



# **Limited Company Accounts (IAS) Workbook**

**Amended pages – for June 2010 exam**

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# INTRODUCTION TO AMENDED WORKBOOK PAGES – JUNE 2010 EXAMINATION

## What is changing in the June 2010 Unit 11 examination?

The June 2010 examination for the AAT Unit 11 requires minor changes which relate to terminology and the format of the statement of financial position (balance sheet). These changes reflect the requirements of the International Accounting Standards (IAS).

### Acceptable terminology

For the June 2010 examination 'balance sheet' becomes 'statement of financial position' and 'cash flow statement' becomes 'statement of cash flows'.

### Changes for the June 2010 examination – statement of financial position (balance sheet) format

The other change in the June 2010 examination is that a revised layout for the statement of financial position (balance sheet) will be used. The revised layout balances total assets against the total of all the liabilities plus the equity. The change is as follows:

#### previous format (2009)

total assets
– liabilities
=
equity

#### June 2010 format

total assets
=
total liabilities
+ equity

## What are the changes in the 'Limited Company Accounts (IAS) Workbook'?

The pages that follow in this document update the current Osborne Books *Limited Company Accounts (IAS) Workbook* to show questions and tasks with the statement of financial position (balance sheet) format that will be more familiar to students studying for the June 2010 examination. **It must be stressed that the questions and tasks have not changed at all – the only difference in this document is the way in which the statement of financial position is presented.**

Any questions, however, that require you to prepare a statement of financial position will expect the revised layout as set out in the last two pages of this document.

The changed pages from the Osborne Books *Limited Company Accounts (IAS) Workbook* are as follows:

page	activity number	page	assignment number	page	practice exam number
37	Activity 6.9	76	Assignment 1	95	Practice Examination 1
38	Activity 6.10	82	Assignment 3	97	Practice Examination 1
40	Activity 6.11	85	Assignment 4	100	Practice Examination 1
41	Activity 6.12	86	Assignment 4	105	Practice Examination 2
43	Activity 6.13	88	Assignment 5	106	Practice Examination 2
45	Activity 6.14	90	Assignment 5	114	Practice Examination 3
47	Activity 6.15			118	Practice Examination 3
50	Activity 7.9			125	Practice Examination 4
52	Activity 7.11			127	Practice Examination 4
54	Activity 7.12				
56	Activity 7.13				
58	Activity 7.14				
61	Activity 8.9				
62	Activity 8.10				
63	Activity 8.11				
64	Activity 8.12				
65	Activity 8.13				
68	Activity 8.16				

- 6.9 Set out below are financial statements for Underdesk Limited for the year ending 20-7 and also for the previous year.

**Underdesk Limited: Income statement for the year ended 31 December**

	20-7	20-6
	£000	£000
Revenue	5,490	4,573
Cost of sales	<u>(3,861)</u>	<u>(3,201)</u>
Gross profit	1,629	1,372
Depreciation	(672)	(445)
Other expenses	(313)	(297)
Gain on the sale of non-current assets	<u>29</u>	<u>13</u>
Profit from operations	673	643
Interest paid	<u>(156)</u>	<u>(47)</u>
Profit before tax	517	596
Tax	<u>(129)</u>	<u>(124)</u>
<b>Profit for the year</b>	<b><u>388</u></b>	<b><u>472</u></b>

**Underdesk Limited: Statement of financial position as at 31 December**

	20-7	20-6
	£000	£000
<b>ASSETS</b>		
<b>Non-current assets</b>	<u>5,461</u>	<u>2,979</u>
<b>Current assets</b>		
Inventories	607	543
Trade receivables	481	426
Cash and cash equivalents	<u>–</u>	<u>104</u>
	<u>1,088</u>	<u>1,073</u>
<b>Total assets</b>	<b><u>6,549</u></b>	<b><u>4,052</u></b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital	1,400	800
Share premium account	400	100
Retained earnings	<u>2,460</u>	<u>2,168</u>
<b>Total equity</b>	<u>4,260</u>	<u>3,068</u>
<b>Non-current liabilities</b>		
Long-term loan	<u>1,700</u>	<u>520</u>
	<u>1,700</u>	<u>520</u>
<b>Current liabilities</b>		
Trade payables	371	340
Tax liabilities	129	124
Bank overdraft	<u>89</u>	<u>–</u>
	<u>589</u>	<u>464</u>
<b>Total liabilities</b>	<u>2,289</u>	<u>984</u>
<b>Total equity and liabilities</b>	<b><u>6,549</u></b>	<b><u>4,052</u></b>

**Further information**

- Dividends proposed were: £96,000 in 20-6, and £180,000 in 20-7. These dividends were paid in 20-7 and 20-8 respectively.
- Non-current assets costing £187,000 with accumulated depreciation of £102,000 were sold in 20-7 for £114,000. There were no other disposals in the year.
- All revenue sales and purchases were on credit. Other expenses were paid for in cash.

**REQUIRED****Task 1**

Provide a reconciliation of profit from operations to net cash flow from operating activities for the year ended 31 December 20-7.

**Task 2**

Prepare the statement of cash flows for Underdesk Limited for the year ended 31 December 20-7 in accordance with the requirements of IAS 7.

- 6.10** The directors have provided you with the statement of financial position of Games Limited as at 30 September 20-8, along with some further information:

**Games Limited: Statement of financial position as at 30 September**

	<i>20-8</i>	<i>20-7</i>
	<i>£000</i>	<i>£000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>	<u>1,845</u>	<u>1,615</u>
<b>Current assets</b>		
Inventories	918	873
Trade receivables	751	607
Cash and cash equivalents	<u>23</u>	<u>87</u>
	<u>1,692</u>	<u>1,567</u>
<b>Total assets</b>	<u><u>3,537</u></u>	<u><u>3,182</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital	1,000	1,000
Share premium account	100	100
Retained earnings	<u>1,232</u>	<u>1,096</u>
<b>Total equity</b>	<u>2,332</u>	<u>2,196</u>
<b>Non-current liabilities</b>		
Long-term loan	<u>560</u>	<u>420</u>
	<u>560</u>	<u>420</u>
<b>Current liabilities</b>		
Trade payables	583	512
Tax liabilities	<u>62</u>	<u>54</u>
	<u>645</u>	<u>566</u>
<b>Total liabilities</b>	<u>1,205</u>	<u>986</u>
<b>Total equity and liabilities</b>	<u><u>3,537</u></u>	<u><u>3,182</u></u>

**Diewelt Limited: Statement of financial position as at 30 September**

	<i>20-9</i>	<i>20-8</i>
	<i>£000</i>	<i>£000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>	<u>6,490</u>	<u>5,620</u>
<b>Current assets</b>		
Inventories	3,151	2,106
Trade receivables	2,314	1,470
Cash and cash equivalents	<u>103</u>	<u>383</u>
	<u>5,568</u>	<u>3,959</u>
<b>Total assets</b>	<u><u>12,058</u></u>	<u><u>9,579</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital	2,200	1,600
Share premium account	800	300
Retained earnings	<u>4,211</u>	<u>3,254</u>
<b>Total equity</b>	<u><u>7,211</u></u>	<u><u>5,154</u></u>
<b>Non-current liabilities</b>		
Long-term loan	<u>3,300</u>	<u>2,900</u>
	<u>3,300</u>	<u>2,900</u>
<b>Current liabilities</b>		
Trade payables	964	1,034
Tax liabilities	<u>583</u>	<u>491</u>
	<u>1,547</u>	<u>1,525</u>
<b>Total liabilities</b>	<u><u>4,847</u></u>	<u><u>4,425</u></u>
<b>Total equity and liabilities</b>	<u><u>12,058</u></u>	<u><u>9,579</u></u>

**Further information**

- Dividends proposed were: £368,000 in 20-8 and £484,000 in 20-9. These dividends were paid in 20-9 and 20-0 respectively.
- A non-current asset which had cost £136,000 and had accumulated depreciation of £85,000 was sold during the year.
- All revenue sales and purchases were on credit. Other expenses were paid for in cash.

