

# Instructor's Manual

## Financial Accounting An Introduction

**Second Edition**

**Augustine Benedict  
Barry Elliott**

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# **Answers to test questions**

## CHAPTER 2

# Accounting for cash

## Test 2.1 Writing up the Cash account

Cash account					Notes:
	£		£		
7.11 Capital	15,000	7.11 Rent	1,000		a) Capital is amount owed to the owner.
11.11 Sales	4,000	8.11 Office equipment	3,000		
		9.11 Stationery	45		b) Any thing bought for the purpose of sale is identified as Purchases
		9.11 Motor vehicles	2,500		
		9.11 Vehicle maint.	185		
		10.11 Purchases	5,040		c) c/d is carried down and b/d brought down
		11.11 Advertising	200		
		11.11 Wages	550		
			12,520		
		11.11 Balance c/d	6,480		
	19,000		19,000		
12.1 Balance b/d	6,480				

## Test 2.2 Writing up the Cash account and Bank account (week 2)

Cash Book								
Date	Particulars	Cash	Bank	Date	Chq	Particulars	Cash	Bank
		£	£				£	£
14.11	Balance b/d	6,480	–	14.11	–	Bank – deposit	5,000	–
14.11	Sales	3,000	–	14.11	–	Office cleaning	175	–
14.11	Olga Loan	2,000	–	14.11	–	Bank – deposit <sup>a</sup>	5,805	–
14.11	Cash – deposit	–	5,805	15.11	001	Purchases	–	3,600
15.11	Sales	2,250	–	15.11	–	Motor veh. maintenance	225	–
15.11	Cash – deposit	–	2,025	15.11	002	Advertising	–	340
16.11	Sales	3,500	–	15.11	–	Bank – deposit <sup>b</sup>	2,025	–
16.11	Cash – deposit	–	3,380	16.11	–	Stationery	120	–
17.11	Sales	3,000	–	16.11	003	Purchases	–	2,160
17.11	Cash – deposit	–	2,825	16.11	–	Bank – deposit <sup>c</sup>	3,380	–

18.11	Sales	2,000	–	17.11	004 Electricity	–	180
18.11	Cash – deposit	–	850	17.11	– Office cleaning	175	–
				17.11	– Bank – deposit <sup>d</sup>	2,825	–
				18.11	005 Advertising	–	340
				18.11	– Drawing	600	–
				18.11	– Wages	550	–
				18.11	006 Motor veh. maintenance	–	240
				18.11	– Bank – deposit <sup>e</sup>	850	–
						21,730	6,860
				18.11	– Balance c/d	500	8,025
		22,230	14,885			22,230	14,885
19.11	Balance b/d	500	8,025				

Notes : bank deposits

- a)  $6,480 - 5,000 + 3,000 + 2,000 - 175 - 500 \text{ float} = \text{£}5,805$
- b)  $500 \text{ float} + 2,250 - 225 - 500 \text{ float} = \text{£}2,025$
- c)  $500 \text{ float} + 3,500 - 120 - 500 \text{ float} = \text{£}3,380$
- d)  $500 \text{ float} + 3,000 - 175 - 500 \text{ float} = \text{£}2,825$
- e)  $500 \text{ float} + 2,000 - 600 - 550 - 500 \text{ float} = \text{£}850$

## CHAPTER 3

# The double-entry accounting system

## Test 3.1 Prime entry to Trial Balance

Cash account			
	£		£
Capital	20,000	Furniture	24,000
Rizwi Loan	5,000	Purchases	54,600
Sales	62,500	Salary	3,000
		Advertising	400
		Rent	800
		Motor vehicle	4,000
		Gas & electricity	240
		Stationery	300
			87,340
		Balance c/d	160
	87,500		87,500
Balance b/d	160		

## Ledger

Capital account			
		Cash a/c	20,000
Furniture account			
Cash a/c	24,000		
Rent account			
Cash a/c	800		
Purchases account			
Cash a/c	54,600		
Sales account			
		Cash a/c	62,500
Rizwi Loan account			
		Cash a/c	5,000
Motor vehicles account			
Cash a/c	4,000		
Salary account			
Cash a/c	3,000		
Gas & electricity account			
Cash a/c	240		
Advertising account			
Cash a/c	400		
Stationery account			
Cash a/c	300		



<b>Trial balance</b>		
as at 8th January 2010	£	£
Cash account	160	–
Capital account	–	20,000
Furniture account	24,000	–
Purchases account	54,600	–
Rizwi Loan account	–	5,000
Salary account	3,000	–
Advertising account	400	–
Rent account	800	–
Sales account	–	62,500
Motor vehicles account	4,000	–
Gas & electricity account	240	–
Stationery account	300	–
	87,500	87,500

**Test 3.2 Withholding the balance  
in the Capital account**

Trial balance	£	£
as at 31.12.2010		
Stationery account	320	–
Salaries account	12,800	–
Electricity account	960	–
Sales account	–	94,500
Heating account	2,650	–
Postage account	125	–
Cash account	1,465	–
Furniture account	12,000	–
Loan from Peter a/c	–	3,000
Purchases account	68,400	–
Bank account	7,675	–
Motor vehicle account	18,000	–
Delivery expenses a/c	1,250	–
Office equipment a/c	4,600	–
Sales commission a/c	2,555	–
Capital a/c (balancing)	–	35,300
	132,800	132,800

**Test 3.3 An incorrectly prepared  
Trial Balance**

Trial balance	£	£
as at 31.12. 2010		
Furniture a/c <sup>a</sup>	120	–
Telephone expense a/c	10	–
Cash and bank account	23	–
Sales a/c <sup>b</sup>	–	299
Rent a/c	12	–
Purchases a/c <sup>a</sup>	148	–
Advertising a/c	14	–
Stationery a/c	6	–
Staff salary a/c <sup>a</sup>	46	–
Capital a/c <sup>b</sup>	–	80
	379	379

a) An account reporting an asset or expense will have its balance on the debit side

b) An account reporting an income or liability or equity will have its balance on the credit side

## CHAPTER 4

# The Statement of financial position and Statement of income

### Test 4.1 Preparing the financial statements

Statement of income		£
for week ending 12.11.2010		
Sales		7,000
Purchases		(5,040)
Gross profit		1,960
Rent	1,000	
M.Vehic. Maint.	185	
Advertising	200	
Wages	550	
Stationery	45	(1,980)
Net Loss in the week		(20)

Statement of financial position		£
as at 12.11.2010		
Office equipment		3,000
Motor vehicles		2,500
Cash		9,480
		14,980
		£
Capital		15,000
Net loss in the week		(20)
		14,980

### Test 4.2 Preparing the Statements of income and financial position

Statement of income		£
for the week ending 7.		Jan 2010
Sales		9,520
Purchases		(7,290)
Gross profit		2,230
Office cleaning	130	
Advertising	940	(1,070)
Profit in the week		1,160

Statement of financial position		£
as at 7 January 2010		
Furniture		2,400
Cash		5,050
Bank		4,710
		12,160
		£
Capital		10,000
Profit in the first week		1,160
		11,160
Sylvia Loan		1,000
		12,160

