

Managing Financial Resources: Seminar 2; Questions

1. Ivor Luvaccounts

Ivor is a sole trader operating as a locksmith in Camden Town. His trial balance for the financial year to 30 June 2022 was as follows:

	DR	CR
Equity Capital		29,050
Trade Creditors		21,000
Debtors	22,650	
Cost of Sales	144,000	
Drawings	32,100	
Sales		243,200
Inventory	36,000	
Motor Vehicles	21,000	
Electricity	14,250	
Sundry Expenses	3,000	
Rent	13,750	
Insurance	2,000	
Cash at Bank	<u>4,500</u>	<u> </u>
	<u>293,250</u>	<u>293,250</u>

The following information is relevant:

1. Ivor rented an office in Primrose Hill for the whole financial year. The rental payment of £13,750 relates only to the period, 1 July 2021 - 30 April 2022.
2. Whilst preparing his accounts, Ivor receives a quarterly electricity bill on 31 July 2022 for £4,710. This covers the quarter 1 May 2022 – 31 July 2022.
3. The insurance payment of £2,000 insures the business the period 1 July 2021 – 30 September 2022.

Required

a) Make any necessary adjustments to the trial balance

b) Prepare Ivor's Statement of Profit & Loss for the year ended on 30 June 2022 and his Statement of Financial Position as at that date

2. Mr Pink

The following extracts are from notes to the Statement of Financial Position of Mr Pink as at 30 March 2022;

SFP AS AT 30 MARCH 2022 [extract]

Non-current Assets

	<i>Cost</i>	<i>Acc Depn 1.4.21</i>	<i>Net Book Value</i>
Land & Buildings	400,000	(240,000)	160,000
Plant & Machinery	80,000	(0)	80,000
Motor Vehicles	110,000	(16,500)	93,500

The following information is relevant;

1. Land & Buildings are depreciated using a straight-line method over 50 years (2% per annum)
2. Plant & Machinery was purchased on 1 April 2021. It has an estimated useful life of 17 years, a residual value of £12,000 and is to be depreciated using a straight-line method
3. Motor Vehicles are depreciated at 15% using a reducing balance method

Required; Calculate the depreciation charge for the year and the amounts to be transferred to the Statement of Profit & Loss and Statement of Financial Position

3. Winston Smith

Winston, a bookseller, bought a non-current asset for £26,000 on 1 February 2021. Its estimated useful life is 3 years. After that time, it is estimated to have a scrap value of £2,000.

Required; draw up a depreciation schedule in order to answer the following questions;

- a) Calculate the annual depreciation charge and NBV for the period ending 1 February 2022 using
 - i) A Straight-Line Method
 - ii) A Reducing Balance Method (57%)
- b) What is the NBV of the asset as at 1 February 2023 using;
 - i) A Straight-Line Method
 - ii) A Reducing Balance Method (57%)
- c) Calculate the annual depreciation charge for the period ending 1 February 2024 using
 - i) A Straight-Line Method
 - ii) A Reducing Balance Method (57%)

4. Question: Stephan Propelli Ltd

Stephan Propelli Ltd is a limited company manufacturing aircraft parts. Their trial balance as at 30 June 2023 was as follows;

TRIAL BALANCE AS AT 30 JUNE 2023

	DR	CR
Cash at Bank	2,729	
Turnover		500,674
8% Debenture		100,000
COS	174,000	
Land & Buildings	193,260	
Acc Depn; plant & machinery 30.6.22		80,055
Plant & Machinery	106,740	
Selling and Distribution Expenses	146,838	
Administrative Expenses	61,162	
Share Premium		2,000
Ordinary Share Capital (£1 shares)		<u>2,000</u>
	<u>684,729</u>	<u>684,729</u>

The following information is also relevant;

- a) On 5 July 2022, Stephan Propelli Ltd issued 1,000 £1 shares at an issue price of £2.25. No accounting entries have been made.
- b) No accounting entries have been made with respect to debenture interest that is due.
- c) Plant & Machinery is depreciated on a straight-line basis at 15% per annum. The company charges no depreciation on Land & Buildings.
- d) According to the company's corporation tax return, tax payable for the accounting year amounts to £24,435. No accounting entries have been made.

Required

Making the necessary adjustments, prepare a Statement of Profit & Loss and Statement of Financial Position for Stephan Propelli Ltd as at 30 June 2023

5. Brough & Brough Ltd

At 30 June 2023, the trial balance of Brough & Brough Ltd, a manufacturer of designer light fittings, is as follows;

	DR	CR
Ordinary Share Capital (£1 shares)		20,000
Land and Buildings	35,050	
Accumulated Depreciation; land and buildings 30.6.22		1,402
Plant and Machinery	18,500	
Accumulated Depreciation; plant and machinery 30.6.22		11,800
COS	24,950	
Turnover		70,200
Selling Expenses	25,444	
Administrative Expenses	6,450	
Distribution Expenses	2,000	
Revaluation Reserve		2,000
Debtors	5,000	
Bed Debt Impairment Loss	250	
Trade Creditors		3,330
Cash at Bank	12,540	
Profit & Loss Reserve		15,952
10% Debenture		10,000
Inventory		4,000
Interest Charges	<u>500</u>	<u> </u>
	<u>134,684</u>	<u>134,684</u>

At the year end, the following information is relevant:

- a) Administrative Expenses paid include an amount unused in this period of £120
- b) A Provision for Depreciation for the year is charged on a straight-line basis;
 - land and buildings: 2% (50 year life)
 - plant and machinery: 10% (10 year life)
- c) Debenture interest of £500 is due. No accounting entries have been made.
- d) The Board of Directors have proposed a final dividend of 10% of the nominal value of ordinary shares, but this is yet to be agreed by the shareholders.
- e) According to the company's corporation tax return, tax payable for the accounting year amounts to £2,485. No accounting entries have been made.

Required:

Making the necessary adjustments, prepare a Statement of Profit & Loss and Statement of Financial Position for the period ending 30 June 2023