**Calculation of cash from operations**

	<i>£000</i>
Profit from operations	2,273
Depreciation charges	985
Gain on sale of non-current assets	(57)
Increase in inventories	(1,045)
Increase in trade receivables	(844)
Decrease in trade payables	<u>(70)</u>
Cash from operations	<u><u>1,242</u></u>

**REQUIRED**

Prepare the statement of cash flows for Diewelt Limited for the year ended 30 September 20-9 in accordance with the requirements of IAS 7. The statement should start with the figure for cash from operations of £1,242,000 (see above).

- 6.12 Kasper PLC's income statement for the year to 31 December 20-3 and statements of financial position for 20-2 and 20-3 were as follows:

**Kasper PLC: Income statement for the year to 31 December 20-3.**

	£000	£000
Revenue		820
Materials	166	
Wages and salaries	98	
Depreciation charges	118	
Loss on sale of non-current asset	<u>18</u>	(400)
Profit from operations		<u>420</u>
Interest paid		(30)
Profit before tax		390
Tax		(130)
<b>Profit for the year</b>		<u><u>260</u></u>

**Kasper PLC: Statement of financial position as at 31 December**

	20-3	20-2
	£000	£000
<b>ASSETS</b>		
<b>Non-current assets</b>		
At cost	1,596	1,560
Depreciation	<u>(318)</u>	<u>224</u>
	<u>1,278</u>	<u>1,336</u>
<b>Current assets</b>		
Inventories	24	20
Trade receivables	66	50
Cash and cash equivalents	<u>58</u>	<u>64</u>
	<u>148</u>	<u>134</u>
<b>Total assets</b>	<u><u>1,426</u></u>	<u><u>1,470</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital	360	340
Share premium account	36	24
Retained earnings	<u>716</u>	<u>514</u>
<b>Total equity</b>	<u>1,112</u>	<u>878</u>
<b>Non-current liabilities</b>		
Loans and debentures	<u>200</u>	<u>500</u>
	<u>200</u>	<u>500</u>
<b>Current liabilities</b>		
Trade payables	12	6
Tax liabilities	<u>102</u>	<u>86</u>
	<u>114</u>	<u>92</u>
<b>Total liabilities</b>	<u>314</u>	<u>592</u>
<b>Total equity and liabilities</b>	<u><u>1,426</u></u>	<u><u>1,470</u></u>

**Hill PLC: Statement of financial position as at 31 December**

<b>ASSETS</b>	<i>20-2</i>		<i>20-3</i>	
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Non-current assets</b>				
Property at cost	260		280	
Depreciation to date	<u>(60)</u>	200	<u>(68)</u>	212
Plant & Equipment at cost	164		200	
Depreciation to date	<u>(54)</u>	110	<u>(86)</u>	114
		<u>310</u>		<u>326</u>
<b>Current assets</b>				
Inventories		56		72
Trade receivables		52		48
Short-term bank deposit		16		20
Cash at bank		14		30
		<u>138</u>		<u>170</u>
<b>Total assets</b>		<u>448</u>		<u>496</u>
 <b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Called up share capital		200		260
Share premium account		24		56
Retained earnings		<u>72</u>		<u>82</u>
<b>Total equity</b>		<u>296</u>		<u>398</u>
 <b>Non-current liabilities</b>				
10% Debentures		80		20
		<u>80</u>		<u>20</u>
<b>Current liabilities</b>				
Trade payables		40		54
Tax liabilities		<u>32</u>		<u>24</u>
		<u>72</u>		<u>78</u>
<b>Total liabilities</b>		<u>152</u>		<u>98</u>
<b>Total equity and liabilities</b>		<u>448</u>		<u>496</u>

**Poised Limited: Statement of financial position as at 31 July**

	<i>20-6</i>	<i>20-5</i>
<b>ASSETS</b>	<i>£000</i>	<i>£000</i>
<b>Non-current assets</b>	<u>6,867</u>	<u>6,739</u>
<b>Current assets</b>		
Inventories	2,473	2,138
Trade receivables	1,872	1,653
Cash and cash equivalents	<u>1,853</u>	<u>149</u>
	6,198	3,940
<b>Total assets</b>	<u><u>13,065</u></u>	<u><u>10,679</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital	3,000	2,500
Share premium account	400	100
Retained earnings	<u>3,324</u>	<u>2,564</u>
<b>Total equity</b>	<u>6,724</u>	<u>5,164</u>
<b>Non-current liabilities</b>		
Long-term loan	<u>4,200</u>	<u>3,800</u>
	4,200	3,800
<b>Current liabilities</b>		
Trade payables	1,579	1,238
Tax liabilities	<u>562</u>	<u>477</u>
	2,141	1,715
<b>Total liabilities</b>	<u>6,341</u>	<u>5,515</u>
<b>Total equity and liabilities</b>	<u><u>13,065</u></u>	<u><u>10,679</u></u>

**Further information**

- 1 No non-current assets were sold during the year.
- 2 All revenue sales and purchases were on credit. Other expenses were paid for in cash.

**REQUIRED**

Provide a reconciliation of profit from operations to net cash flow from operating activities for Poised Limited for the year ended 31 July 20-6.

*Note:* You are not required to prepare the remainder of the statement of cash flows.

**Sholti Limited: Statement of financial position as at 31 March**

	20-2	20-1
<b>ASSETS</b>	<i>£000</i>	<i>£000</i>
<b>Non-current assets</b>	<u>22,972</u>	<u>10,080</u>
<b>Current assets</b>		
Inventories	8,632	9,013
Trade receivables	5,391	4,728
Cash and cash equivalents	–	987
	<u>14,023</u>	<u>14,728</u>
<b>Total assets</b>	<u>36,995</u>	<u>24,808</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital	12,000	8,000
Share premium account	4,000	2,000
Retained earnings	<u>8,646</u>	<u>5,205</u>
<b>Total equity</b>	<u>24,646</u>	<u>15,205</u>
<b>Non-current liabilities</b>		
Long-term loan	<u>8,000</u>	<u>6,000</u>
	<u>8,000</u>	<u>6,000</u>
<b>Current liabilities</b>		
Trade payables	2,382	2,081
Tax liabilities	<u>1,967</u>	<u>1,522</u>
	<u>4,349</u>	<u>3,603</u>
<b>Total liabilities</b>	<u>12,349</u>	<u>9,603</u>
<b>Total equity and liabilities</b>	<u>36,995</u>	<u>24,808</u>

**Further information**

- The total depreciation charge for the year was £1,850,000.
- All revenue sales and purchases were on credit. Other expenses were paid for in cash.

**REQUIRED**

Prepare a reconciliation of profit from operations to net cash flow from operating activities for Sholti Limited for the year ended 31 March 20-2.

*Note:* You are not required to prepare the remainder of the statement of cash flows.

