**Question 20**

Kwik-Instalments plc fits bathroom units. The following is the Trial Balance as at   
31 December Year 3.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  | | | | | **£000** | | | |  | **£000** |
| Sales Revenue | |  | | | | |  | | | |  | 341 |
| Purchases | |  | | | | | 126 | | | |  |  |
| Inventory at 1 January Year 3 | | | | |  | | 24 | | | |  |  |
| Selling Expenses | | |  | | | | 20 | | | |  |  |
| Office Expenses | | |  | | | | 35 | | | |  |  |
| Warehouse Expenses | | | |  | | | 50 | | | |  |  |
| Wages | |  | | | | | 71 | | | |  |  |
| VAT | |  | | | | |  | | | |  | 40 |
| Provision for Doubtful Debts at 1 January Year 3 | | | | | | |  | | | |  | 4 |
| Trade Receivables | | |  | | | | 60 | | | |  |  |
| Trade Payables | | |  | | | |  | | | |  | 43 |
| Interim Dividend on Ordinary Shares | | | | | | | 10 | | | |  |  |
| Investment Property | | |  | | | | 70 | | | |  |  |
| Cash and Cash Equivalents | | | |  | | | 8 | | | |  |  |
| Goodwill |  | | | | | | 24 | | | |  |  |
| 100,000 Ordinary Shares of £1 each | | | | | |  |  | | | |  | 100 |
| 10% Debentures (Year 2) | | | | |  | |  | | | |  | 80 |
| Property (at cost) | | |  | | | | 50 | | | |  |  |
| Showroom Fittings (at cost) | | | | |  | | 70 | | | |  |  |
| Vehicles (at cost) | | |  | | | | 50 | | | |  |  |
| Provisions for Depreciation at 1 January Year 3: | | | | | | |  | |  | |  |  | |
| Showroom Fittings | | | | | |  |  | | | |  | 20 |
| Vehicles | | | |  | | |  | | | |  | 10 |
| Share Premium | | |  | | | |  | | | |  | 30 |
| Unappropriated Profit at 1 January Year 3 | | | | | | | |  | |  |  | 6 |
| Preliminary Expenses | | | |  | | | 6 | | | |  |  |
|  | | | |  | | | |  | | --- | | £674 | | | | |  | |  | | --- | | £674 | |

**Question 20 (continued)**

**Notes at 31 December Year 3:**

(1) The inventory is valued at £22,000.

(2) Charges payable are:

* carriage inwards — £1,000

(3) Selling expenses include a payment of £6,000 for a television advertisement, which will be shown in the next financial year.

(4) Provide for depreciation for the year as follows:

(i) showroom fittings — 10% on cost

(ii) vehicles — 20% of the reduced balance

(5) The provision for doubtful debts is to be adjusted to 5% of trade receivables.

(6) Dividends of £4,000 are due from investments.

(7) Corporation tax is to be provided for at 25% of Profit for the Year.

(8) During Year 3, a bonus issue of ordinary shares was made on the basis of   
one share for every five held. This issue was financed by a transfer from the share premium account and is still to be recorded.

(9) Property is revalued at £60,000.

(10) Write-off the preliminary expenses by transfer from the share premium   
account.

(11) Goodwill is to be written down by £6,000.

**Prepare:**

1. an Income Statement, including the appropriation of available profits, for the year   
   ended 31 December Year 3 **17**
2. a Statement of Financial Position at that date **23**

