be deducted from retained earnings								
	1,063,080	1,063,080	84,160	84,160	459,010	459,010	677,350	677,350

3

PUBLISHED ACCOUNTS OF LIMITED COMPANIES

- 3.1** Which one of the following expenses will not be analysed to distribution costs in a published income statement for a limited company?
- (a) Sales director's salary
 - (b) Tax
 - (c) Depreciation of delivery vehicles
 - (d) Warehouse costs
- 3.2** Which one of the following expenses will not be analysed to administrative expenses in a published income statement for a limited company?
- (a) Bank interest
 - (b) Office expenses
 - (c) General expenses
 - (d) Managing director's salary
- 3.3** Which one of the following is a non-current asset?
- (a) Inventories
 - (b) Trade receivables
 - (c) Cash and cash equivalents
 - (d) Goodwill
- 3.4** Which one of the following does not appear under the heading 'Equity' in a published limited company balance sheet?
- (a) Ordinary share capital
 - (b) Debentures
 - (c) Share premium account
 - (d) Preference shares
- 3.5** Which one of the following does not normally appear under the heading 'Current liabilities'?
- (a) Trade payables
 - (b) Tax liabilities
 - (c) Debentures
 - (d) Bank overdraft
- 3.6** What are the responsibilities of the directors of a limited company in respect of accounting records and financial statements?

3.7 The directors of Presingold plc, a recently-formed trading company, seek your guidance on the following issues:

- (a) What items do we have to show on the face of the income statement?
- (b) How should we analyse our expenses for the income statement?

3.8 Hawksley plc is a trading company. The following information has been extracted from the books of account for the year to 31 March 20-2:

	£000
Retained earnings at 1 April 20-1	6,820
Auditors' fees	30
Tax: based on the accounting profit for the year to 31 March 20-2	1,700
Delivery expenses	1,170
Dividends paid	2,500
Non-current assets at cost:	
Delivery vans	200
Office cars	40
Warehouse premises and equipment	5,000
Non-current bank loan	1,200
Office expenses	800
Office rent, rates, electricity	350
Purchases	24,000
Revenue	35,000
Inventories at cost at 1 April 20-1	5,000
Warehouse costs	1,000
Wages and salaries:	
Delivery staff	700
Directors	300
Office staff	100
Warehouse staff	400
Bank interest	125

Additional information

- 1 Inventories at 31 March 20-3 are valued at cost of £600,000.
- 2 *Depreciation policy*
Depreciation is provided at the following annual rates on a straight-line basis: delivery vans 20%; office cars 25%; warehouse premises and equipment 10%.
- 3 The Directors' salaries can be split as follows:

	£000
Managing Director	120
Chairman	50
Sales Director	60
Finance Director	70

REQUIRED

Prepare for presentation to the shareholders a published income statement (including a statement of the change in retained earnings), for the year ended 31 March 20-2.

Working notes should be attached to your answer to show cost of sales, distribution costs and administrative expenses.

- 3.9** The following trial balance has been extracted from the books of Davidson PLC for the year ended 31 March 20-1:

	<i>Dr</i>	<i>Cr</i>
	<i>£000</i>	<i>£000</i>
Administrative expenses	800	
Advertising expenses	50	
Authorised and issued share capital:		
ordinary shares of £1 each		1,500
Bad debts written off	20	
Cash and cash equivalents	40	
10% Debenture loan		1,000
Debenture interest (to 30 September 20-0)	50	
Trade receivables and trade payables	1,345	600
Share premium account		250
Directors' fees	400	
Distribution costs	355	
Non-current assets at cost	2,500	
accumulated depreciation (at 1 April 20-0)		500
General expenses	60	
Interim dividend paid on 1 October 20-0	75	
Purchases	4,800	
Retained earnings (at 1 April 20-0)		1,330
Rent, rates and insurance	450	
Revenue		8,500
Sales commission paid	60	
Wages and salaries paid:		
Office staff	190	
Distribution staff	285	
Inventories (at 1 April 20-0)	2,200	
	<u>13,680</u>	<u>13,680</u>

Additional information

- Inventories at 31 March 20-1 are valued at £2,250,000.
- The non-current assets are to be depreciated at a rate of 20% per annum on cost. The annual depreciation charge is apportioned 75% to administrative expenses and 25% to distribution costs.
- After preparation of the trial balance, it was discovered that £50,000 was owing for rent and rates, and £100,000 had been paid in advance for insurance. Rent, rates and insurance are apportioned equally between administrative expenses and distribution costs.