## Test 4.3 Preparing the financial statements

<b>Statement of income</b>		£
for the year ending 31 Dec 2010		
Sales		94,800
Purchases		(68,400)
Gross profit		26,400
Stationery	320	
Salaries	12,800	
Electricity	960	
Heating	2,650	
Postage	125	
Delivery exp.	1,250	
Sales comm.	2,555	(20,660)
		5,740

<b>Statement of financial position</b>		£
as at 31 December 2010		
Furniture		12,000
Office equipment		4,600
Motor vehicles		18,000
Bank		7,675
Cash		1,465
		43,740
		£
Capital		35,000
Profit for the year		5,740
		40,740
Peter Loan		3,000
		43,740

## CHAPTER 5

# Accounting for credit transactions

## Test 5.1 Recording transactions prior to preparing financial statements

Cash account			
1.1 Capital a/c	10,000	1.1 Purchases	3,800
2.1 Sales a/c	1,200	2.1 Motor vehicles	6,000
6.1 Zoe Budd	5,000	4.1 Stationery a/c	300
9.1 Sales a/c	1,500	7.1 Advertising a/c	250
11.1 Jim Mitchie	3,000	10.1 Purchases a/c	2,400
14.1 Sales a/c	1,400	14.1 Stationery a/c	150
		17.1 Drawings a/c	500
		19.1 Advertising a/c	150
		22.1 M.V. maintenance	90
		24.1 Staff salary a/c	1,800
		27.1 Rent a/c	1,000
			16,440
		27.1 Balance c/d	5,660
	22,100		22,100
28.1 Balance b/d	5,660		

## Subsidiary books of account

Purchases Day Book	£
1.1 City Stores	8,200
11.1 V.C. Ltd	4,600
19.1 City Stores	3,800
27.1 City Stores	2,600
Purchases account	19,200

Purchases Returns day book	
4.1 City Stores	1,200
Purchases Retns. a/c	1,200

Sales Day Book	£
2.1 Sally Jones	4,200
5.1 Jim Mitchie	7,200
9.1 S.M.Patel	3,600
14.1 Bob Cameron	1,600
19.1 S.M.Patel	4,200
22.1 Jim Mitchie	5,200
27.1 R.Rajan	3,400
Sales account	29,400

### Sales Returns Day Book

7.1	Jim Mitchie	1,500
29.1	R.Rajan	900
	Sales Retns. a/c	2,400

### Nominal Ledger

Purchases account				Sales account			
1.1	Cash a/c	3,800		2.1	Cash a/c	1,200	
10.1	Cash a/c	2,400		9.1	Cash a/c	1,500	
31.1	P.Day Bk	19,200		14.1	Cash a/c	1,400	
		25,400		31.1	S.Day Bk	29,400	
						33,500	

Purchases Returns account				Sales Returns account			
		P.Rtn. DB	1,200	Sales Rtn.DB	2,400		

Stationery account				Advertising account			
4.1	Cash a/c	300		7.1	Cash a/c	250	
14.1	Cash a/c	150					
19.1	Cash a/c	150					
		600					

Capital account			
		1.1. Cash a/c	10,000

Drawings account			
17.1.	Cash a/c	500	

### Purchases Ledger

City Stores				VC Ltd			
4.1	Purch Retn	1,200		1.1.	Purch. DB	8,200	
				19.1	Purch. DB	3,800	
31.1.	Balance	13,400		27.1	Purch. DB	2,600	
		14,600				14,600	
				1.2	Balance	13,400	

## Sales Ledger

### Sally Jones' account

2.1 Sales DB	4,200		
--------------	-------	--	--

### S.M.Patel's account

9.1 Sales DB	3,600		
19.1 Sales DB	4,200		
	7,800		

### Bob Cameron's account

14.1 Sales DB	1,600		
---------------	-------	--	--

### R.Rajan's account

22.1 Sales DB	3,400	29.1 Sales Retn	900
		31.1 Balance	2,500
	3,400		3,400
1.2 Balance	2,500		

### Jim Mitchie's account

5.1 Sales DB	7,200	7.1 Sales Retn DB	1,500
22.1 Sales DB	5,200	11.1 Cash a/c	3,000
		31.1 Balance c/d	7,900
	12,400		12,400
1.2 Balance b/d	7,900		

<b>Trial balance as at 31.1.2010</b>	£	£
Cash account	5,660	—
Capital account		10,000
Drawings account	500	—
Loan from Zoe budd		5,000
Motor vehicles account	6,000	—
Motor vehicle maintenance	90	—
Salaries account	1,800	—
Rent account	1,000	—
Purchases account	25,400	—
Purchases returns account		1,200
Sales account		33,500
Sales returns account	2,400	—
Stationery account	600	—
Advertising account	250	—
City stores		13,400
VC Ltd		4,600

Sally Jones	4,200	–
S.M.Patel	7,800	–
Bob Cameron	1,600	–
Jim Mitchie	7,900	–
R.Rajan	2,500	–
	67,700	67,700

Statement of income			Statement of financial position		
month ended 31 January 2010			as at 31.1.2010		
Sales	33,500		<b>Non Current assets</b>		£
Sales returns	(2,400)	31,100	Motor vehicles		6,000
Purchases	25,400		<b>Current assets:</b>		
Purchases returns	(1,200)	(24,200)	Trade receivables:		
Gross profit		6,900	Sally Jones	4,200	
M.V.Maintenance	90		Bob Cameron	1,600	
Salaries	1,800		S.M.Patel	7,800	
Rent	1,000		Jim Mitchie	7,900	
Stationery	600		R.Rajan	2,500	24,000
Advertising	250	(3,740)	Cash		5,660
Profit for the month		3,160			29,660
					35,660

		£
<b>Capital</b>	10,000	
Profit for the month	3,160	
Less: Drawings	(500)	12,660
<b>Non Current liability:</b>		
Loan from Zoe Budd		5,000
<b>Current liabilities:</b>		
Trade payables:		
City Stores	13,400	
VC Ltd	4,600	18,000
		35,660

## Test 5.2 Again recording transactions prior to preparing financial statements

### Cash account

1.1 Capital a/c	15,000	1.1 Furniture A/C	4,000
3.1 Essex plc	4,100	1.1 Advertising a/c	300
5.1 Nord plc	6,000	2.1 Stationery a/c	150
		3.1 Larry Bros a/c	10,250
		4.1 Advertising a/c	200
		4.1 Rent a/c	1,000
		5.1 Wembley traders	4,500
		5.1 Salaries a/c	1,800
			22,200
		27.1 Balance c/d	2,900
	25,100		25,100
28.1 Balance b/d	2,900		

### Subsidiary books of account

#### Purchases Day Book

£

1.1 Larry Bros	7,500
2.1 Wembley traders	4,500
3.1 Larry Bros	3,000
4.1 Larry Bros	5,250
5.1 Wembley traders	4,000
Purchases account	24,250