**Total marks (40)**

**Question 20 — solution**

**Kwik-Instalments plc**

1. **Income Statement for year ended 31 December Year 3**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **£000** |  | **£000** |  | **£000** |  |  |
| Sales Revenue |  |  |  |  | 341 | **(1) for headings** |  |
|  |  |  |  |  |  |  |  |
| Opening Inventory |  |  | 24 |  |  |  |  |
| Purchases | 126 | **(1)** |  |  |  |  |  |
| Plus Carriage Inwards | 1 | **(1)** | 127 |  |  |  |  |
|  |  |  | 151 |  |  |  |  |
| Less Closing Inventory |  |  | 22 | **(1)** | **both Inv** |  |  |
|  |  |  | 129 |  |  |  |  |
| Plus Warehouse Expenses |  |  | 50 | **(1)** |  |  |  |
| Cost of Sales |  |  |  |  | 179 |  |  |
| **Gross Profit** |  |  |  |  | 162 |  |  |
|  |  |  |  |  |  |  |  |
| **Less Expenses** |  |  |  |  |  |  |  |
| Wages |  |  | 71 |  |  |  |  |
| Office Expenses |  |  | 35 | **(1)** | **both** |  |  |
| Selling Expenses (20 **−** 6) |  |  | 14 | **(2)** |  |  |  |
| Debenture Finance Cost payable |  |  | 8 | **(1)** |  |  |  |
| Depreciation: Showroom Fittings |  |  | 7 | **(1)** |  |  |  |
| Vehicles |  |  | 8 | **(1)** | 143 |  |  |
| **Add Income:** |  |  |  |  | 19 |  |  |
| Decrease in Provision for Bad Debts |  |  | 1 | **(1)** |  |  |  |
| Dividends due for Investments |  |  | 4 | **(1)** | 5 |  |  |
| **Profit for the Year (before Tax)** |  |  |  |  | 24 |  |  |
| Less Corporation Tax |  |  |  |  | 6 | **(1)** |  |
| Profit for the Year (after Tax) |  |  |  |  | 18 |  |  |
| Plus Unappropriated Profit b/f |  |  |  |  | 6 | **(1)** |  |
|  |  |  |  |  | 24 |  |  |
|  |  |  |  |  |  |  |  |
| Less: Interim Dividend |  |  | 10 | **(1)** |  |  |  |
| Goodwill w/d |  |  | 6 | **(1)** | 16 |  |  |
| **Unappropriated Profit c/f** |  |  |  |  | 8 |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

**17**

1. **Statement of Financial Position as at 31 December Year 3**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **£000** |  | **£000** |  | **£000** |  |  |  |
| **Non-Current Assets** | **Cost** |  | **Agg Depn** |  | **NBV** |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Property | 50 |  | (10) |  | 60 | **(1) for headings** |  |  |
| Showroom Fittings | 70 |  | 27 |  | 43 | **(1)** |  |  |
| Vehicles | 50 |  | 18 |  | 32 | **(1)** |  |  |
|  |  |  |  |  | 135 |  |  |  |
| Investment Property |  |  | 70 | **(1)** |  |  |  |  |
| Goodwill (24 − 6) |  |  | 18 | **(1)** | 88 |  |  |  |
|  |  |  |  |  | 223 |  |  |  |
| **Current Assets** |  |  |  |  |  |  |  |  |
| Inventory | 22 | **(1)** |  |  |  |  |  |  |
| Cash and Cash Equivalents | 8 | **(1)** |  |  |  |  |  |  |
| Trade Receivables (60 − 3) | 57 | **(1)** |  |  |  |  |  |  |
| Dividends due (other receivables) | 4 | **(1)** |  |  |  |  |  |  |
| Other Receivables | 6 | **(1)** | 97 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **Less Current Liabilities** |  |  |  |  |  |  |  |  |
| Trade Payables | 43 | **(1)** |  |  |  |  |  |  |
| VAT | 40 | **(1)** |  |  |  |  |  |  |
| Corporation Tax | 6 | **(1)** |  |  |  |  |  |  |
| Carriage in due (other payables) | 1 | **(1)** |  |  |  |  |  |  |
| Debenture Interest due  (other payables) | 8 | **(1)** | 98 |  |  |  |  |  |
| **Working Equity** |  |  |  |  | (1) |  |  |  |
| **Net Assets Employed** |  |  |  |  | 222 |  |  |  |
| **Non-Current Liabilities** |  |  |  |  |  |  |  |  |
| Debentures |  |  |  |  | 80 | **(1)** |  |  |
| **Net Assets** |  |  |  |  | 142 |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **EQUITY** |  |  |  |  |  |  |  |  |
| 100,000 £1 Ordinary Shares |  |  | 100 | **(1)** |  |  |  |  |
| 20,000 £1 Bonus Issue Ord Shares |  |  | 20 | **(2)** | 120 |  |  |  |
| **Reserves** |  |  |  |  |  |  |  |  |
| Unappropriated Profit |  |  | 8 | **(1)** |  |  |  |  |
| Share Premium (30 − 20 − 6) |  |  | 4 | **(2)** |  |  |  |  |
| Revaluation Reserve |  |  | 10 | **(1)** | 22 |  |  |  |
|  |  |  |  |  | 142 |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | **23** |
|  |  |  |  |  |  |  |  |  |

**Total marks (40)**