- 7.9 Jonathan Fisher is intending to invest a substantial sum of money in a company. A colleague has suggested to him that he might want to invest in a private company called Carp Ltd which supplies the pond equipment to retail outlets. You have been asked to assist him in interpreting the financial statements of the company which are set out below:

**Carp Ltd: summary Income statement for the year ended 30 September**

	<i>20-9</i>	<i>20-8</i>
	<i>£000</i>	<i>£000</i>
Revenue	3,183	2,756
Cost of sales	<u>(1,337)</u>	<u>(1,020)</u>
Gross profit	1,846	1,736
Expenses	<u>(1,178)</u>	<u>(1,047)</u>
Profit from operations	668	689
Finance costs	<u>(225)</u>	<u>(92)</u>
Profit before tax	443	597
Tax	<u>(87)</u>	<u>(126)</u>
<b>Profit for the year</b>	<u><u>356</u></u>	<u><u>471</u></u>

**Carp Ltd: summary Statement of financial position as at 30 September**

	<i>20-9</i>	<i>20-8</i>
	<i>£000</i>	<i>£000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>	<u>4,214</u>	<u>2,030</u>
<b>Current assets</b>		
Inventories	795	689
Trade receivables	531	459
Cash and cash equivalents	<u>15</u>	<u>136</u>
	<u>1,341</u>	<u>1,284</u>
<b>Total assets</b>	<u><u>5,555</u></u>	<u><u>3,314</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	700	500
Retained earnings	<u>1,517</u>	<u>1,203</u>
<b>Total equity</b>	<u>2,217</u>	<u>1,703</u>
<b>Non-current liabilities</b>		
Long-term loan	<u>2,500</u>	<u>1,000</u>
	<u>2,500</u>	<u>1,000</u>
<b>Current liabilities</b>		
Trade payables	751	485
Tax liabilities	<u>87</u>	<u>126</u>
	<u>838</u>	<u>611</u>
<b>Total liabilities</b>	<u>3,338</u>	<u>1,611</u>
<b>Total equity and liabilities</b>	<u><u>5,555</u></u>	<u><u>3,314</u></u>

**Botticelli Limited: Statement of financial position as at 31 December**

	<i>20-6</i>	<i>20-5</i>
	<i>£000</i>	<i>£000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>	<u>2,800</u>	<u>1,013</u>
<b>Current assets</b>		
Inventories	419	341
Trade receivables	444	381
Cash and cash equivalents	–	<u>202</u>
	<u>863</u>	<u>924</u>
<b>Total assets</b>	<u><b>3,663</b></u>	<u><b>1,937</b></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital	400	200
Share premium account	250	–
Retained earnings	<u>1,321</u>	<u>1,076</u>
<b>Total equity</b>	<u>1,971</u>	<u>1,276</u>
<b>Non-current liabilities</b>		
Long-term loan	<u>970</u>	<u>320</u>
	<u>970</u>	<u>320</u>
<b>Current liabilities</b>		
Trade payables	370	238
Tax liabilities	158	103
Bank overdraft	194	–
	<u>722</u>	<u>341</u>
<b>Total liabilities</b>	<u>1,692</u>	<u>661</u>
<b>Total equity and liabilities</b>	<u><b>3,663</b></u>	<u><b>1,937</b></u>

**REQUIRED**

Prepare a report to the shareholders about the profitability and liquidity of Botticelli Ltd for the two years 20-5 and 20-6. Your report should include:

- (a) calculation of the following ratios for the two years:
  - return on capital employed
  - gross profit ratio
  - net profit ratio
  - current ratio
  - quick ratio (also called acid test)
- (b) comments on the changes in the ratios from 20-5 to 20-6.

**Hegel Limited: Statement of financial position as at 30 September**

	<i>20-7</i>	<i>20-6</i>
	<i>£000</i>	<i>£000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>	<u>6,472</u>	<u>2,075</u>
<b>Current assets</b>		
Inventories	729	681
Trade receivables	574	469
Cash and cash equivalents	<u>–</u>	<u>320</u>
	<u>1,303</u>	<u>1,470</u>
<b>Total assets</b>	<u><b>7,775</b></u>	<u><b>3,545</b></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital	1,200	1,000
Share premium account	400	–
Retained earnings	<u>1,850</u>	<u>1,375</u>
<b>Total equity</b>	<u>3,450</u>	<u>2,375</u>
<b>Non-current liabilities</b>		
Long-term loan	<u>3,350</u>	<u>350</u>
	<u>3,350</u>	<u>350</u>
<b>Current liabilities</b>		
Trade payables	484	544
Tax liabilities	333	276
Bank overdraft	<u>158</u>	<u>–</u>
	<u>975</u>	<u>820</u>
<b>Total liabilities</b>	<u>4,325</u>	<u>1,170</u>
<b>Total equity and liabilities</b>	<u><b>7,775</b></u>	<u><b>3,545</b></u>

**Further information**

All revenue sales and purchases were on credit. Other expenses were paid for in cash.

**REQUIRED**

Prepare a report for the directors of McTaggart Limited which covers the relevant calculations and questions set out below:

- (a) Calculate the current and quick ratios (also known as the 'acid test') of Hegel Limited for the two years. Using this information state how the liquidity of Hegel Limited has changed from 20-6 to 20-7.
- (b) Calculate the gearing ratio for Hegel Limited for 20-6 and 20-7 and comment on the results. Explain whether the level of borrowings in Hegel Limited would have any impact on the level of gearing in the group accounts of McTaggart Limited.

## Statement of financial position as at 30 September 20-1

	<i>Byrne Ltd</i>	<i>May Ltd</i>
	<i>£000</i>	<i>£000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>	6,188	2,725
<b>Current assets</b>	<u>1,522</u>	<u>1,102</u>
<b>Total assets</b>	<u><b>7,710</b></u>	<u><b>3,827</b></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital: ordinary shares of £1 each	2,083	939
Retained earnings	<u>2,712</u>	<u>1,843</u>
<b>Total equity</b>	<u><b>4,795</b></u>	<u><b>2,782</b></u>
<b>Non-current liabilities</b>		
Long-term loan	<u>1,900</u>	<u>500</u>
	<u>1,900</u>	<u>500</u>
<b>Current liabilities</b>	<u>1,015</u>	<u>545</u>
<b>Total liabilities</b>	<u>2,915</u>	<u>1,045</u>
<b>Total equity and liabilities</b>	<u><b>7,710</b></u>	<u><b>3,827</b></u>

You have also been given the following ratios:

	<i>Byrne Ltd</i>	<i>May Ltd</i>
Return on capital employed	21.5%	32.1%
Gross profit percentage	59.0%	67.0%
Net profit percentage (using profit from operations)	25.0%	36.0%
Earnings per share	47p	82p

**REQUIRED**

Prepare a report for Duncan Tweedy that:

- (a) explains the meaning of each ratio
- (b) uses each ratio to comment on the relative profitability of the companies
- (c) concludes – with reasons – which of the two companies is the more profitable

**Page Limited: Statement of financial position as at 31 March**

	<i>20-9</i>	<i>20-8</i>
<b>ASSETS</b>	<b>£000</b>	<b>£000</b>
<b>Non-current assets</b>	<u>4,282</u>	<u>2,376</u>
<b>Current assets</b>		
Inventories	448	287
Trade receivables	527	337
Cash and cash equivalents	<u>—</u>	<u>86</u>
	975	710
<b>Total assets</b>	<u><b>5,257</b></u>	<u><b>3,086</b></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital	200	100
Share premium account	100	—
Retained earnings	1,408	1,127
<b>Total equity</b>	<u><b>1,708</b></u>	<u><b>1,227</b></u>
<b>Non-current liabilities</b>		
Long-term loan	2,800	1,500
	<u>2,800</u>	<u>1,500</u>
<b>Current liabilities</b>		
Trade payables	401	222
Tax liabilities	165	137
Bank overdraft	<u>183</u>	<u>—</u>
	749	359
<b>Total liabilities</b>	<u><b>3,549</b></u>	<u><b>1,859</b></u>
<b>Total equity and liabilities</b>	<u><b>5,257</b></u>	<u><b>3,086</b></u>

**REQUIRED**

Prepare a report for the directors which includes the following:

- (a) a calculation of the following ratios of Page Limited for the two years:
  - (i) Return on equity
  - (ii) Net profit percentage
  - (iii) Quick ratio/acid test
  - (iv) Gearing ratio
  - (v) Interest cover
- (b) comments on the profitability, liquidity and the financial position of the company as revealed by the ratios and a statement of how this has changed over the two years covered by the financial statements
- (c) an opinion as to whether the bank would be likely to give the company a substantial loan based solely on the information in the financial statements

- 8.9 An investment figure of £4,010,000 shown in the financial statements of Deskover Limited represents the cost of acquiring shares in a subsidiary undertaking, Underdesk Limited. Deskover Limited acquired 75% of the ordinary share capital of Underdesk Limited on 31 December 20-7. The directors have obtained a statement of financial position of the company for the last two years, prepared for internal purposes. Underdesk Limited's year end is also 31 December. The assets of Underdesk Limited are shown on the statement of financial position at their fair values except for the non-current assets, which have a fair value at 31 December 20-7 of £5,761,000.