#### Sales Day Book

£

2.1 Essex plc	4,500
2.1 Nord plc	6,000
3.1 Westmore Ltd	5,600
4.1 Southey Ltd	3,000
5.1 Essex plc	8,600
5.1 Nord plc	5,800
Sales account	33,500

#### Purchases Returns Day Book

£

2.1 Larry Bros	250
4.1 Larry Bros	250
Purchases return a/c	500

#### Sales Returns Day Book

£

3.1 Essex plc	400
3.1 Westmore Ltd	400
5.1 Southey Ltd	150
5.1 Westmore Ltd	300
Sales Return. a/c	1,250



## Nominal Ledger

Purchases account				Purchases Returns account			
Purchase DB	24,250					Purch.Retn. DB	500

  

Sales account				Sales Returns account			
		Sales Day Bk	33,500	Sales Retn. DB	1,250		

  

Advertising account				Rent account			
1.1 Cash a/c	300			4.1. Cash a/c	1,000		
4.1.Cash a/c	200						
	500						

  

Stationery account				Salaries account			
2.1 Cash a/c	150			5.1 Cash a/c	1,800		

  

Furniture account				Capital account			
Cash account	3,800					Cash account	15,000

## Purchases Ledger

Larry Bros account			
2.1 Purch.Retn. Day Book	250	1.1 Purchases Day Book	7,500
3.1 Cash a/c	10,250	3.1 Purchases Day Book	3,000
4.1 Purch.Retn. Day Book	250	4.1 Purchases Day Book	5,250
5.1 Balance c/d	5,000		
	15,750		15,750
		5.1 Balance b/d	5,000

  

Wembley traders account			
5.1 Cash a/c	4,500	2.1 Purchases Day Book	4,500
5.1 Balance c/d	4,000	4.1 Purchases Day Book	4,000
	8,500		8,500
		5.1 Balance b/d	4,000

## Sales Ledger

### Essex plc account

2.1 Sales Day Book	4,500	3.1 Cash a/c	4,100
5.1 Sales Day Book	8,600	3.1 Sales Returns Day Book	400
		5.1 Balance c/d	8,600
	13,100		13,100
5.1 Balance b/d	8,600		

### Nord plc account

2.1 Sales Day Book	6,000	5.1 Cash account	6,000
5.1 Sales Day Book	5,800	5.1 Balance c/d	5,800
	11,800		11,800
5.1 Balance b/d	5,800		

### Westmore Ltd account

3.1 Sales Day Book	5,600	3.1 Sales Retrn.Day Book	400
		5.1 Sales Retrn.Day Book	300
		5.1 Balance c/d	4,900
	5,600		5,600
5.1 Balance b/d	4,900		

### Southey Ltd account

4.1 Sales Day Book	3,000	5.1 Sales Retrn. Day Book	150
		5.1 Balance c/d	2,850
	3,000		3,000
5.1 Balance b/d	2,850		

### Trial balance as at 5th January

	£	£
Cash account	2,900	—
Capital account	—	15,000
Furniture account	4,000	—
Purchases account	24,250	—
Purchases returns account	—	500
Sales account	—	33,500
Sales returns account	1,250	—
Advertising account	500	—
Stationery account	150	—
Rent account	1,000	—

Salaries account	1,800	—
Essex plc account	8,600	—
Nord plc account	5,800	—
Westmore Ltd account	4,900	—
Southey Ltd account	2,850	—
Larry Bros account	—	5,000
Wembley traders account	—	4,000
	58,000	58,000

**Statement of income**  
  
five days to 5<sup>th</sup> January

		£
Sales	33,500	
Returns	(1,250)	32,250
Purchases	24,250	
Returns	(500)	(23,750)
Gross profit		8,500
Salaries	1,800	
Rent	1,000	
Advertising	500	
Stationery	150	(3,450)
Net profit		5,050

**Statement of financial position** £  
**as at 5<sup>th</sup> January**

<b>Non current asset:</b>		
Furniture		4,000
<b>Current assets:</b>		
Trade receivables:		
Essex Ltd	8,600	
Nord plc	5,800	
Southey Ltd	2,850	
Westmore Ltd	4,900	22,150
Cash in hand		2,900
		29,050

		£
<b>Capital</b>	15,000	
Net profit	5,050	20,050
<b>Current liabilities:</b>		
Trade payables:		
Larry Bros	5,000	
Wembley traders	4,000	9,000
		29,050

## Test 5.3 From prime entry to the Statement of financial position

### CASH BOOK

Date	V	Particulars	F	Amount	Date	V	Particulars	F	Amount
2010				£	2010				£
1.8		Capital a/c		10,000	1.8		Furniture a/c		8,000
1.8		Sales a/c		526	1.8		Salaries a/c		140
2.8		Sales a/c		412	2.8		Drawings a/c		165
3.8		Paul Russell a/c		1,236	2.8		Rent a/c		1,000
3.8		Sales a/c		168	2.8		Salaries a/c		140
4.8		Allen Stern a/c		1,214	3.8		Chris Meall a/c		515
4.8		Sales a/c		320	3.8		Drawings a/c		120
5.8		Allen Stern a/c		1,425	3.8		Advertising a/c		165
5.8		Sales a/c		460	3.8		Salaries a/c		140
					3.8		Stationery a/c		36
					4.8		Salaries a/c		140
					4.8		Drawings a/c		90
					5.8		Stella Naylor a/c		415
					5.8		Salaries a/c		140
									11,206
				15,761	5.8		Balance c/d		4,555
									15,761
6.8		Balance b/d		4,555					

### Subsidiary books of accounts

Purchases Day Book					Purchases Returns Day Book					Sales Day Book				
Date	V	Supplier	F	Amt	Date	V	Supplier	F	Amt	Date	V	Customer	F	Amt
1.8		Stella Naylor		1,460	3.8		Chris Meall		65	1.8		Paul Russell		765
1.8		Chris Meall		580	4.8		Chris Meall		70	1.8		Allen Stern		650
2.8		Luke Perera		345	4.8		Stella Naylor		45	1.8		Simon de Silva		425
3.8		Stella Naylor		795					180	2.8		Tony Martin		468
4.8		Luke Perera		1,225						2.8		Allen Stern		684
4.8		Chris Meall		1,565						2.8		Paul Russell		526
				5,970						3.8		S.Tarrimo		722
										3.8		Allen Stern		900
										3.8		Simon de Silva		544
										4.8		Allen Stern		525
										4.8		Tony Martin		488
										5.8		Paul Russell		265
										5.8		S.Tarrimo		186
										5.8		Allen Stern		342
														7,490

## Nominal Ledger

Purchases account			Purchases Returns account			Sales account		
P. Day Bk	5,920				P. Retn. DB	180		
Salaries account			Rent account					
Cash a/c	140		Cash a/c	1,000		Cash a/c		526
Cash a/c	140					Cash a/c		412
Cash a/c	140		Advertising account			Cash a/c		168
Cash a/c	140		Cash a/c	165		Cash a/c		320
Cash a/c	140					Cash a/c		460
						Sales DB		7,490
	700							9,376
Stationery account			Sales Returns account					
Cash a/c	36		Sales Retn DB	280				
Furniture account			Drawings account			Capital account		
Cash a/c	8,000		Cash a/c	165				10,000
			Cash a/c	120				
			Cash a/c	90				
				375				

