**Question 6**

**Company accounts**

The following is the trial balance of Alexander plc as at 31 December Year 2.

|  |  |  |
| --- | --- | --- |
|  | **£000** | **£000** |
| Sales Revenue |  | 4,000 |
| Purchases | 3,200 |  |
| Inventory at 1 January Year 2 | 300 |  |
| Bad Debts | 5 |  |
| Discounts (Net) |  | 7 |
| Selling Expenses | 380 |  |
| Office Expenses | 160 |  |
| Debenture Finance Costs | 16 |  |
| Dividend - Preference Shares | 60 |  |
| 1,000,000 Ordinary Shares of £1 each |  | 1,000 |
| 600,000 10% Preference Shares |  | 600 |
| 8 % Debentures Year 8 |  | 400 |
| Investment | 170 |  |
| Property | 1,700 |  |
| Fittings (at cost) | 100 |  |
| Vehicles (at cost) | 160 |  |
| Provisions for Depreciation at 1 January Year 2 |  |  |
| Fittings |  | 60 |
| Vehicles |  | 40 |
| Provision for Doubtful Debts at 1 January Year 2 |  | 4 |
| Unappropriated Profit at 1 January Year 2 |  | 192 |
| Trade Payables |  | 50 |
| Trade Receivables | 120 |  |
| VAT |  | 16 |
| Cash and Cash Equivalents |  | 2 |
|  | 6,371 | 6,371 |

Notes:

1. Inventory at 1 January Year 2 was valued at £280,000.
2. Selling Expenses receivable are £4,000 and Office Expenses payable are £8,000.
3. Provide for Depreciation for the Year as follows:
4. Fittings — 20% on cost
5. Vehicles — 10% on the reduced balance
6. Provision for Doubtful Debts is to be adjusted to 5% of Trade Receivables.
7. Provide for Corporation Tax at 25% of Profit for the Year.

You are required to prepare:

1. an Income Statement for the year ended 31 December Year 2 **15**
2. a Statement of Financial Position as at the above date **13**

**Total marks (28)**

**Question 6 — solution**

**Alexander plc**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **£000** | **£000** | **Marks** |
| Sales Revenue |  |  | 4,000 | **(1)** |
| Cost of Sales: |  |  |  |  |
| Opening Inventory |  | 300 |  |  |
| Purchases |  | 3,200 | **(1)** | **(1)** |
|  |  | 3,500 |  |  |
| Closing Inventory |  | (280) | (3,220) |  |
| Gross Profit ✓ |  |  | 780 |  |
|  |  |  |  |  |
| Expenses: |  |  |  |  |
| Selling | 380 − 4 | 376 |  | **(1)** |
| Office | 160 + 8 | 168 |  | **(1)** |
| Increase in Provision for Doubtful Debts |  | 2 |  | **(1)** |
| Bad Debts |  | 5 |  | **(1)** |
| Depreciation: Vehicle |  | 12 |  | **(1)** |
| Depreciation: Fittings |  | 20 |  | **(1)** |
| Finance Costs | 16 + 16 | 32 | (615) | **(1)** |
|  |  |  | 165 |  |
| Other Income: |  |  |  |  |
| Discount Received |  |  | 7 | **(1)** |
| Profit before Tax ✓ |  |  | 172 |  |
| Taxation |  |  | (43) | **(1)** |
| Profit for the Year |  |  | 129 |  |
| Unappropriated Profit at 1 Jan Year 2 | | | 192 | **(1)** |
|  |  |  | 321 |  |
| Preference Dividends Paid |  |  | (60) | **(1)** |
| Unappropriated Profit at 31 December Year 2 ✓ | |  | 261 |  |
| Heading and ticked labels |  |  |  | **(1)** |

**15**

**Alexander plc**

**Statement of Financial Position as at 31 December Year 2** ✓

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **£000** | **£000** | **Marks** |
| Non-current Assets |  |  |  |  |
| Tangible: |  |  |  |  |
| Property |  | 1,700 | **(1)**1 |  |
| Furniture/Fittings | 100 – 60 − 20 | 20 |  | **(1)** |
| Vehicles | 160 – 40 − 12 | 108 | 1,828 | **(1)** |
| Investments |  |  | 170 |  |
|  |  |  | 1,998 |  |
| Current Assets: |  |  |  |  |
| Inventory |  | 280 |  | **(1)** |
| Trade Receivables | 120 − 6 | 114 |  | **(1)** |
| Other Receivables |  | 4 |  | **(1)** |
|  |  | 398 |  |  |
|  |  |  |  |  |
| Current Liabilities: |  |  |  |  |
| Trade Payables | 50 |  |  |  |
| Taxes Payable | 43 |  |  | **(1)** |
| Office Expenses payable | 8 |  |  |  |
| Debenture Finance Cost payable | 16 |  |  | **(1)** |
| VAT | 16 |  |  | **(1)** |
| Cash and Cash Equivalents | 2 | (135) | 263 |  |
|  |  |  | 2,261 |  |
|  |  |  |  |  |
| Less Non-current Liabilities |  |  |  |  |
| 8% Debentures |  |  | (400) | **(1)** |
|  |  |  |  |  |
| **Net Assets** |  |  | **1,861** |  |
|  |  |  |  |  |
| **Total Equity** |  |  |  | **(1)** |
| 1,000,000 £1 Ordinary Shares ✓ |  |  | 1,000 |  |
| 600,000 10% £1 Preference Shares |  |  | 600 |  |
|  |  |  | **1,600** |  |
| ADD RESERVES |  |  |  |  |
| Unappropriated Profit |  |  | 261 | **(1)** |
|  |  |  | **1,861** |  |
| Heading and number/value of shares |  |  |  | **(1)** |

**13**

**Total marks (28)**