**Underdesk Limited: Statement of financial position as at 31 December**

	<i>20-7</i>	<i>20-6</i>
	<i>£000</i>	<i>£000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>	<u>5,461</u>	<u>2,979</u>
<b>Current assets</b>		
Inventories	607	543
Trade receivables	481	426
Cash and cash equivalents	<u>–</u>	<u>104</u>
	<u>1,088</u>	<u>1,073</u>
<b>Total assets</b>	<u><u>6,549</u></u>	<u><u>4,052</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital	1,400	800
Share premium account	400	100
Retained earnings	<u>2,280</u>	<u>2,072</u>
<b>Total equity</b>	<u>4,080</u>	<u>2,972</u>
<b>Non-current liabilities</b>		
Long-term loan	<u>1,700</u>	<u>520</u>
	<u>1,700</u>	<u>520</u>
<b>Current liabilities</b>		
Trade payables	551	436
Tax liabilities	129	124
Bank overdraft	<u>89</u>	<u>–</u>
	<u>769</u>	<u>560</u>
<b>Total liabilities</b>	<u>2,469</u>	<u>1,080</u>
<b>Total equity and liabilities</b>	<u><u>6,549</u></u>	<u><u>4,052</u></u>

**REQUIRED**

Calculate the goodwill on consolidation that arose on acquisition of the shares in Underdesk Limited on 31 December 20-7. Set out the accounting treatment of this goodwill in the group accounts of Deskover Limited, justifying your answer by reference to applicable accounting standards.

*Note:* You are not required to produce a consolidated statement of financial position for the group.

- 8.10** The directors of Fun Limited have a number of questions relating to the financial statements of their recently acquired subsidiary, Games Limited. Fun Limited acquired 75% of the ordinary share capital of Games Limited on 30 September 20-8 for £2,244,000. The fair value of the non-current assets in Games Limited as at 30 September 20-8 was £2,045,000. The directors have provided you with the statement of financial position of Games Limited as at 30 September 20-8 along with some further information:

**Games Limited: Statement of financial position as at 30 September**

	<i>20-8</i>	<i>20-7</i>
<b>ASSETS</b>	<i>£000</i>	<i>£000</i>
<b>Non-current assets</b>	<u>1,845</u>	<u>1,615</u>
<b>Current assets</b>		
Inventories	918	873
Trade receivables	751	607
Cash and cash equivalents	<u>23</u>	<u>87</u>
	<u>1,692</u>	<u>1,567</u>
<b>Total assets</b>	<u><u>3,537</u></u>	<u><u>3,182</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital	1,000	1,000
Share premium account	100	100
Retained earnings	<u>1,180</u>	<u>1,048</u>
<b>Total equity</b>	<u>2,280</u>	<u>2,148</u>
<b>Non-current liabilities</b>		
Long-term loan	<u>560</u>	<u>420</u>
	<u>560</u>	<u>420</u>
<b>Current liabilities</b>		
Trade payables	635	560
Tax liabilities	<u>62</u>	<u>54</u>
	<u>697</u>	<u>614</u>
<b>Total liabilities</b>	<u>1,257</u>	<u>1,034</u>
<b>Total equity and liabilities</b>	<u><u>3,537</u></u>	<u><u>3,182</u></u>

**REQUIRED**

Prepare notes to take to the Board meeting to answer the following questions of the directors:

- (a) What figure for the non-controlling interest would appear in the consolidated statement of financial position of Fun Limited as at 30 September 20-8?
- (b) Where in the statement of financial position would the non-controlling interest be disclosed?
- (c) What is a 'non-controlling interest'?

- 8.11** Fertwrangler Limited has one subsidiary undertaking, Voncarryon Limited, which it acquired on 1 April 20-1. The statement of financial position of Voncarryon Limited as at 31 March 20-2 is set out below.

**Voncarryon Limited: Statement of financial position as at 31 March 2002**

	£000
Non-current assets	3,855
Current assets	<u>4,961</u>
Total assets	<u>8,816</u>
Equity	
Called up share capital	2,000
Share premium account	1,000
Retained earnings	<u>1,770</u>
Total equity	<u>4,770</u>
Non-current (long-term) loan	1,500
Current liabilities	<u>2,546</u>
Total liabilities	<u>4,046</u>
Total equity and liabilities	<u>8,816</u>

**Further information:**

- The share capital of Voncarryon Limited consists of ordinary shares of £1 each. There have been no changes to the balances of share capital and share premium during the year. No dividends were paid by Voncarryon Limited during the year.
- Fertwrangler Limited acquired 1,200,000 shares in Voncarryon Limited on 1 April 20-1 at a cost of £3,510,000.
- At 1 April 20-1 the balance of retained earnings of Voncarryon Limited was £1,350,000.
- The fair value of the non-current assets of Voncarryon Limited at 1 April 20-1 was £4,455,000. The book value of the non-current assets at 1 April 20-1 was £4,055,000. The revaluation has not been reflected in the books of Voncarryon Limited.
- Ten per cent of the goodwill arising on consolidation is to be written off as an impairment loss in the year to 31 March 20-2.

**REQUIRED**

Calculate the goodwill figure relating to the acquisition of Voncarryon Limited that will appear in the consolidated statement of financial position of Fertwrangler Limited as at 31 March 20-2.

- 8.12** You have been asked to assist in the preparation of the consolidated accounts of the Bloomsbury Group. Set out on the next page are the statements of financial position of Woolf Limited and Forster Limited for the year ended 31 March 20-1:

**Statements of financial position as at 31 March 20-1**

	<i>Woolf Limited</i>	<i>Forster Limited</i>
	<i>£000</i>	<i>£000</i>
Tangible non-current assets	<u>12,995</u>	<u>1,755</u>
Investment in Forster Limited	<u>1,978</u>	
Current assets		
Inventories	3,586	512
Trade receivables	2,193	382
Cash and cash equivalents	<u>84</u>	<u>104</u>
	<u>5,863</u>	<u>998</u>
Total assets	<u>20,836</u>	<u>2,753</u>
Equity		
Share capital	2,000	1,000
Share premium account	–	200
Retained earnings	<u>16,089</u>	<u>684</u>
Total equity	<u>18,089</u>	<u>1,884</u>
Non-current (long-term) loan	<u>–</u>	<u>400</u>
Current liabilities		
Trade payables	2,080	273
Tax liabilities	<u>667</u>	<u>196</u>
	<u>2,747</u>	<u>469</u>
Total liabilities	<u>2,747</u>	<u>869</u>
Total equity and liabilities	<u>20,836</u>	<u>2,753</u>

**Further information:**

- The share capital of both Woolf Limited and Forster Limited consists of ordinary shares of £1 each. There have been no changes to the balances of share capital and share premium during the year. No dividends were paid by Forster Limited during the year.
- Woolf Limited acquired 750,000 shares in Forster Limited on 31 March 20-0.
- At 31 March 20-0 the balance of retained earnings of Forster Limited was £424,000.
- The fair value of the non-current assets of Forster Limited at 31 March 20-0 was £2,047,000 as compared with their book value of £1,647,000. The revaluation has not been reflected in the books of Forster Limited. (Ignore any depreciation implications).
- Ten per cent of the goodwill arising on consolidation is to be written off as an impairment loss in the year to 31 March 20-1.