## Sales Ledger

Paul Russell's a/c				Allen Stern's account				Simon de Silva's account			
Sales DB	765	S. Retn	55	Sales DB	650	S. Retn.	120	Sales Day bk	425	S. Retn.	75
Sales DB	526	Cash a/c	1,236	Sales DB	684	Cash a/c	1,214	Sales Day bk	544	Balance	894
Sales DB	265	Balance	265	Sales DB	900	Cash a/c	1,425		969		969
	1,556		1,556	Sales DB	525			Balance b/d	894		
Balance	265			Sales DB	342	Balance c/d	342				
					3,101		3,101				
					342						
Tony Martin's account				Balance				S. Tarrimo's account			
Sales DB	468							Sales Day bk	722	S. Retn.	30
Sales DB	488							Sales Day bk	186	Balance	878
	956								908		908
								Balance b/d	878		

## Purchases Ledger

Stella Naylor's account				Chris Meall's account				Luke Perera's account			
P. Retn.	45	P. D. Bk	1,460	P. Retn.	65	P. D. Book	580			P. D. Bk	345
Cash a/c	415	P. D. Bk	795	P. Retn.	70	P. D. Book	1,565			P. D. Bk	1,225
Balance	1,795			Cash a/c	515						1,570
	2,255		2,255	Balance	1,495						
		Balance	1,795		2,145	Balance	2,145				
							1,495				

<b>Statement of income</b>		
period ended 5.8.2010		£
Sales	9,376	9,096
Returns	(280)	
Purchases	5,970	(5,790)
Returns	(180)	
Gross profit		3,306
Salaries	700	(1,901)
Rent	1,000	
Advertising	165	
Stationery	36	
Net Profit		1,405

<b>Statement of financial position – 5.8.2010</b>			£
<b>Non current asset:</b>			8,000
Furniture			
<b>Current asset:</b>			15,890
Trade receivable:			
Paul Russell	265		
Allen Stern	342		
Simon de Silva	894		
Terry Martin	956		
S.Tarrimo	878	3,335	
Cash in hand		4,555	

			£
<b>Capital</b>	10,000		11,030
Profit	1,405		
<u>Less: Drawings</u>	(375)		
<b>Current liabilities:</b>			4,860
Trade payables:			
Stella Naylor	1,795		
Chris Meall	1,495		
Luke Perera	1,570	4,860	
			15,890

## Test 5.4 Preparation of financial statements from information in a Trial Balance

**Correcting note:** There is an error in this question : Shop fittings amounting to £2,430 has been missed out from the debit side of the trial balance.

Statement of income		
year ended 30 June 2010		£
Sales	26,500	
Return inwards	(1,450)	25,050
Purchases	23,500	
Return outwards	(450)	(23,050)
Gross profit		2,000
Stationery	180	
Salaries	1,200	
Rent	600	
Advertising	950	(2,930)
Loss for the year		(930)

Statement of financial position		
as at 30 June 2010		£
<b>Non current assets:</b>		
Furniture		4,000
Shop fittings		2,430
<b>Current assets:</b>		
Trade receivables		
Mathew	7,200	
Sahib	5,800	
Charles smith	4,500	17,500
Cash		320
		17,820
		24,250

£

<b>Capital</b>	10,000	
Loss for the year	(930)	
Drawings	(270)	8,800
<b>Non current liability:</b>		
Loan from Richard		2,000
<b>Current liabilities:</b>		
Trade payables:		
Netwell bros	3,400	
South & sons	9,200	12,600
Bank overdraft		850
		13,450
		24,250



## CHAPTER 6

# Inventories, profit margin and gross profit ratio

### Test 6.1 An easy question

Statement of income			Statement of financial position		
year ended 30 <sup>th</sup> June 2011			as at 30 <sup>th</sup> June 2011		
£'000			£'000		
Sales	9,950	9,826	<b>Non current assets</b>		820
Returns inwards	(124)		<b>Current assets:</b>		
Inventory 1.7.2010	594		Inventory	715	
Purchases	7,215		Trade receivables	124	
Returns outwards	(55)	(7,243)	Cash and bank	31	870
Carriage inwards	219				1,690
Goods to Dolly	(3)				£'000
Goods lost	(12)		<b>Capital</b>	1,000	
Inventory 30.6.2011	(715)		Profit for the year	428	
Gross profit		2,583	Drawings	(30)	
Salaries & wages	1,245	(2,155)	Goods removed	(3)	1,395
Rent	600		<b>Current liability:</b>		
Other expenses	298		Trade payables		295
Goods lost	12				1,690
Net profit for the year		428			

### Test 6.2 A more difficult question

Statement of income			Statement of financial position		
year ended 31 <sup>st</sup> March .2011			as at 31 March 2011		
£'000			£'000		
Sales <sup>a</sup>	8,468	8,123	Non current assets		2,450
Return inwards	(345)		Current assets:		
			Inventory <sup>a</sup>	402	
Inventory 1.4.2010	418		Trade receivables <sup>a</sup>	730	
Purchases	5,245	(5,311)	Cash and bank	19	1,151
Carriage inwards <sup>b</sup>	74				3,601
Inventory 31.3.2011 <sup>a</sup>	(402)				£'000
Taken by Carol	(24)		Capital	1,800	

Gross profit		2,812	Profit for the year	1,350	
Salaries	594		Drawings	(45)	
Rent	90		Goods removed	(24)	3,081
Other expenses	292		Current liabilities:		
Transport <sup>b</sup>	358		Trade payables	498	
Advertising	128	(1,462)	Bank overdraft	22	520
Net profit for the year		1,350			3,601

a)	Sales	Receiv	Inventory as counted	392
As reported on TB	8,480	742	Goods on approval:	
Sale on approval	(12)	(12)	£12,000 x 100 / 120	10
As stated in answer	8,468	730	Cost of inventory held as at 31.3.2011	402

b) Transport as reported £432 less shown as carriage inwards £74 = £358

### Test 6.3 Inventory counted after the year–end date

	£	£
Cost of inventory on 8 <sup>th</sup> January 2011		117,567
b) Dec.2010 sales dispatched after 8.1.2011	80	
Gross profit at 25%	(20)	(60)
c) Sales between 1.1.2011 & 8.1. 2011	19,590	
Not delivered until after 8.1.2011	(2,700)	
Post year–end sale not counted on 8.1.2011	16,890	
Profit margin : 16,890 x 20 / 120	(2,815)	14,075
d) Purchases between 1.1. 2011 & 8.1.2011		(14,685)
e) Purchases before Dec.2010 not yet received		150
Cost of inventory on 31 <sup>st</sup> December 2010		117,047

