**Question 28**

**Part A**

Evans and Jones are in partnership as a manufacturing firm. Their partnership agreement states:

1 Interest on Equity is payable at 5% per annum

2 Interest on Drawings is charged at 10% per annum

3 Evans is due a partnership salary of £8,000

4 Residual Profits are to be shared on the basis of equity invested

The following data relates to the year ending 31 December Year 2:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **£000** | **£000** |  |
|  | **DR** | **CR** |  |
| Inventories at 1 January Year 2: |  |  |  |
| Raw Materials | 30 |  |  |
| Work-in-progress | 10 |  |  |
| Finished Goods | 40 |  |  |
| Purchases of Raw Materials | 200 |  |  |
| Carriage on Raw Materials | 5 |  |  |
| Wages | 300 |  |  |
| Insurance | 12 |  |  |
| Electricity | 20 |  |  |
| Office and Selling Expenses | 11 |  |  |
| Royalties | 30 |  |  |
| Warehouse Expenses | 6 |  |  |
| Sales Revenue |  | 700 |  |
| Factory Machinery (at cost) | 60 |  |  |
| Provision for Depreciation of Machinery at 1 January Year 2 |  | 25 |  |
| Trade Receivables | 60 |  |  |
| Provision for Doubtful Debts at 1 January Year 2 |  | 2 |  |
| Cash and Cash Equivalents |  | 6 |  |
| Equity — Evans |  | 40 |  |
| Equity — Jones |  | 60 |  |
| Current Account — Evans | 3 |  |  |
| Current Account — Jones |  | 5 |  |
| Drawings Account — Evans | 10 |  |  |
| Drawings Account — Jones | 20 |  |  |
| Market Value of Goods Manufactured | 552 |  |  |

**Question 28 (continued)**

**Notes**

At 31 December Year 2 the following had to be taken into account:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | **£000** |
| (1) | Inventories: | Raw Materials | 35 |
|  |  | Work-in-progress | 15 |
|  |  | Finished Goods | 45 |
|  |  |  |  |
| (2) | Other Receivables: | Insurance | 3 |
|  |  |  |  |
| (3) | Other Payable: | Electricity | 4 |
|  |  | Interest on Cash and Cash Equivalents (Bank overdraft) | 2 |
|  |  |  |  |
| (4) | Wages to be divided as follows: | |  |
|  |  | Direct factory | 50% |
|  |  | Indirect factory | 30% |
|  |  | Office/selling | 20% |
|  |  |  |  |
| (5) | Electricity is to be apportioned between Factory and Office in the ratio of 3:1. | | |
|  |  | |  |
| (6) | Insurance is to be apportioned between Factory and Office in the ratio of 2:1. | | |
|  |  | |  |
| (7) | Factory Machinery is to be depreciated by 20% on the diminishing balance. | | |
|  |  | |  |
| (8) | The provision for doubtful debts is to be adjusted to 5% of debtors. | | |

Using the above information for the year ending 31 December Year 2 prepare the:

(i) Manufacturing Account **13**

(ii) Income Statement **17**

**NB:** A Statement of Financial Position is **NOT** required.

**No marks will be awarded for any incorrect figure not supported by adequate workings**.

**Part B**

(a) List the steps for the admission of a new partner. **4**

(b) Explain the meaning of the following terms:

(i) Share Premium **6**

(ii) Articles of Association

**Total marks (40)**

**Question 28 — solution**

**Part A**

**Evans and Jones**

**Manufacturing Account for year ended 31 December Year 2 ✓**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **£000** |  | **£000** |  |  |
| **Raw Materials** |  |  |  |  |  |
| Opening Inventory: Raw Materials | 30 |  |  |  |  |
| Add Purchases | 200 | **(1)** |  |  |  |
|  | 230 |  |  |  |  |
| Carriage on Raw Materials | 5 | **(1)** |  |  |  |
|  | 235 |  |  |  |  |
| Less Closing Inventory | 35 | **(1)** | **both inventories** | | |
| **COST OF RAW MATERIALS CONSUMED ✓** |  |  | **200** |  |  |
|  |  |  |  |  |  |
| **Add Direct Costs** |  |  |  |  |  |
| Direct Wages (50% × 300) | 150 | **(1)** |  |  |  |
| Royalties | 30 | **(1)** | **180** |  |  |
| **PRIME COST ✓** |  |  | **380** |  |  |
|  |  |  |  |  |  |
| **Add factory overheads** |  |  |  |  |  |
| Depreciation: Plant and Machinery 20% ×  (60 – 25) | 7 | **(1)** |  |  |  |
| Indirect Factory Wages (30% × 300) | 90 | **(1)** |  |  |  |
| Factory Insurance (2/3 × (12 – 3)) | 6 | **(1)** |  |  |  |
| Electricity (3/4 × (20 + 4)) | 18 | **(1)** | **121** |  |  |
|  |  |  | **501** |  |  |
|  |  |  |  |  |  |
| Add Work-in-progress at start |  |  | 10 |  |  |
|  |  |  | 511 |  |  |
| Less Work-in progress at end |  |  | 15 | **(1)** | **both** |
| **COST OF GOODS MANUFACTURED ✓** |  |  | **496** |  |  |
| Profit on Manufacturing **✓** |  |  | 56 | **(1)** |  |
| **MARKET VALUE OF GOODS MANUFACTURED ✓** |  |  | 552 | **(1)** |  |
| **✓ headings and additions** |  |  |  |  | **(1)** |
|  |  |  |  |  |  |

