

SECTION A

QUESTION ONE

The following list of balances was extracted from the books of James Ltd on 31 March 2011.

	£'000
Leasehold property	25200
Accumulated depreciation on leasehold property to 1.4.10	5040
Plant and equipment	66800
Stock	35400
Accumulated depreciation on plant & equipment to 1.4.10	17800
Debtors	23500
Cash at bank	5500
Trade creditors	33400
Turnover	310000
Cost of sales	234500
Distribution costs	19500
Administrative expenses	27500
Preference dividend paid	2400
Equity dividend paid	800
Equity Shares of 50p each	4000
6% redeemable preference shares at 31.3.10	41600
10% Bank Loan	20000
Profit and loss account at 1.4.10	1860
Bank Interest paid	1000
Deferred Tax Liability	8400

The following adjustments are to be made:

- The 6% preference shares were issued on 1 April 2009 at par for £40 million. They have an effective finance cost of 10% per annum due to a premium payable on their redemption. The shares will be redeemed in 5 years time (from the issue date) at a total cost of £49.77 million.
- On 1 April 2010 James acquired a newly constructed oil platform at a cost of £30 million together with the rights to extract oil from an offshore oilfield under a government licence. The terms of the licence are that he will have to remove the platform (which will then have no value) and restore the sea bed to an environmentally satisfactory condition in 5 year's time when the oil reserves have been exhausted. The estimated cost of this on 31 March 2015 will be £15 million.

The cost of the acquisition of the oil platform has been included in plant and equipment in the trial balance but no accounting entries have been made for the associated costs of removing it at the of its useful life.

- Depreciation is to be provided in the accounts for the year at the following rates:

- Leasehold property 2% straight line
- Plant & equipment 25% reducing balance

- Corporation tax based upon the profits for the year amounting to £4.5 million is to be provided for.

The deferred tax liability is to be increased to £9.6 million.

Requirement

- a) Prepare the profit and loss account of James Ltd for the year ended 31 March 2011 and the balance sheet at that date.

(40 marks)

N.B. Use a discount rate of 6% where necessary.

- b) Calculate the earnings per share for 2011.

(5 marks)

(TOTAL 45 MARKS)

P+ L A/c For Y/E 31-3-11

£1000

Turnover	^{1 1/2}	310000
Cost of Sales	^{1 1/2}	<u>(234500)</u>
Gross Profit		75500
Distribution Costs	^{1 1/2}	<u>(19500)</u>
Admin expenses (27500 + 15556)	¹	<u>(43056)</u>
Operating Profit		12944
Interest Payable (1000 ^{1 1/2} + 1000 ^{1 1/2} + 4160 ^{1 1/2} + 672 ²)		<u>(6832)</u>
Profit Before Tax		6112
Tax (4500 ^{1 1/2} + 1200 ^{1 1/2})		<u>(5700)</u>
Profit After Tax		412
Dividends	^{1 1/2}	<u>(8000)</u>
Retained Profit For the Year		<u>(388)</u>

(b) $EPS(2011) = \frac{412}{8000} = \underline{\underline{5.2p}} \quad 5$

BALANCE SHEET AT 31-3-11

f'000 f'000

Tangible Fixed Assets

64813

CURRENT ASSETS:

Stock

1 1/2 35400

Debtors

1 1/2 23500

Cash at Bank

1 1/2 5500

64400

CREDITORS < 1 yr:

Trade creditors

1 1/2 33400

Tax

1 4500

Accruals

1 1000

38900

Net Current Assets

25500

Total Assets less Current Liabilities

90313

CREDITORS > 1 yr

5% Bank Loan

1 1/2 (20000)

6% Preference Shares

1 1/2 (43360)

PROVISION FOR LIABILITIES + CHARGES:

Deferred Tax

1 (9600)

Provision for oil platform

2 (11881)

5472

Share capital
Profit + Loss Account (1860 - 388)

$\frac{1}{2}$ 4000.
1 1472

5472

PREFERENCE SHARES

YEAR	START	FINANCE COST At 10% f1000	CASH FLOW f1000	END
	f1000			f1000
1	40000	4000	(2400)	41600
2	41600	4160	(2400)	43360
3	43360	4336	(2400)	45296
4	45296	4530	(2400)	47426
5	47426	4744	(2400 + 49770)	

8

W2 PROVISION

Provision at 1-4-10 = $15m \times \frac{1}{(1.06)^5} = 11209$

Dr P + F 11209
Cr Provision 11209

Provision at 31-3-11 = $15m \times \frac{1}{(1.06)^4} = 11881$

Dr interest payable 672
Cr provision 672

53

$$e. \text{ Dep- (property)} = 2\% \times 25200 =$$

$$\bullet \text{ Dep (plant)} = 25\% \times \left(\frac{66800 + 11209 - 17800}{2} \right) = 15052$$

4)

5

Property
Plant