**REQUIRED**

Prepare the consolidated statement of financial position of Woolf Limited and its subsidiary undertaking as at 31 March 20–1.

- 8.13** You have been asked to assist in the preparation of the consolidated accounts of the Shopan Group. Set out below are the statements of financial position of Shopan Limited and its subsidiary undertaking Hower Limited, as at 30 September 20-9:

**Statements of financial position as at 30 September 20-9**

	<i>Shopan Limited</i>	<i>Hower Limited</i>
	<i>£000</i>	<i>£000</i>
Tangible non-current assets	6,273	1,633
Investment in Hower Limited	2,100	
Current assets		
Inventories	1,901	865
Trade receivables	1,555	547
Cash and cash equivalents	184	104
	<u>3,640</u>	<u>1,516</u>
Total assets	<u>12,013</u>	<u>3,149</u>
Equity		
Called up share capital	2,000	500
Share premium account	950	120
Retained earnings	4,246	1,484
Total equity	<u>7,196</u>	<u>2,104</u>
Non-current (long-term) loan	<u>2,870</u>	<u>400</u>
Current liabilities		
Trade payables	1,516	457
Tax liabilities	431	188
	<u>1,947</u>	<u>645</u>
Total liabilities	<u>4,817</u>	<u>1,045</u>
Total equity and liabilities	<u>12,013</u>	<u>3,149</u>

**Further information**

- The share capital of both Shopan Limited and Hower Limited consists of ordinary shares of £1 each.
- Shopan Limited acquired 375,000 shares in Hower Limited on 30 September 20-9.
- The fair value of the non-current assets of Hower Limited at 30 September 20-9 was £2,033,000.

- 8.16** You have been asked to assist in the preparation of the consolidated accounts of the Jake Group. Set out on below are the statements of financial position of Jake Limited and Dinos Limited as at 30 September 20-1:

**Statements of financial position as at 30 September 20-1**

	<b>Jake Ltd</b>	<b>Dinos Ltd</b>
	£000	£000
Tangible non-current assets	18,104	6,802
Investment in Dinos Limited	5,000	
Current assets	<u>4,852</u>	<u>2,395</u>
Total assets	<u>27,956</u>	<u>9,197</u>
Equity		
Share capital	5,000	1,000
Share premium account	3,000	400
Retained earnings	13,080	6,250
Total equity	<u>21,080</u>	<u>7,650</u>
Non-current (long-term) loan	<u>4,500</u>	<u>1,000</u>
Current liabilities	<u>2,376</u>	<u>547</u>
Total liabilities	<u>6,876</u>	<u>1,547</u>
Total equity and liabilities	<u>27,956</u>	<u>9,197</u>

**Further information:**

- The share capital of both Jake Limited and Dinos Limited consists of ordinary shares of £1 each. There have been no changes to the balances of share capital and share premium during the year. No dividends were paid by Dinos Limited during the year.
- Jake Limited acquired 600,000 shares in Dinos Limited on 30 September 20-0.
- At 30 September 20-0 the retained earnings of Dinos Limited were £5,450,000.
- The fair value of the non-current assets of Dinos Limited at 30 September 20-0 was £3,652,000 as compared with their book value of £3,052,000. The revaluation has not been reflected in the books of Dinos Limited (ignore any depreciation implications).
- For the year to 30 September 20-1, Jake Limited has written off ten per cent of the goodwill on the acquisition of Dinos Limited as an impairment loss.

**REQUIRED**

You are to prepare the consolidated statement of financial position of Jake Limited and its subsidiary undertaking as at 30 September 20-1.

## PRIMAVERA FASHIONS LIMITED

## Statement of financial position as at 31 March 20-4

<b>ASSETS</b>	<i>£000</i>
<b>Non-current assets</b>	
Goodwill	128
Tangible assets <sup>1</sup>	4,948
Investments	<u>2,924</u>
	<u>8,000</u>
<b>Current assets</b>	
Inventories	1,097
Trade and other receivables <sup>2</sup>	924
Cash and cash equivalents	152
	<u>2,173</u>
<b>Total assets</b>	<u>10,173</u>
<b>EQUITY AND LIABILITIES</b>	
<b>Equity</b>	
Share capital	2,000
Revaluation reserve <sup>4</sup>	550
Retained earnings <sup>5</sup>	<u>4,051</u>
<b>Total equity</b>	<u>6,601</u>
<b>Non-current liabilities</b>	
Share premium account	800
	<u>800</u>
<b>Current liabilities</b>	
Trade and other payables <sup>3</sup>	2,044
Tax liabilities	382
	<u>2,426</u>
<b>Total liabilities</b>	<u>3,226</u>
<b>Total equity and liabilities</b>	<u>9,827</u>

*workings***1 Non-current tangible assets**

	<i>Cost/ Revaluation</i>	<i>Accumulated depreciation</i>	<i>Net book value</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Land	1,525	–	1,525
Buildings	1,000	50	950
Fixtures and fittings	1,170	117	1,053
Vehicles	1,520	380	1,140
Office equipment	350	70	280
	<u>5,565</u>	<u>617</u>	<u>4,948</u>

**Edlin Limited**  
**Statement of financial position as at 31 March**

	<i>20-6</i>	<i>20-5</i>
	<i>£000</i>	<i>£000</i>
Non-current assets	<u>552</u>	<u>200</u>
Current assets		
Inventories	220	200
Trade receivables	250	160
Cash and cash equivalents	<u>218</u>	<u>20</u>
	<u>688</u>	<u>380</u>
	<u>1,240</u>	<u>580</u>
Equity		
Called up share capital	120	100
Share premium account	70	50
Retained earnings	<u>550</u>	<u>115</u>
Total equity	<u>740</u>	<u>265</u>
Non-current liabilities		
Long-term loan	<u>150</u>	<u>120</u>
	<u>150</u>	<u>120</u>
Current liabilities		
Trade payables	250	160
Tax liabilities	<u>100</u>	<u>35</u>
	<u>350</u>	<u>195</u>
Total liabilities	<u>500</u>	<u>315</u>
Total equity and liabilities	<u>1,240</u>	<u>580</u>

The following further information is provided:

- Dividends proposed were: £100,000 in 20-5, and £150,000 in 20-6. These dividends were paid in 20-6 and 20-7 respectively.
- \* In July 20-5 a non-current asset was sold which had originally cost £20,000 when it was purchased by the company in July 20-2. Non-current assets are depreciated on a straightline basis at 20%. The policy is to charge a full year's depreciation in the year of purchase and none in the year of sale.
- A new non-current asset was purchased for £535,000 during the year.
- Revenue sales and purchases were on credit with all other expenses (including interest) being paid in cash.
- There was a share issue during the year.

**REQUIRED**

- (a) Prepare the reconciliation of profit from operations to net cash flow from operating activities for Edlin Limited for the year ended 31 March 20-6.
- (b) Prepare the statement of cash flows for Edlin Limited for the year ended 31 March 20-6 in accordance with IAS 7.

**Mercia Printers Limited**  
**Statement of financial position as at 31 August 20-4**

<b>ASSETS</b>	<i>£000</i>
<b>Non-current assets</b>	<u>450</u>
<b>Current assets</b>	
Inventories	215
Trade receivables	352
Cash and cash equivalents	<u>13</u>
	<u>580</u>
<b>Total assets</b>	<u><b>1,030</b></u>
<b>EQUITY AND LIABILITIES</b>	
<b>Equity</b>	
Share capital	240
Retained earnings	<u>366</u>
<b>Total equity</b>	<u>606</u>
<b>Non-current liabilities</b>	<u>250</u>
	<u>250</u>
<b>Current liabilities</b>	
Trade payables	133
Tax liabilities	<u>41</u>
	<u>174</u>
<b>Total liabilities</b>	<u>424</u>
<b>Total equity and liabilities</b>	<u><b>1,030</b></u>

*NOTES TO THE ACCOUNTS*

- Purchases for the year included in the cost of sales calculation amounted to £2,215,000.
- There were no preference shares in issue during the year.