## Test 6.4 Cost-flow assumptions to find the cost of inventory

Opening inventory + purchases			Sales			Closing inventory in	
Units	Price	Value	Units	Price	Value	units	
320	£400	£128,000	620			3,920 <sup>a</sup> - 3,210 <sup>d</sup> = 710	
600	£725	£435,000	860				
800	£850	£680,000	920				
1,200	£957	£1,148,400	2,400	£1,200	£2,880,000		
1,000	£1,050	£1,050,000	810	£1,320	£1,069,200		
3,920 <sup>a</sup>	£3,892 <sup>b</sup>	£3,441,400 <sup>c</sup>	3,210 <sup>d</sup>		£3,949,200		

Simple average cost per unit	£3,892 <sup>b</sup> / 5 different prices =	£796.4 per unit
Weighted average price per unit	£3,441,400 <sup>c</sup> / 3,920 units <sup>a</sup> =	£877.91 per unit

**Cost of closing inventory** : 710 units on various alternative cost flow assumptions

LIFO	710 units @ £1,050	£745,500
LIFO	320 units @ £400	£128,000
	390 units @ £725	£282,750
		£410,750
Simple average cost	710 units @ £796.4	£565,444
Weighted average cost	710 units @ £877.91	£623,316

Statement of income	FIFO		LIFO	
year ended 31.12.2011	£		£	
Sales		3,949,200		3,949,200
Inventory: 1.1.2011	128,000		128,000	
Purchases	3,313,400		3,313,400	
Inventory 31.12.2011	(745,500)	(2,695,900)	(410,750)	(3,030,650)
Gross profit for the year		1,253,300		918,550

Statement of income	Simple average cost		Weighted average cost	
year ended 31.12.2011	£		£	
Sales		3,949,200		3,949,200
Inventory 1.1.2011	128,000		128,000	
Purchases	3,313,400		3,313,400	
Inventory 31.12.2011	(565,444)	(2,875,956)	(623,316)	(2,818,084)
		1,073,244		1,131,116

## CHAPTER 7

# Accruals, prepayments, depreciation and bad debts

### Test 7.1 Accounting on the basis of accrual concept

Statement of income			Statement of financial position			
year ended 31.12.2010			as at 31.12.2010			
£			£			
Sales <sup>a</sup>		433,400	<b>Non current assets</b>			
Purchases	178,500		Furniture	30,000	(3,000)	27,000
Inventory 31.12	(45,000)	(133,500)	Equipment	60,000	(10,500)	49,500
Gross profit		299,900	<b>Current assets:</b>			
Salary <sup>b</sup>	101,300		Inventory		45,000	
Rent <sup>c</sup>	24,000		Receivables <sup>a</sup>		105,000	
Advertising <sup>d</sup>	9,900		Pre-paid insurance <sup>e</sup>		2,250	
Insurance <sup>e</sup>	6,750		Cash		300	
Sundry exp. <sup>f</sup>	7,000		Bank balance		6,200	158,750
Deprn. Furniture <sup>g</sup>	3,000					235,250
Deprn. Equipment <sup>h</sup>	10,500					£
Telephone	1,500		<b>Capital</b>	50,000		
Stationery	800		Profit	132,150		
Gas and electricity	3,000	(167,750)	School fees <sup>f</sup>	(1,400)		
Net profit for the year		132,150	Club subscription <sup>f</sup>	(2,800)		177,950
			<b>Non current liability:</b>			
			Loan from Guy Folly			25,000
			<b>Current liability:</b>			
			Accrued expenses <sup>i</sup>			32,300
						235,250

#### Notes:

- a) Sales 32328,400 + credit sale 105,000 reported as receivable =£433,400
- b) Salary : £75,500 paid plus £25,800 payable = £101,300.
- c) Rent: £22,000 paid plus £2,000 payable = £24,000
- d) Advertising: £,5,400 paid plus £4,500 payable = £9,900

- e) Insurance :  $9,000 \times 3/12$  prepaid = £2,250
- f) Sundry expenses: £11,200 less school fee (£1,400) and club sub. (£2,800) treated as drawing)
- g) Furniture depreciation : 10% of £30,000 = £3,000
- h) Equipment depreciation: 20% of £45,000 for full year + 20% of £15,000 for six months = £10,500
- i) Accruals: £25,800 (salary) + £2,000 (rent) + £4,500 (advertising) = £32,300

## Test 7.2 Measuring and accounting for depreciation

Depreciation expense		Statement of financial position as at 31.12. 2010			
year 2010	£	Land & buildings	£375,000	(£42,000) <sup>d</sup>	£333,000
Buildings <sup>a</sup>	6,000	Machinery	£180,000	(£32,160) <sup>e</sup>	£147,840
Machinery <sup>b</sup>	14,760	Equipment	£30,000	(£21,000) <sup>f</sup>	£9,000
Equipment <sup>c</sup>	9,000				£429,840

- a) Buildings : 2% of £300,000 = £6,000 per year
- b) Machinery: 10% of (£120,000 – £6,000 in 2008 and £11,400 in 2009) = £10,260 plus 10% of new machine £60,000 for nine months = £4,500
- c) Equipment :  $30,000 \times 3/10$  = £9,000
- d) Acc.depn on building : £6,000 per year x 7 years = £42,000
- e) Acc.depn. on machinery: £6,000 in 2008 + £11,400 in 2009 + (£10,260 + £4,500) in 2010 = £27,660
- f) Acc.depn. on equipment: £30,000 x 4/10 in 2009 and £30,000 x 3/10 in 2010 = £21,000

## Test 7.3 Bad debts and allowance for doubtful debts

**Note:** It is assumed that the receivables reported are after writing off bad debts in each year.

Trade receivables as at				Bad debts expensed		
	Receivables	Allowance		Year ended		
31.12.2009	£402,000	(12,060) <sup>b</sup>	£389,940	31.12.2009	4,820 + 522 <sup>d</sup>	£5,342
31.12.2010	£396,200	(11,886) <sup>c</sup>	£384,314	31.12.2010	3,240 – 174 <sup>e</sup>	£3,066

Workings: (a) Allowance as at 31.12. 2008: 3% of 384,600 = £11,538

(b) Allowance as at 31.12.2009 : 3% of 402,000 – £12,060

- (c) Allowance as at 31.12.2010 : 3% of 396,200 = £11,886
- (d) Adjustment to allowance on 31.12.2009: £11,538 – £12,060 = £522 increase
- (e) Adjustment to allowance on 31.12.2010 : £12,060 – 11,886 = £174 decrease

## Test 7.4 Preparation of financial statements of a new business

Statement of income – year ended 30 June 2010		£'000	£'000
Sales			950
Purchases		725	
Inventory	at end	(120)	(605)
Gross profit			345
Salaries	£65 plus £6 accrued	71	
Rent	£1,500 x 12 months	18	
Heat and light	£19 plus £1 accrued	20	
Stationery	£12 less £3 unused	9	
Sundry expenses	£32 less £15 treated as drawings	17	
Staff welfare		10	
Depreciation of furniture	10% of £150 – 30 reducing balance method	12	
Depreciation of vehicles	20% of £420 – 80 reducing balance method	68	
Bad debts	£12 written off plus £8 allowance set up	20	
Advertising		46	(291)
Interest on loan	10% of £150		(15)
Profit for the year			39