**13**

**Income Statement for year ended 31 December Year 2 ✓**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | **£000** |  | **£000** |  |  |
| Revenue | |  | **(1)** | 700 |  |  |
|  | |  |  |  |  |  |
| Inventory of Finished Goods at start | | 40 |  |  |  |  |
| Add Market Value | | 552 | **(1)** |  |  |  |
| Warehouse Expenses | | 6 | **(1)** |  |  |  |
|  | | 598 |  |  |  |  |
| Less Closing Inventory: Finished Goods | | 45 | **(1)** | **both inventories** | | |
| **COST OF SALES** | |  |  | 553 |  |  |
| **GROSS PROFIT ✓** | |  |  | 147 |  |  |
| Add Profit on Manufacturing | |  |  | 56 | **(1)** |  |
|  | |  |  | 203 |  |  |
|  | |  |  |  |  |  |
| **Less Expenses** | |  |  |  |  |  |
| Insurance (1/3 × 9) | | 3 | **(1)** |  |  |  |
| Electricity (1/4 × 24) | | 6 | **(1)** |  |  |  |
| Office and Selling Expenses | | 11 | **(1)** |  |  |  |
| Office Wages (20% × 300) | | 60 | **(1)** |  |  |  |
| Interest on Overdraft | | 2 | **(1)** |  |  |  |
| Increase in Provision for Bad Debts (3 – 2) | | 1 | **(1)** | 83 |  |  |
| **PROFIT FOR THE YEAR ✓** | |  |  | 120 |  |  |
|  | |  |  |  |  |  |
| Less Appropriations | |  |  |  |  |  |
| Add Interest on Drawings | |  |  |  |  |  |
| Evans | | 1 | **(1)** |  |  |  |
| Jones | | 2 |  | 3 |  |  |
|  | |  |  | 123 |  |  |
| Less Interest on Equity | |  |  |  |  |  |
| Evans | | 2 | **(1)** |  |  |  |
| Jones | | 3 |  | 5 |  |  |
|  | |  |  | 118 |  |  |
| Less Salary — Evans | |  |  | 8 | **(1)** |  |
| **RESIDUAL PROFIT** | |  |  | 110 |  |  |
|  | |  |  |  |  |  |
| **Share of Profit** | |  |  |  |  |  |
| Evans (2/5 × 110) | | 44 | **(1)** |  |  |  |
| Jones (3/5 × 110) | | 66 | **(1)** | 110 |  |  |
| **✓ headings and additions** | |  |  |  | **(1)** |  |
|  | |  | | | | | | | **17** |
|  | |  | | | | | | |  |

**Part B**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **(a)** | **Procedures for admission of new partner:**   * revaluation of assets to show true value **(1)** * sharing of any profit or loss on revaluation among existing partners **(1)** * valuation of goodwill **(1)** * sharing of any goodwill among existing partners **(1)** * goodwill can be written off between the new partnership**(1)** * revision of the partnership agreement to include the financial **(1)** details of the new partner: capital, drawings, interest on each, salary, premium for goodwill, and the new profit sharing ratio **(1)**   **(up to a maximum 4 marks)** | | | **4** | | |
|  | | | |  | | |
| **(b)** | | **(i)** | **Share Premium:**  This is the difference between the issue price and nominal value of a share where the issued price is higher. **(1)**  The premium must be shown in the statement of financial position as a reserve, **(1)** which is not available for cash distribution. **(1)**  The premium must be used for:   * writing off preliminary and issue expenses * making bonus issue of shares * writing off discount on shares * writing off premium paid on redemption of redeemable preference shares * or premium on redemption of ordinary shares under certain circumstances **(any one of the above for a maximum 1 mark)**   **(up to a maximum 3 marks)** | | |  | | |
|  | | **(ii)** | **Articles of Association:**  One of the two main legal documents to be lodged with the Registrar of Companies **(1)** when wishing to incorporate a limited company.  Deals with the internal regulations for the management of the proposed company. **(1)**  Subordinate to, and controlled by the Memorandum of Association. **(1)**  Will state the way in which the company is to be administered with particular reference to:   * matters relating to the raising of equity, eg borrowing powers or share allotment * directors’ remuneration and powers * dividends and reserves * holding of meetings * the rights of shareholders   **(any one of the above for a maximum 1 mark)**  Where a company does not have Articles of its own, the provisions of  Table A of the companies Act becomes the Articles. **(1)**  **(up to a maximum 3 marks)** | | **6** | |  |

**Total marks (40)**