**REQUIRED**

You have been asked by your supervisor to draft a report for the directors of Mercia Printers Limited, assessing the performance of the company.

The draft report should include:

- (a) A calculation from the published accounts of Mercia Printers Limited of the appropriate ratios listed in the magazine article (see above). You should quote the formulas used and show detailed workings for each ratio.
- (b) An assessment of the company's overall performance, comparing its ratios with the sector average.

- 2 Terry Paine, a client of Hartley, Wintney & Co, is deciding whether to lend some money to Russell Limited. He has asked for a comment on the financial position of the company. The financial statements of Russell Limited are set out below.

**Russell Limited**  
**Income statements for the year ended 31 July**

	<i>20-4</i>	<i>20-3</i>
	<i>£000</i>	<i>£000</i>
Revenue	7,702	6,826
Cost of sales	<u>(4,004)</u>	<u>(3,550)</u>
Gross profit	3,698	3,276
Distribution costs	(1,564)	(1,474)
Administrative expenses	<u>(1,030)</u>	<u>(982)</u>
Profit from operations	1,104	820
Finance costs	<u>(92)</u>	<u>(82)</u>
Profit before tax	1,012	738
Tax	<u>(252)</u>	<u>(184)</u>
Profit for the year	<u>760</u>	<u>554</u>

**Russell Limited**  
**Statements of financial position as at 31 July**

	<i>20-4</i>	<i>20-3</i>
	<i>£000</i>	<i>£000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>	<u>8,744</u>	<u>8,682</u>
<b>Current assets</b>		
Inventories	2,314	1,432
Trade and other receivables	938	1,056
Cash and cash equivalents	<u>74</u>	<u>114</u>
	<u>3,326</u>	<u>2,602</u>
<b>Total assets</b>	<u>12,070</u>	<u>11,284</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	2,000	2,000
Retained earnings	<u>7,424</u>	<u>6,984</u>
<b>Total equity</b>	<u>9,424</u>	<u>8,984</u>
<b>Long-term loan</b>	<u>1,200</u>	<u>1,000</u>
<b>Current liabilities</b>		
Trade and other payables	1,194	1,116
Tax liabilities	<u>252</u>	<u>184</u>
	<u>1,446</u>	<u>1,300</u>
<b>Total liabilities</b>	<u>2,646</u>	<u>2,300</u>
<b>Total equity and liabilities</b>	<u>12,070</u>	<u>11,284</u>

# CONSOLIDATED ACCOUNTS

# 5

## SITUATION

You work for the accounting firm Clarke Paul & Co. You have been handed a number of assignments relating to groups of companies. The tasks involve preparing consolidated accounts and advising on policy.

## TASKS

- 1 You have been sent the following summarised statements of financial position for the Rain group of companies as at 30 September 20-4

	<i>Rain PLC</i>	<i>Sleet PLC</i>
	£000	£000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Plant and equipment at net book value	236	30
Investment :		
40,000 ordinary shares of £1 each in Sleet PLC	184	
	<u>420</u>	<u>30</u>
<b>Current assets</b>		
Inventories	150	80
Trade receivables	250	20
Cash and cash equivalents	50	10
	<u>450</u>	<u>110</u>
<b>Total assets</b>	<u>870</u>	<u>140</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Ordinary shares of £1 each	500	50
Retained earnings	90	70
<b>Total equity</b>	<u>590</u>	<u>120</u>
<b>Current liabilities</b>		
Trade payables	280	20
<b>Total liabilities</b>	<u>280</u>	<u>20</u>
<b>Total equity and liabilities</b>	<u>870</u>	<u>140</u>

- 3 You are handed a query about the accounting treatment of associated companies. Charlton Limited purchased 30 per cent of the ordinary share capital of Kingley Limited for £280,000 on 1 October 20-3. Kingley Limited is an associated undertaking and the directors would like to know how Kingley Limited would be included in the consolidated income statement and consolidated statement of financial position of the Charlton Group. Extracts from Kingley Limited's financial statements are given below:

**Income statement of Kingley Limited for the year ended 30 September 20-4**

	<i>£000</i>
Profit before tax	350
Tax	95
Profit for the year	<u>255</u>

**Statement of financial position of Kingley Limited as at 30 September 20-4**

	<i>£000</i>
Non-current assets	<u>800</u>
Current assets	<u>350</u>
Total assets	<u>1,150</u>
Equity	
Ordinary share capital	300
Share premium account	70
Retained earnings	<u>510</u>
Total equity	<u>880</u>
Non-current liability	<u>70</u>
Current liabilities	<u>200</u>
Total liabilities	<u>270</u>
Total equity and liabilities	<u>1,150</u>

*Notes*

- no shares were issued in the year ended 30 September 20-4
- no dividends were paid or proposed in that year
- all assets of Kingley Limited are stated at fair values
- there were no impairment losses on goodwill during the year

**REQUIRED**

What figures would be shown in the consolidated income statement and consolidated statement of financial position of the Charlton Group for the year ended 30 September 20-4 to account for the results of the associate Kingley Limited?

- 4 The Managing Director of Predator Limited, one of your clients, telephones to say that his company is about to acquire a majority shareholding in Minimus Limited. He has heard that the idea of 'fair value' is very important when it comes to asset valuation in a takeover situation.

Explain the concept of fair value in relation to an acquisition of another company.

**Statements of financial position as at 31 March 20-4**

	Murdoch plc	Lively Ltd
	£000	£000
Tangible non-current assets	24,831	9,831
Investment in Lively Ltd	9,000	
Current assets	11,487	4,652
<b>Total assets</b>	<b><u>45,318</u></b>	<b><u>14,483</u></b>
<b>Equity</b>		
Share capital	9,000	2,000
Share premium account	4,000	1,000
Retained earnings	18,805	6,988
<b>Total equity</b>	<b><u>31,805</u></b>	<b><u>9,988</u></b>
Long-term loan	7,500	2,500
Current liabilities	6,013	1,995
<b>Total liabilities</b>	<b><u>13,513</u></b>	<b><u>4,495</u></b>
<b>Total equity and liabilities</b>	<b><u>45,318</u></b>	<b><u>14,483</u></b>

You also have the following information:

- The share capital of both Murdoch plc and Lively Limited consists of ordinary shares of £1 each. There have been no changes to the balances of share capital and share premium account during the year. No dividends were paid or proposed by Lively Limited during the year.
- Murdoch plc acquired 1,500,000 shares in Lively Limited on 1 April 20-3.
- At 1 April 20-3 the balance of retained earnings of Lively Limited was £4,480,000.
- The fair value of the non-current assets of Lively Limited at 1 April 20-3 was £8,320,000 as compared with their book value of £5,320,000. The revaluation has not been reflected in the books of Lively Limited. (Ignore any depreciation implications.)
- Ten per cent of the goodwill arising on consolidation is to be written off as an impairment loss in the year to 31 March 20-4.

**Task 1.1**

Prepare the consolidated statement of financial position of Murdoch plc and its subsidiary undertaking as at 31 March 20-4.

**Task 1.2**

The directors of Murdoch plc are considering whether to revalue some of Murdoch plc's non-current assets. Prepare brief notes for the directors to answer the following questions:

- If we adopt a policy of revaluation of land and buildings, do we have to revalue all our tangible non-current assets?
- If we adopt a policy of revaluation of some of Murdoch plc's land and buildings, do we have to revalue all the land and buildings?
- If we adopt a policy of revaluation for tangible non-current assets, what would be the carrying amount of the assets in the statement of financial position?
- How often would we have to value properties if we adopt a policy of revaluation?