- 4 The tax liabilities based on the profits for the year are £140,000.
- 5 The Directors fees can be split as follows
- | | £000 |
|-------------------|------|
| Chairman | 70 |
| Managing Director | 125 |
| Finance Director | 105 |
| Sales Director | 100 |
- 6 The remaining debenture interest due in the year is to be accrued.

REQUIRED

Prepare the financial statements of Davidson PLC for the year ended 31 March 20-1.

- 3.10** The following information has been extracted from the books of Quest plc as at 30 September 20-7.

	<i>Dr</i>	<i>Cr</i>
	<i>£000</i>	<i>£000</i>
General expenses	20	
Bank overdraft		2,400
Share capital (ordinary shares of £1 each)		4,000
Share premium account		200
Delivery expenses	2,800	
Non-current assets: at cost	3,500	
Non-current assets: accumulated depreciation (at 1 October 20-6)		1,100
Investments (non-current)	2,100	
Interest received		30
Interest paid	400	
Dividends paid	80	
Office expenses	3,000	
Retained earnings (at 1 October 20-6)		840
Purchases	12,000	
Revenue		21,000
Inventories (at 1 October 20-6)	500	
Trade payables		280
Trade receivables	5,450	
	<u>£29,850</u>	<u>£29,850</u>

Additional information

- 1 Inventories at 30 September 20-7 are valued at £400,000.
- 2 At 30 September 20-7, £130,000 was outstanding for office expenses, and £50,000 had been paid in advance for delivery van licences.

- 3 Depreciation at a rate of 50% is to be charged on the cost of the non-current assets (excluding investments) using the straight-line method; it is to be apportioned as follows:
- | | |
|----------------|------------|
| | % |
| Cost of sales | 60 |
| Distribution | 30 |
| Administration | <u>10</u> |
| | <u>100</u> |
- 4 The tax liabilities based on the profits for the year are £80,000.

REQUIRED**Task 1**

Prepare journal entries for items 1–4 listed above. Dates and narratives are not required.

Task 2

In so far as the information permits, prepare the financial statements of Quest plc for the year ended 30 September 20-7.

- 3.11** You have been asked to assist the directors of Lawnderer Ltd, a company that markets and distributes lawnmowers and other garden machinery, in the preparation of the financial statements for the year ended 30 September 20-5. The company employs a book-keeper who is competent in some areas of financial accounting but has gaps in his knowledge which you are required to fill. He has already prepared the extended trial balance which is shown on the next page.

The following further information is provided by the book-keeper:

- 1 The company disposed of motor vehicles during the year. The cost of the vehicles of £491,000 and the accumulated depreciation of £368,000 are still included in the figures in the trial balance. The sale proceeds of £187,000 were credited to the revenue account.
- 2 Sales commission of £52,000 relating to revenue in the year has not been paid or charged as an expense in the figures in the trial balance.
- 3 Interest on the 9 per cent debentures has been included in the trial balance only for the first six months of the year.
- 4 The tax charge for the year is £843,000.
- 5 The doubtful receivables provision in the trial balance has not yet been adjusted for this year. The total doubtful receivables provision required has been calculated at £115,000.

REQUIRED**Task 1**

- (a) Make any adjustments you feel to be necessary to the balances in the extended trial balance as a result of the matters set out in the further information given by the book-keeper above. Set out your adjustments in the form of journal entries (narratives are not required).
- (b) Calculate the new figure for profit which would result from these adjustments being made. (Ignore any effect of these adjustments on the tax charge for the year as given above).
- (c) Show a statement of the change in retained earnings for the year.

Task 2

Prepare a balance sheet as at 30 September 20-5.

