

QUESTION TWO

The following list of balances was extracted from the books of Leftfield Ltd on 31 December 2013.

	£
Sales	756000
Cost of sales	518000
Administrative expenses	102000
Loan interest paid	4400
Freehold premises at cost (land £32000)	144510
Plant & equipment at cost	130876
Accumulated depreciation on plant & equipment to 31.12.12	18700
Stock	64600
Debtors	17600
Accruals	2300
Cash at Bank	21200
Cash in hand	750
Ordinary share capital (50p each)	32000
Profit and loss account at 31.12.12	18866
Deferred Tax Liability	5200
8% Bank Loan	60000
Trade creditors	14300
2% redeemable preference shares	78022
Dividend paid on redeemable preference shares	2000
Provision for Environmental Costs	20548

The following adjustments are to be made:

- a) On 1 January 2010 Leftfield Ltd issued 500 redeemable preference shares with a par value of £200 each to investors at £110. The shares are redeemable at par on 31 December 2014 and have a fixed dividend rate of 2%. The effective rate of interest is 15.62%.

The figure in the trial balance represents the creditor carried forward from 2012.

- b) In its operating activities Leftfield Ltd has damaged the environment surrounding its factories in a significant manner. This is due to harmful chemicals generated from the manufacturing process being buried in the surrounding land. After a government inspection in November 2012 it was confirmed that Leftfield Ltd is responsible to rectify the damage it incurred. Leftfield has estimated that this will be at a cost of £26000. This amount, however, will not be due to be paid until 31st December 2018. Due to the current regulations operating in the country, there is no legal requirement for Leftfield to incur these costs. However, it wishes to be seen as an environmentally friendly company and has a proven reputation for rectifying any damage that occurs to the environment as a result of its operating activities.
- c) Depreciation is to be provided in the accounts for the year at the following rates:

- Buildings 4% straight line
 - Plant & Equipment 20% straight line
- d) Corporation tax based upon the profits for the year amounting to £36700 is to be provided for.

The deferred tax liability is to be increased to £9400

Requirement

- a) Prepare the profit and loss account of Leftfield Ltd for the year ended 31 December 2013 and the balance sheet at that date.

N.B. Use a discount rate of 4% where necessary.

- b) Calculate the earnings per share for 2013.

(Total 32 marks)

2

(W1) PREFERENCE SHARES

YEAR	START	FINANCE COST AT 15.62%	CASH FLOW	END
2010	55000	8591	(2000)	61591
2011	61591	9620	(2000)	69211
2012	69211	10811	(2000)	78022
2013	78022	<u>12187</u>	(2000)	<u>88209</u>
2014	88209	<u>13791</u>	(2000 + 100000)	—

(W2) PROVISION

$$\bullet \text{ Provision}(2012) = 26000 \times \frac{1}{(1.04)^6} = \underline{\underline{20548}}$$

$$\bullet \text{ Provision}(2013) = 26000 \times \frac{1}{(1.04)^5} = \underline{\underline{21370}}$$

2

Dr FINANCE COST 822

Cr PROVISION 822

W3

£

$$\text{Depn (Buildings)} = 4\% \times (144510 - 32000) = 14500$$

$$\text{Depn (P+E)} = 20\% \times 130876 = 26175$$

30675

W4

Increase in deprexd tax

$$= 9400 - 5200 = \underline{\underline{4200}}$$

W5

$$\text{Loan interest due} = 60000 \times 8\% = \underline{\underline{4800}}$$

$$\text{Loan interest paid} = \underline{\underline{4400}}$$

$$\therefore \text{Interest Accrued} = \underline{\underline{400}}$$

W6

TANGIBLE FIXED ASSETS

	COST	DEPN	NSV
2+B	144510	(4500)	140010
P+E	130876	(44875)	86001
			<u>226011</u>

PLC A/C For Y/E 31-12-13

£

Turnover

Cost of Sales

Gross Profit

Admin Expenses^{11/2} (102000 + 30675)

Operating Profit

Interest Payable^{11/2} (4400 + 400 + 12187 + 822)²

Profit Before Tax

Tax^{11/2} (36700 + 4200)¹

Profit For The Financial Year

756000
(518000)

238000

(132675)

105325

(17809)

87516

(40900)

46616

BALANCE SHEET AT 31-12-13

	£	£
Tangible Fixed Assets		226011
Current Assets		
Stock	64600	
Debtors	17600	
Cash	21950	
	<u>104150</u>	
Creditors < 1 yr		
Trade creditors	14300	1/2
Accruals	2300	1/2
Loan interest	400	
Tax	<u>36700</u>	(
	<u>53700</u>	
Net Current Assets		50450
Total Assets less Current Liabilities		<u>276461</u>
Creditors > 1 year		
8% Bank Loan		1/2 (60000)
2% Preference share		1/2 (88209)
Provision For LIABILITIES + CHARGES		
Environmental costs		(21370)
Deferred Tax		(9400)
		<u>97482</u>

Ordinary share capital	32000	1/2
P+L Account Reserve (18866 + 46616)	65482	1
	<u>97482</u>	
	<u><u>97482</u></u>	

$$(3) \text{ EPS}(2013) = \frac{46616}{64000} = \underline{\underline{72.5}}\% \quad 2$$