**Okri Limited**  
**Statement of financial position as at 31 March**

	20-4	20-3
	£000	£000
Non-current assets	<u>12,199</u>	<u>6,729</u>
Current assets		
Inventories	2,320	1,550
Trade receivables	2,553	1,944
Cash and cash equivalents	<u>87</u>	<u>894</u>
	<u>4,960</u>	<u>4,388</u>
Total assets	<u>17,159</u>	<u>11,117</u>
Equity		
Called up share capital	2,000	2,000
Retained earnings	<u>8,226</u>	<u>6,014</u>
Total equity	<u>10,226</u>	<u>8,014</u>
Non-current liabilities		
Long-term loan	<u>5,000</u>	<u>1,000</u>
	<u>5,000</u>	<u>1,000</u>
Current liabilities		
Trade payables	1,045	1,263
Tax liabilities	<u>888</u>	<u>840</u>
	<u>1,933</u>	<u>2,103</u>
Total liabilities	<u>6,933</u>	<u>3,103</u>
Total equity and liabilities	<u>17,159</u>	<u>11,117</u>

**Further information:**

- The total depreciation charge for the year to 31 March 20-4 was £930,000.
- All revenue sales and purchases were on credit. Other expenses were paid for in cash.
- Dividends proposed were £600,000 in 20-3 and £1,200,000 in 20-4. These dividends were paid in 20-4 and 20-5 respectively.

**Statements of financial position as at 31 March 20-4**

	Roy Limited	Ishiguro Limited
<b>ASSETS</b>	£000	£000
<b>Non-current assets</b>	<u>6,806</u>	<u>12,579</u>
<b>Current assets</b>		
Inventories	2,531	2,181
Trade receivables	1,054	2,309
Cash and cash equivalents	<u>828</u>	<u>5</u>
	<u>4,413</u>	<u>4,495</u>
<b>Total assets</b>	<u><b>11,219</b></u>	<u><b>17,074</b></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Called up share capital	2,000	2,000
Share premium account	1,000	500
Retained earnings	<u>4,367</u>	<u>4,997</u>
<b>Total equity</b>	<u>7,367</u>	<u>7,497</u>
<b>Non-current liabilities</b>		
Long-term loan	<u>2,000</u>	<u>6,500</u>
	<u>2,000</u>	<u>6,500</u>
<b>Current liabilities</b>		
Trade payables	1,259	2,166
Bank overdraft	–	483
Tax liabilities	<u>593</u>	<u>428</u>
	<u>1,852</u>	<u>3,077</u>
<b>Total liabilities</b>	<u>3,852</u>	<u>9,577</u>
<b>Total equity and liabilities</b>	<u><b>11,219</b></u>	<u><b>17,074</b></u>

**Task 2.1**

Prepare a report for Bragg plc that includes the following:

- a calculation of the following four ratios of Roy Limited and Ishiguro Limited: return on equity, gross profit percentage, gearing (debt/equity), interest cover
- an explanation of the meaning of each ratio and a comment on the relative profitability and financial position of the two companies based on the ratios calculated
- a conclusion as to which company to invest in, based only on these ratios and your analysis

**Task 2.2**

In an appendix to your report, answer the Managing Director's queries.

- Use the accounting equation to demonstrate the monetary value of the equity in Roy Limited as at 31 March 2-4.
- What is the objective of financial statements according to the *Framework for the Preparation and Presentation of Financial Statements*?
- Give TWO examples of types of external users of financial statements. For each user, identify their purpose in using information in financial statements.

<b>Paton Limited</b>		
<b>Statement of financial position as at 30 September</b>		
	20-4	20-3
	£000	£000
Non-current assets	<u>13,383</u>	<u>9,923</u>
Investment in MacNeal Limited (non-current)	<u>5,000</u>	
Current assets		
Inventories	7,420	6,823
Trade receivables	4,122	3,902
Cash and cash equivalents	<u>102</u>	<u>1,037</u>
	<u>11,644</u>	<u>11,762</u>
Total assets	<u><u>30,027</u></u>	<u><u>21,685</u></u>
Equity		
Called up share capital	10,000	9,000
Share premium account	3,500	3,000
Retained earnings	<u>6,951</u>	<u>4,726</u>
Total equity	<u>20,451</u>	<u>16,726</u>
Non-current liabilities		
Long-term loan	<u>5,000</u>	<u>1,500</u>
	<u>5,000</u>	<u>1,500</u>
Current liabilities		
Trade payables	2,755	2,132
Tax liabilities	<u>1,821</u>	<u>1,327</u>
	<u>4,576</u>	<u>3,459</u>
Total liabilities	<u>9,576</u>	<u>4,959</u>
Total equity and liabilities	<u><u>30,027</u></u>	<u><u>21,685</u></u>

You have been given the following further information:

- A non-current asset costing £895,000 with accumulated depreciation of £372,000 was sold in the year. The total depreciation charge for the year was £2,007,000.
- Dividends proposed were: £1,500,000 in 20-3 and £2,000,000 in 20-4. These dividends were paid in 20-4 and 20-5 respectively.
- All revenue sales and purchases were on credit. Other expenses were paid for in cash.

### Task 1.2

Prepare the reconciliation of profit from operations to net cash flow from operating activities for Paton Limited for the year ended 30 September 20-4.

### Task 1.3

Prepare the statement of cash flows for Paton Limited for the year ended 30 September 20-4 in accordance with IAS 7.

**PART C**

You are advised to spend 15 minutes on this part.

**DATA**

Paton Limited, the company in Tasks 1.2 and 1.3, has one subsidiary undertaking, MacNeal Limited, which it acquired on 30 September 20-4. The statement of financial position of MacNeal Limited as at 30 September is set out below.

**MacNeal Limited**  
**Statement of financial position as at 30 September 20-4**

	£000
Non-current assets	4,844
Current assets	<u>3,562</u>
Total assets	<u>8,406</u>
Equity	
Called up share capital	1,200
Share premium account	800
Retained earnings	<u>2,800</u>
Total equity	<u>4,800</u>
Non-current liabilities	
Long-term loan	<u>1,900</u>
Current liabilities	<u>1,706</u>
Total liabilities	<u>3,606</u>
Total equity and liabilities	<u>8,406</u>

You have been given the following further information:

- The share capital of MacNeal Limited consists of ordinary shares of £1 each.
- Paton Limited acquired 900,000 shares in MacNeal Limited on 30 September 20-4 at a cost of £5,000,000.
- The fair value of the non-current assets of MacNeal Limited at 30 September 20-4 was £5,844,000. The revaluation has not been reflected in the books of MacNeal Limited.

**Task 1.4**

Calculate the goodwill on consolidation that arose on the acquisition of MacNeal Limited on 30 September 20-4.

