

The following list of balances was extracted from the books of Practice Ltd on 31 December 2008.

	£
Sales	615389
Cost of sales	386000
Administrative expenses	124000
Loan interest	500
Freehold premises at cost (land 20000)	140000
Plant & equipment at cost	48000
Accumulated depreciation on plant & equipment to 31.12.07	11000
Stock	1200
Debtors	22000
Accruals	4200
Cash at Bank	780
Cash in hand	220
Ordinary share capital (50p each)	20000
Profit and loss account at 31.12.07	16500
Deferred Tax Liability	1500
5% Bank Loan	20000
Trade creditors	2800
5.9% redeemable bonds	1136
Interest paid on bonds	59
Provision for environmental costs	30234

The following adjustments are to be made:

- a. The company issued the 5.9% bonds with a nominal value of £1000 at par on 1.1.05. Redemption is at a premium of £250 in 5 years time and the effective rate of interest is 10%.

The figure in the trial balance represents the creditor carried forward from 2007.

- b. In its operating activities Practice 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 September 2007 it was confirmed that Practice Ltd is responsible to rectify the damage incurred. Practice has estimated that this will be at a cost of £35000. This amount, however, will not be due to be paid until 31st December 2010. Due to the current regulations operating in the country, there is no legal requirement for Practice to incur these costs. However, it wishes to be seen 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 2% straight line
 - Plant & Equipment 20% straight line

- d. Corporation tax based upon the profits for the year amounting to £2600 is to be provided for.

The deferred tax liability is to be increased to £2000

Requirement

- a. Prepare the profit and loss account of ^{PRACTICE}~~Wine~~ Ltd for the year ended 31 December 2008 and the balance sheet at that date.

N.B. Use a discount rate of 5% where necessary.

- b. Calculate the earnings per share for 2008.

Profit + Loss Account For Y/E 31-12-08

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Turnover	615389
Cost of Sales	<u>(386000)</u>
Gross Profit	229389
Admin expenses (124000 + 2400 + 9600)	<u>(136000)</u>
Operating profit	93389
Interest payable (500 + 500 + 113 + 1512)	<u>(2625)</u>
Profit Before Tax	90764
Tax (2600 + 500)	<u>(3100)</u>
Profit For the Year	<u><u>87664</u></u>

BALANCE SHEET At 31-12-08

	£	£
Tangible Fixed Assets		165000

CURRENT ASSETS:

Stock	1200
Debtors	22000
Cash at Bank + In Hand (780 + 220)	<u>1000</u>
	<u>24200</u>

Creditors < 1yr:

Trade creditors	2800
Accruals	4200
Loan interest	500
Tax	<u>2600</u>
	<u>10100</u>

Net current assets	14100
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Total Assets less current liabilities	<u>179100</u>
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Creditors > 1yr:

5% Bank Loan	(20000)
5.9% Bonds	(1190)

Provision For LIABILITIES + CHARGES

Environmental costs	(31746)
Deferred tax	<u>(2000)</u>
	<u>124164</u>

£

Ordinary share capital	20000
Profit + Loss Account (16500 + 87664)	104164

124164

(13)

$$\text{EPS (2008)} = \frac{87664}{40000} = \underline{\underline{2.19}}$$

(W1)

BONDS

YEAR	START	Fin Cost AT 10%	CASH FLOW	END
2005	1000	100	(59)	1041
2006	1041	104	(59)	1086
2007	1086	109	(59)	1136
2008	1136	113	(59)	1190
2009	1190	119	(59 + 1250)	—

~~Problem~~ P+I A/C FINANCE CHG (2008) = 1113

CREDITOR > 1 YEAR (2008) = 1190

(W2)

PROVISION

• $\text{Provision (2007)} = 35000 \times \frac{1}{(1.05)^3} = \underline{30234}$

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Cr provision 30234

(W6)

Fixed Assets

	Cost	Depn	NBV
Premises	140000	(2400)	137600
Plant	48000	(20600)	27400
			<u>165000</u>