

Flash plc

On 1 October 19X3, Flash plc entered into a non-cancellable agreement whereby Flash plc would lease a new rocket booster. The terms of the agreement were that Flash plc would pay 26 rentals of £3,000 quarterly in advance commencing on 1 October 19X3 and that, after this initial period, Flash plc could continue, at its option, to use the rocket booster for a nominal rental which is not material. The cash price of this asset would have been £61,570 and the asset has a useful life of 10 years. Flash plc considers this lease to be a finance lease and charges a full year's depreciation in the year of purchase of an asset. The rate of interest implicit in the lease is 2% per quarter.

On 1 July 19X2, Flash plc entered into another non-cancellable agreement to lease a Zarkov rocket for a period 10 years at a rental of £5,000 half-yearly to be paid in advance, commencing on 1 July 19X2. Flash plc considers this lease to be an operating lease.

Required

Show how these transactions would be reflected in the financial statements (excluding the cash flow statement) for the year ended 31 December 19X3.

Ignore comparative figures and make all computations to the nearest £.

FLASH plc

PROFIT AND LOSS ACCOUNT FOR THE Y/E 31-12-X3 (EXTRACT)

Included under "admin expenses"

Depreciation

6157

Operating lease rentals

10000

Interest payable and similar charges

Finance lease charges

1171

BALANCE SHEET AT 31-12-X3 (EXTRACT)

Tangible Fixed Assets

55413

Creditors: Amounts falling due
within one year

8708

Creditors: Amounts falling due
after more than one year

51033

(W1) Total finance charge = $(26 \times 3000) - 61570 = \underline{\underline{16430}}$

(W2)

DATE	START	REPAYMENT	INTEREST AT 2%	END
1	61570	(3000)	1171	59741
2	59741	(3000)	1135	57876
3	57876	(3000)	1098	55974
4	55974	(3000)	1059	54033
5	54033	(3000)	1021	52054
		⋮	⋮	
		✓	↓	
			<u>16430</u>	

(W3) SPLIT OF CREDITOR AT 31-12-X3

Total creditor at 31-12-X3 = 59741

$$\begin{aligned}
 \text{Current liability} &= (4 \times 3000) \\
 &\quad - (1135 + 1098 + 1059) \\
 &= \underline{\underline{8708}}
 \end{aligned}$$

∴ Long term liability = 51033