Statement of financial position as at 30 June 2010		£'000	£'000	£'000
<b>Non current assets:</b>				
Furniture	150	(42)		108
Motor vehicles	420	(148)		272
<b>Current assets</b>				
Inventory			120	
Trade receivables	160			
Less: Allowance for doubtful debts	(8)		152	
Staff loan			15	
Pre-paid rent			6	
Unused stationery			3	
Bank balance			36	
Cash in hand			3	335
				715

£'000		
<b>Capital</b>	400	
Profit for the year	39	
Drawings (school fees)	(15)	424
<b>Non current liability:</b>		
Loan from City Bank		150
<b>Current liabilities:</b>		
Trade payables	119	
Accrued expenses £6 salary plus £1 electricity	7	
Interest payable	15	141
		715

## Test 7.5 Preparation of financial statements of a continuing business

Statement of income		£'000
year ended 30 June 2010		
Sales		958
Inventory 1.7.09	114	
Purchases	765	
Carriage inwards	14	
Drawings	(4)	
Free distribution <sup>b</sup>	(5)	
Inventory 30.6.10 <sup>a</sup>	(147)	(737)
Gross profit		221
Salary	94	
Rent	24	
Stationery	38	
Staff welfare	10	
Deprn.–furniture <sup>c</sup>	27	
Deprn.–vehicles <sup>d</sup>	81	
Vehicle mainten.	14	
Transport	64	
Free distribution <sup>b</sup>	5	
Bad debts <sup>e</sup>	3	
Advertising	46	(406)
Interest <sup>f</sup>		(16)
Loss for the year		(201)

Statement of financial position		£'000
as at 30 June 2010		
<b>Non current assets:</b>		
Furniture	380	(137)
Motor vehicles	420	(161)
<b>Current assets</b>		
Inventory <sup>a</sup>		147
Trade receivables	400	
Allowance	(16)	384
Bank balance		36
Cash in hand		6
		573
		1,075

£'000	
<b>Capital</b>	700
Loss for the year	(201)
Drawings	(20)
Goods removed	(4)
<b>Non current liability:</b>	
London bank loan	200
<b>Current liabilities:</b>	
Trade payables	384
Interest accrued <sup>f</sup>	16
	400
	1,075

(a) Inventory as counted on 7 July 2010	£138
Less: Purchases after the year-end	£(7)
Add: Cost of goods sold after the year-end : £20 × 100/125	£16
Inventory as at 30 June 2010	£147

- (b) The cost of goods distributed free cannot increase the cost of those sold
- (c) Depreciation of furniture: 10% of £380 less £110= £27
- (d) Depreciation on vehicles: 20% of £360 for full year plus 20% of £60 for nine months =£81
- (e) Bad debts: £5 written off less £2 reduction in the allowance for doubtful debts from £18 to £16
- (f) Interest on London bank loan at 8% of £200 = £16

## Test 7.6 Focus on reconciliation of inventory

Statement of income year ended 30 <sup>th</sup> Sept 2010		£'000
Sales		990
Inventory 1.10.2009	120	
Purchases	640	
Inventory 30.9.2010 <sup>b</sup>	(72)	
Advertising <sup>c</sup>	(20)	
Drawings <sup>d</sup>	(8)	(660)
Gross profit		330
Salaries <sup>e</sup>	78	
Stationery	12	
Postage	8	
Lighting / heating	12	
Rent <sup>f</sup>	24	
Deprn. – furniture <sup>g</sup>	6	
Audit fees	3	
Sales commission	5	
Deprn.– Vehicles <sup>h</sup>	36	
Bad debts <sup>i</sup>	9	
Advertising <sup>j</sup>	59	
Carriage outwards	9	(261)
Interest <sup>k</sup>		(14)
Net profit		59

Statement of financial position £'000 as at 30 <sup>th</sup> Sept 2010			
<b>Non current assets:</b>			
Furniture	90	(36)	54
Motor vehicles	180	(96)	84
<b>Current assets:</b>			
Inventory <sup>b</sup>		72	
Trade receivable	200		
Allowance for d.debt	(10)	190	
Prepaid rent <sup>f</sup>		6	
Loan to staff		10	
Cash & bank balance		18	296
			434
£'000			
Capital	80		
Net profit	55		
Drawings <sup>d</sup>		(8)	127
<b>Non current liability:</b>			
Loan			150
<b>Current liabilities:</b>			
Trade payables		134	
Salary accrued <sup>e</sup>		6	
Audit fees accrued		3	
Interest accrued <sup>j</sup>		14	157
			434



a) Clocks in hand on 7 <sup>th</sup> October 2010	1,830	Opening inventory: £120,000 / £40 each	3,000
Sales after 1 Oct: £1,200 / £60 each	20	Purchases in the year: £640,000 . £40 each	16,000
Purchases after 1 Oct: £1,200 / £40	(50)	Sales in the year: £990,000 / £60 each	(16,500)
Clocks in hand on 30 <sup>th</sup> Sept. 2010	1,800	Issued for advertising purposes	(500)
		Units that should be at hand 30.9.2010	2,000
		Units actually in hand on 30 <sup>th</sup> Sept. 2010	(1,800)
		Units taken over by proprietor for own use	200

- b) Cost of closing inventory: 1,800 units @ £40 = £72,000
- c) Cost of units issued for advertising : 500 @ £40 = £20,000
- d) Cost of units taken by owner: 200 @ £40 = £8,000
- e) Salaries: £72,000 plus £6 accrued = £78,000
- f) Rent : £30 less £6 prepaid = £24
- g) Depreciation on furniture: 10% of £90 less £30 = £6
- h) Depreciation on vehicles: 20% of £180 = £36
- i) Bad debts: £4 plus increase in Allowance of £5 = £9
- j) Advertising: £39 plus £20 clocks distributed (c) = £59
- k) Interest: 10% of £150 = £15 for 11 months = 13.75 rounded to 14.

## CHAPTER 8

# Disposal, revaluation and impairment of non-current assets

## 8.1 Preparation of a Statement of movement of non-current assets

Statement of movement of non current assets	Land & buildings	Machinery	Motor vehicles	Brand names	Total
	£	£	£	£	£
Balance b/f	720,000	480,000	320,000	180,000	1,700,000
Revaluation reserve	480,000 <sup>a</sup>	–	–	–	480,000
Acquisitions	–	–	240,000	–	240,000
Disposal	–	–	(160,000)	–	(160,000)
Balance c/f	1,200,000	480,000	400,000	180,000	2,260,000

Accumulated depreciation:

Balance b/f	96,000	198,000	180,000	108,000	582,000
Revaluation reserve	(96,000) <sup>a</sup>	–	–	–	(96,000)
Depreciation written off	20,000 <sup>b</sup>	80,000 <sup>d</sup>	50,000 <sup>f</sup>	36,000 <sup>g</sup>	186,000
Disposal	–	–	(85,000) <sup>e</sup>	–	(85,000)
	20,000	278,000	145,000	144,000	587,000

Allowance for impairment	–	42,000 <sup>c</sup>	–	–	42,000
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Written down value	1,180,000	160,000	255,000	36,000	1,631,000
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a)  $480,000 + 96,000 = 576,000$  is the gain on revaluing Land & buildings (  $1,200,000$  less  $(720,000 - 96,000)$  )

b)  $£720,000 \times \frac{2}{3} \times 2\% = £9,600$  annual depreciation on buildings

Upto 31.3.2010 buildings have been depreciated for ten years:  $£96,000 / 9,600 = 10$  years already used.

