

P Ltd is an engineering company which invests heavily in plant and equipment. On 1st October 2005 The company entered into a new agreement to lease an item of plant , the details of which are as follows :

- the fair value of the item of plant was £2million
- The plant would have a 5 year life with no residual value
- The lease term is 5 years with 20 quarterly payments of £122320 made in arrears at the end of each quarter
- The interest is to be allocated using the sum of the digits method

REQUIREMENT

Assuming the lease is to be accounted for as a finance lease , prepare extracts from the financial statements showing how the lease will be accounted for in the years ended 31st December 2005

$$\begin{aligned}\text{Total finance charge} &= (80 \times 122320) - 2m \\ &= \underline{\underline{446400}}\end{aligned}$$

QUARTER	START	(W) FINANCE CHG	REPAYMENT	END
1	2000000	42514	(122320)	1920194
2	1920194	40389	(122320)	1838263
3	1838263	38263	(122320)	1754206
4	1754206	36137	(122320)	1668023
5	1668023	34011	(122320)	1579714
⋮				
↓				

(W)

QUARTER

			↓
1	$\frac{20}{210} \times 446400$	=	42514
2	$\frac{19}{210} \times 446400$	=	40389
3	$\frac{18}{210} \times 446400$	=	38263
4	$\frac{17}{210} \times 446400$	=	36137
5	$\frac{16}{210} \times 446400$	=	34011

P+L A/C (EXTRACT)

Interest Payable

Depreciation ($2m \times 20\% \times \frac{3}{12}$)

2005
£

42514

100000

BALANCE SHEET (EXTRACT)

Tangible Fixed Assets

Creditors < 1yr (W)

Creditors > 1yr ($1920194 - 340480$)

2005
£

1900000

340480

1579714

(W)

$$\begin{aligned} \text{Res < 1yr} &= (4 \times 122320) - 40389 - 38263 - 36137 - 34011 \\ &= \underline{\underline{£340480}} \end{aligned}$$