EXTENDED TRIAL BALANCE		name: Lawnderer Limited		date: 30 September 20-5				
Description	Trial balance		Adjustments		Income statement		Balance sheet	
	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £
Depreciation: Buildings			18		18			
Fixtures and fittings			72		72			
Motor vehicles			298		298			
Office equipment			24		24			
Accruals				102				102
Dividends paid*	120				120			
Interest on debentures	153				153			
Revenue		22,129				22,129		
Trade receivables	3,202					3,202		
Prepayments			43			43		
Bank overdraft		362					362	
Cash and cash equivalents	3					3		
Purchases	14,112				14,112			
Inventories (1.10.20-4)	3,625				3,625			
Inventories (30.9.20-5)						4,572	4,572	
Retained earnings (1.10.20-4)		105						105
Provision for doubtful receivables		78						78
Trade payables		2,967						2,967
Distribution costs	4,028		37		4,040			
9% Debentures		3,400						3,400
Administrative expenses	1,736		65		1,783			
Accumulated depreciation: Buildings		83						83
Fixtures and fittings		214						286
Motor vehicles		644						942
Office equipment		83						107
Buildings (cost)	1,875						1,875	
Fixtures and fittings (cost)	576						576	
Motor vehicles (cost)	1,691						1,691	
Office equipment (cost)	244						244	
Share capital		1,000						1,000
Share premium account		300						300
Profit					2,456			2,456
* deducted from profit								
	31,365	31,365	5,129	5,129	26,701	26,701	12,206	12,206

- 3.12** You have been asked to help prepare the financial statements of Brecked plc for the year ended 31 March 20-1. The trial balance of the company as at 31 March 20-1 is set out below.

Brecked plc
Trial balance as at 31 March 20-1

	<i>Dr</i>	<i>Cr</i>
	<i>£000</i>	<i>£000</i>
Trade payables		2,307
Revenue		21,383
Cash and cash equivalents	185	
Interest paid	400	
Trade receivables	3,564	
Land – cost	5,150	
Buildings – cost	3,073	
Motor vehicles – cost	4,609	
Office equipment – cost	927	
Dividends paid	450	
Ordinary share capital		3,000
Accruals		135
Non-current loan		5,000
Distribution costs	2,717	
Administrative expenses	2,064	
Retained earnings at 1 April 20-0		5,340
Prepayments	92	
Share premium account		1,500
Buildings – accumulated depreciation		420
Motor vehicles – accumulated depreciation		2,014
Office equipment – accumulated depreciation		382
Inventories at 1 April 20-0	4,516	
Purchases	13,841	
Provision for doubtful receivables		107
	<u>41,588</u>	<u>41,588</u>

Additional information

- The inventories at the close of business on 31 March 20-1 are valued at cost at £5,346,000.
- The tax charge for the year is £1,473,000.
- Additions to non-current assets were:

Motor vehicles	£1,340,000
Office equipment	£268,000

Motor vehicles which had cost £975,000 and which had accumulated depreciation of £506,000 were disposed of during the year. There were no other additions or disposals. All of the additions and disposals, including the relevant gain or loss on sale, have been included in the accounts as at 31 March 20-1.
- No depreciation charges for the year have been entered into the accounts as at 31 March 20-1. The depreciation charges for the year are as follows:

	£000	
Buildings	70	(to be split equally between distribution costs and administrative expenses)
Motor vehicles	648	
Office equipment	185	

- The land has been revalued by professional valuers at £6,000,000. The revaluation is to be included in the financial statements for the year ended 31 March 20-1.

REQUIRED

Task 1

Make the necessary journal entries as a result of the further information given above. Dates and narratives are not required.

Notes:

- show any workings relevant to these adjustments
- ignore any effect of these adjustments on the tax charge for the year given above

Task 2

Complete the following pro-forma to show the movement in non-current assets of Brecked plc for the year to 31 March 20-1:

NON-CURRENT ASSETS

	<i>Land</i> £000	<i>Buildings</i> £000	<i>Motor vehicles</i> £000	<i>Office equipment</i> £000
Cost at 1 April 20-0				
Revaluation				
Additions				
Disposals				
Cost/reval'n at 31 Mar 20-1				
Acc dep'n at 1 Apr 20-0				
Dep'n for year				
Disposals				
Acc Dep'n at 31 Mar 20-1				
NBV/Revaluation at 31 March 20-1				

Task 3

In so far as the information permits, prepare Brecked plc's published income statement (including a statement of the change in retained earnings) for the year to 31 March 20-1 and a balance sheet as at that date.

Note: Where relevant, working notes should be attached to your answer.