Hence, the fair value of buildings should be depreciated by £20,000 i.e  $£800,000 / 40$  years

c) Cost of machine	480	£'000	d) Cost of machine	£480
Acc. Depn to 31.3.2010	(198)	282	Acc. depreciation to 31.3.2010	£ (198)
Sales in 2011	128		Allowance for impairment	£ (42)
Pr.value of sales in 2012 & 2013	112	(240)	Carrying value on 1.4.2010	£240
Impairment loss as at 1.4.2010		42	Depn. in 2011 : £240 / 3 years remaining	£ 80

e) Vehicle sold:	£'000	Ac.depn.	e) Vehicle sold:	f) Depn on other vehicles:	£'000
1.4.08 Cost	160	£'000	Depn to 30.9.2010	Cost: £330,000 – £160,000	170
Depn to 31.3.09	(40)	40	25% of £90,000 for	Ac. Depn. to 31.3.2010	
1.4.09 WDV	120		8 months = £15,000	£180 – £70 on vehicle sold	(110)
Depn to 31.3.10	(30)	30		WDV to 31.3.2010	60
1.4.2010 WDV	90	70	g) Amortisation of brand	Depn: 25% of £60,000 new	15
Depn to 30.9.11	(15)	15	£180,000 x 3/15 =	25% of £240,000 for 4 months	20
Ac. Depn. to disposal		85	£36,000		

## 8.2 Basic question with disposal of asset not accounted for at all

Statement of income		
year ended 31 Dec. 2010		£'000
Sales		4,942
Inventory 1.1.2010	574	
Purchases	3,358	
Inventory 31.12.2010	(498)	
Goods to owner	(4)	(3,430)
Gross profit		1,512
Salary	295	
Other expenses	214	
Depreciation–buildings	24 <sup>a</sup>	
Depreciation–furniture	30 <sup>b</sup>	
Advertising	172	(735)
Operating profit		777
Loss on disposal of furniture		(24) <sup>c</sup>
Interest on loan		(15) <sup>d</sup>
Net profit		738

Statement of financial position			
as at 31 Dec. 2010	Cost	Ac. Dep	£'000
<b>Non current assets:</b>			
Land and buildings	1,600	(264) <sup>e</sup>	1,336
Furniture	240 <sup>f</sup>	(136) <sup>g</sup>	104
<b>Current assets:</b>			
Inventory		498	
Trade receivable		412	
Cash and bank		140 <sup>h</sup>	1,050
			2,490

<b>Capital</b>	1,000	
Net profit for the year	738	
Drawings (57 + 4 goods taken)	(61)	1,677
<b>Non current liability:</b>		
Loan from Mrs Saunders		300
<b>Current liabilities:</b>		
Trade payables	498	
Interest accrued	15 <sup>d</sup>	513
		2,490

- (a) Deprn. on buildings: 2% of 3/4<sup>th</sup> of £1,600,000 = £24,000
- (b) Deprn. on furniture: 10% of £300,000 = £30,000
- (c) Loss on disposal of furniture: £60,000 cost – Deprn £6,000 x 3 year – £18,000 sale price = £24,000
- (d) Interest : 5% of £300,000 = £15,000
- (e) Acc. Deprn. on buildings: £240,000 opening + £24,000 in 2010 = £264,000
- (f) Cost of furniture: £300,000 – £60,000 the item sold = £240,000
- (g) Acc. Depn on furniture: 124,000 opening + £30,000 Deprn in 2010 – £18,000 on item sold = £136,000
- (h) Cash and bank balance : £122,000 + £18,000 on disposal of furniture = £140,000

### 8.3 A difficult question involving asset disposal not fully accounted for

Statement of income		
year ended 31.3.2011		£'000
Sales		6,481
Cost of sale	4,888	
Brand amortisat.	60	
Goods on approval	(48)	(4,900)
Gross profit		1,581
Distribution costs:		
Advertising	110	
Deprn. vehicle	45	
Vehicle mainten.	27	(182)
Admin. Expenses:		
Admin. Expense	570	
Deprn.–buildings	24	
Deprn.–furniture	40	
Business rates	92	(726)
Operating profit		673
Loss on furniture disposal		(47)
Profit for the year		626

Statement of financial position as at 31.3.2011			
Non current assets:	Cost	Ac.dep	£'000
Land at cost			500
Buildings	1,200	(192)	1,008
Furniture	320	(106)	214
Motor vehicles	400	(225)	175
Brand names			60
<b>Current assets:</b>			
Inventory		592	
Trade receivable	308		
Allowance for d.debts	(16)	292	
Prepayment for advertising		38	
Cash and bank balance		19	941
			2,898

<b>Capital</b>	1,500	£
Profit for the year	626	2,126
<b>Current liabilities:</b>		
Trade payables	676	
Accrued expenses	42	
Bank overdraft	54	772
		2,898

- |   |          |         |
|---|----------|---------|
|   | <b>£</b> |         |
| a) Furniture sold was used for nine months in 2011: Deprn 10% of £160,000 x 9/12 =                  | 12,000   |         |
| Accumulated Deprn to 31.3.2010: 10% of £160,000 x 1 year and nine months =                          | 28,000   |         |
| Total depreciation to the date of disposal  | 40,000   |         |
| b) Loss on disposal of furniture: £160,000(cost) – £40,000(ac.depre) – disposal proceeds            | =73,000  | 47,000  |
| c) Furniture Deprn. on others: 10% of £480,000 – £160,000(sold) –£40,000 fully depreciated          | =        | 28,000  |
| d) Accum. Deprn on furniture: £106,000 + £12,000 + £28,000 – £40,000 (disposed) =                   |          | 106,000 |
| e) Deprn. on buildings: 2% of £1,200,000  |          | 24,000  |
|   |          |         |
| f) Depreciation on vehicles:  |          |         |
| On old vehicles: 25% of (£400,000 – £60,000 (new) – £180,000 (acc.dpre)                             | £40,000  |         |
| On new vehicle : 25% of £60,000 for 4 months  | £5,000   | 45,000  |
| g) Amortisation of brand name: only three years remain; digits are 3:2: 1 = 6                       |          |         |
| Amortisation : £120,000 x 3/6 digits =  |          | £60,000 |
| h) Goods still on approval wrongly treated as sold:   |          |         |
| i) reverse sales: remove £64,000 from both sales and receivables                                    |          |         |
| ii) cost of the goods (£64,000 x 3/4 = £48,000) is added to inventory and removed from cost of sale |          |         |
| i) Advertising campaign is scheduled for next period; hence its cost is capitalised.                |          |         |