**Machier Limited**  
**Statement of financial position as at 31 March**

	20-4	20-3
	£000	£000
Non-current assets	<u>4,282</u>	<u>2,376</u>
Current assets		
Inventories	448	287
Trade receivables	527	337
Cash and cash equivalents	<u>–</u>	<u>86</u>
	975	710
Total assets	<u><u>5,257</u></u>	<u><u>3,086</u></u>
Equity		
Called up share capital	200	100
Share premium account	100	–
Retained earnings	<u>1,408</u>	<u>1,127</u>
Total equity	<u>1,708</u>	<u>1,227</u>
Non-current liabilities		
Long-term loan	<u>2,800</u>	<u>1,500</u>
	<u>2,800</u>	<u>1,500</u>
Current liabilities		
Trade payables	401	222
Tax liabilities	165	137
Bank overdraft	<u>183</u>	<u>–</u>
	749	359
Total liabilities	<u>3,549</u>	<u>1,859</u>
Total equity and liabilities	<u><u>5,257</u></u>	<u><u>3,086</u></u>

**Baron Limited**  
**Summary statement of financial position as at 31 March**

	20-4	20-3
	£000	£000
Non-current assets	<u>1,431</u>	<u>1,393</u>
Current assets		
Inventories	217	159
Trade receivables	319	236
Cash and cash equivalents	<u>36</u>	<u>147</u>
	<u>572</u>	<u>542</u>
Total assets	<u><u>2,003</u></u>	<u><u>1,935</u></u>
Equity		
Share capital	1,000	1,000
Retained earnings	<u>830</u>	<u>761</u>
Total equity	<u>1,830</u>	<u>1,761</u>
Current liabilities		
Trade payables	48	44
Tax liabilities	<u>125</u>	<u>130</u>
Total liabilities	<u>173</u>	<u>174</u>
Total equity and liabilities	<u><u>2,003</u></u>	<u><u>1,935</u></u>

**Task 2.1**

Prepare a report for Magnus Carter that includes:

- (a) a calculation of the following ratios for the two years:
  - gross profit percentage
  - net profit percentage
  - trade receivables turnover in days (trade receivables collection period)
  - trade payables turnover in days (trade payables payment period, based on cost of sales)
  - inventory turnover in days (inventory turnover period, based on cost of sales)
- (b) for each ratio calculated:
  - a brief explanation in general terms of the meaning of the ratio
  - comments on how the performance or efficiency in the use of resources has changed over the two years
- (c) a statement, with reasons, identifying the areas that could be improved over the next year as indicated by the ratios and analysis performed

**Task 2.2**

Prepare brief notes to answer for following questions asked by Magnus:

- (a) "Can you please set out the accounting equation for me and explain what is meant by each of the elements?"
- (b) "Please give me two examples of users outside of the company, other than myself and the other shareholders, who may be interested in the financial statements of Baron Limited. For each user can you tell me for what purpose they would use them?"

**Stringberg Limited**  
**Statement of financial position as at 31 March**

	20-4	20-3
	£000	£000
Non-current assets	<u>5,366</u>	<u>4,075</u>
Current assets		
Inventories	3,016	2,284
Trade receivables	1,508	1,394
Cash and cash equivalents	<u>23</u>	<u>–</u>
	<u>4,547</u>	<u>3,678</u>
<b>Total assets</b>	<b><u>9,913</u></b>	<b><u>7,753</u></b>
Equity		
Called up share capital	2,500	1,900
Share premium account	400	–
Retained earnings	<u>1,674</u>	<u>590</u>
<b>Total equity</b>	<b><u>4,574</u></b>	<b><u>2,490</u></b>
Non-current liabilities		
Long-term loan	<u>3,038</u>	<u>3,324</u>
Current liabilities		
Trade payables	1,792	1,310
Tax liabilities	509	492
Bank overdraft	<u>–</u>	<u>137</u>
	<u>2,301</u>	<u>1,939</u>
<b>Total liabilities</b>	<b><u>5,339</u></b>	<b><u>5,263</u></b>
<b>Total equity and liabilities</b>	<b><u>9,913</u></b>	<b><u>7,753</u></b>

**Further information:**

- Dividends proposed were: £630,000 in 20-3, and £750,000 in 20-4. These dividends were paid in 20–4 and 20–5 respectively.
- A non-current asset costing £363,000 with accumulated depreciation of £173,000 was sold during the year. The total depreciation charge for the year was £505,000.
- All revenue sales and purchases were on credit. Other expenses were paid for in cash.

**Task 1.5**

Prepare the reconciliation of profit from operations to net cash flow from operating activities for Stringberg Limited for the year ended 31 March 20-4.

**Task 1.6**

Prepare the statement of cash flows for Stringberg Limited for the year ended 31 March 20-4, in accordance with the requirements of IAS 7.

**Fieldsomer Limited**  
**Statements of financial position as at 31 March**

	<i>20-4</i>	<i>20-3</i>
	<i>£000</i>	<i>£000</i>
Non-current assets	15,132	13,880
Current assets	<u>4,624</u>	<u>3,912</u>
	<u>19,756</u>	<u>17,792</u>
<b>Equity</b>		
Share capital	6,000	5,000
Share premium account	2,000	1,000
Retained earnings	<u>4,541</u>	<u>3,937</u>
Total equity	<u>12,541</u>	<u>9,937</u>
Non-current (long-term) loan	<u>5,000</u>	<u>6,000</u>
Current liabilities	<u>2,215</u>	<u>1,855</u>
Total equity and liabilities	<u>19,756</u>	<u>17,792</u>

**Task 2.1**

Prepare a report for Maurice Sun that includes the following:

- (a) A calculation of the following ratios of Fieldsomer Limited for each of the two years:
  - (i) return on capital employed
  - (ii) net profit percentage
  - (iii) gross profit percentage
  - (iv) asset turnover (based on net assets)
- (b) An explanation of the meaning of each ratio and a comment on the performance of Fieldsomer Limited as shown by each of the ratios.
- (c) A conclusion on how the overall performance has changed over the two years.

**Task 2.2**

Prepare notes for a meeting with Maurice that answers the following questions relating to the statement of financial position of Fieldsomer Limited:

- (a) What are the monetary values of the equity, the assets and the liabilities in Fieldsomer Limited as at 31 March 20-4 and how are they related in the accounting equation?
- (b) Why is the final figure of “profit for the year” in the income statement not the same figure that appears as retained earnings on the statement of financial position of the company? What, if any, is the connection between the two figures?

**COMPANY STATEMENT OF FINANCIAL POSITION AS AT .....**

<b>ASSETS</b>	£000
<b>Non-current assets</b>	
Goodwill	
Other intangible assets	
Property, plant and equipment	
Investments in subsidiaries	
Investments in associates	_____
	_____
<b>Current assets</b>	
Inventories	
Trade and other receivables	
Cash and cash equivalents	_____
	_____
<b>Total assets</b>	<b>_____</b>
<b>EQUITY AND LIABILITIES</b>	
<b>Equity</b>	
Share capital	
Share premium account	
Revaluation reserves	
Retained earnings	_____
<b>Total equity</b>	_____
	_____
<b>Non-current liabilities</b>	
Bank loans	
Long-term provisions	_____
	_____
<b>Current liabilities</b>	
Trade and other payables	
Tax liabilities	
Bank overdrafts and loans	_____
	_____
<b>Total liabilities</b>	_____
	_____
<b>Total equity and liabilities</b>	<b>_____</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT .....**

**ASSETS** £000

**Non-current assets**

Goodwill  
 Other intangible assets  
 Property, plant and equipment  
 Investments in subsidiaries  
 Investments in associates

\_\_\_\_\_

**Current assets**

Inventories  
 Trade and other receivables  
 Cash and cash equivalents

\_\_\_\_\_

Non-current assets as held for sale

\_\_\_\_\_

**Total assets**

\_\_\_\_\_

**EQUITY AND LIABILITIES**

**Equity attributable to equity holders of the parent**

Share capital  
 Share premium account  
 Revaluation reserves  
 Retained earnings  
 Non-controlling interest

\_\_\_\_\_

**Total equity**

\_\_\_\_\_

\_\_\_\_\_

**Non-current liabilities**

Bank loans  
 Long-term provisions

\_\_\_\_\_

\_\_\_\_\_

**Current liabilities**

Trade and other payables  
 Tax liabilities  
 Bank overdrafts and loans

\_\_\_\_\_

**Total liabilities**

\_\_\_\_\_

**Total equity and liabilities**

\_\_\_\_\_

\_\_\_\_\_