## 8.4 A more difficult question with asset disposal and revaluation

Statement of income			Statement of financial position – as at 30.9.2011			
year ended 30.9.2011	£'000	£'000	<b>Non current assets:</b>	£'000	£'000	£'000
Sales	9,248		Land and buildings	2,600	(40)	2,560
Return inwards	(49)	9,199	Machinery	680	(326)	354
Inventory : 1.10.2010	642		Motor vehicles	600	(376)	224
Purchases	7,584		<b>Current assets:</b>			
Carriage inwards	158		Inventory		559	
Deprn. machine	38		Trade receivable	480		
Machine maintenance	164		Allowance for d. debts	(24)	456	
Deprn. buildings	24		Prepaid rent		30	
Inventory : 30.9.2011	(578)	(8,032)	Cash and bank balance		76	1,121
Gross profit		1,167				4,259

Distribution cost:				£'000	£'000
Rent for shops	120		<b>Capital</b>	2,000	
Sales promotion	19		Revaluation reserve (780 – 12)	768	
Bad debts (6 – 2)	4		Current account– balance	628	
Advertising (148 + 12)	160		Revaluation – realised	12	
Deprn. vehicles	136		Profit for the year	180	
Vehicle running exp.	58	(497)	Drawings	(72)	748
Administrative expense:			<b>Current liabilities:</b>		3,516
Salary (394 + 38)	432		Trade payables	693	
Deprn. –buildings	16		Accrued expenses ( 38 + 12)	50	743
Telephone / postage	17	(465)			4,259
Operating profit		205			
Loss on machine disposal		(25)			
Profit for the year		180			

- a) Revaluation gain: £2,600 (new value) – (£2,100 less £280 ac.Deprn to 1.10.2010) = £780,000
- |   |        |
|---|--------|
| Annual Deprn. based on historical cost = 2% of 2/3rd of £2,100,000 =      | 28     |
| Number of years of use of buildings until 1.10.2010 = 280 / 28 per year = | 10 yrs |
| Number of years remaining : 50 years less 10 years completed =            | 40 yrs |
| Annual depreciation based on fair value = £1,600,000 / 40 years           | 40     |
| Therefore extra depreciation arising because of revaluation ( 40 – 28 ) = | 12     |
- Therefore annually 12 of the revaluation gain is regarded as realised and transferred to current account
- b) Depreciation of the machine sold : year to 30.9.2011: 5% of £120,000 for 8 months=
- |  |    |
|--|----|
| years to 30.9.2010: 5% of £120,000 for 1 year and 4 months | 8  |
| Accumulated depreciation to the date of disposal           | 12 |
- c) Loss on disposal of machine: Cost less acc. Depreciation: £120,000 – £12,000
- |                     |      |
|---------------------|------|
| Proceeds of sale    | (85) |
| Expenses of selling | 2    |
| Loss on disposal    | 25   |
- d) Depreciation on vehicles: 40% of ( £520,000 – £240,000 accum. Depreciation) =
- |  |    |     |
|--|----|-----|
| 40% of £80,000 for 9 months in year to 30.9.2011 | 24 | 136 |
|--|----|-----|
- e) Sales promotion expenses on shop soiled inventory: at cost
- |   |      |    |
|---|------|----|
| Net realisable value (£25,000 – expense £2,000) | (23) | 19 |
|---|------|----|
- f) Sales in the year
- |   |        |        |
|---|--------|--------|
| Sale proceeds of machine wrongly accounted for as sales | £9,333 |        |
|   | (£85)  | £9,248 |
- g) Bad debt expense : Bad debt written off in the year: £6,000 less excess allowance £2,000
- |  |        |
|--|--------|
|  | £4,000 |
|--|--------|

## CHAPTER 9

# Accounting for limited companies

## Test 9.1 Accounting for share issue

**Note:** Although the question states that as at 30<sup>th</sup> June 500 shares were in arrears for the first call, on the premise that those in arrears for the Allotment money (1,000 shares) could not have paid the first call, first call should be in arrears on that date on 1,500 shares.

- a) The Share capital account would report a balance of £80,000 on 30<sup>th</sup> June 2010 and this represents the so far called up value (£8) on 10,000 shares in issue.
- b) Section 610 of the Companies Act 2006 permits any balance in the Share premium account to be applied for only:
  - i) writing off the cost of bonus shares and
  - ii) writing off the expenses of and any commission paid on the same shares
- c) Accounts named would appear as follows:

### Application and allotment account

? Cash –refund <sup>b</sup>	10,000	31.3 Cash account <sup>a</sup>	40,000
1/2 Share capital a/c <sup>c</sup>	50,000	? Cash account	27,000
1/2 Share premium a/c <sup>d</sup>	10,000	30.6. Balance c/d <sup>e</sup>	3,000
	70,000		70,000
1/7 Balance b/d	3,000		

- (a) Application money on 16,000 shares @ £2/50 = £40,000
- (b) Refund on 4,000 shares @ £2/50 = £10,000
- (c) So far called up value (£11 less £1 premium) less uncalled calls (£3 and £2) on 10,000 shares = £50,000
- (d) Share premium (£11 – par value of £10) receivable along with allotment money.

- (e) Allotment money due on 1,000 shares @ 3/50
- Excess application money on 200 shares @ 2/50
- Allotment money in arrears

£3,500
(£500)
£3,000

Augustine Benedict and Barry Elliott, *Financial Accounting: An Introduction*, 2<sup>nd</sup> Edition,  
Instructor's Manual

Those who applied for 12 shares received 10 shares, pro rata Accordingly those who received 1,000 shares would have applied for  $1,000 \times \frac{12}{10} = 1,200$  shares i.e. 200 more.

**First Call account**

1.4 Share capital a/c <sup>a</sup>	30,000	? Cash a/c	25,500
		30.6 Balance c/d <sup>b</sup>	4,500
	30,000		30,000
1.7 Balance b/d	4,500		

(a) 10,000 shares @ £3 each = £30,000    (b) 1,500 shares @ £3 each = £4,500

**Share Capital account**

	1.2 Applic & Allot	50,000
	1.4 First call a/c	10,000
		60,000

**Share premium account**

	1.2 Applic & Allot	10,000
--	--------------------	--------

**Call received in advance account**

	? Cash a/c	2,400
--	------------	-------

**(d) Statement of financial position**

as at 30 <sup>th</sup> June 2010	£
<b>Current assets:</b>	
Due on shares <sup>a</sup>	7,500

(a) due on shares:

	£
Allotment money	3,000
First call	4,500
	7,500

**Equity and reserves:**

	£
Ordinary shares of £1	80,000
Share premium account	10,000
Calls received in advance	2,400

**Test 9.2 Financial statements for internal use**

Statement of income			
Year ended 31 Dec. 2011			£'000
Sales revenue			4,241
Inventory	542		
Purchases <sup>k</sup>	3,270		
Returns	(35)	3,235	
Inventory	(644)	(3,133)	
Gross profit			1,108

Balance sheet as at 31.12. 2011			£'000
<b>Non current assets:</b>			
Furniture	640	(162)	478
Motor vehicle	280	(128)	152
			630
<b>Current assets:</b>			
Inventory		644	
Trade receivable	640		