

QUESTION TWO

The following list of balances was extracted from the books of Luke Ltd on 31 March 2015.

	£'000
Leasehold property	138100
Accumulated depreciation on leasehold property to 1.4.14	6540
Plant and equipment	46850
Stock	22900
Accumulated depreciation on plant & equipment to 1.4.14	15900
Debtors	14900
Cash at bank	150
Trade creditors	28600
Turnover	450000
Cost of sales	284000
Distribution costs	36500
Administrative expenses	18500
Interest paid on bonds	60
Bank loan interest paid	2250
Equity Shares of 50p each	6000
6% bonds at 31.3.14	1060
10% Bank Loan	30000
Profit and loss account at 1.4.14	17960
Accruals	1850
Deferred Tax Liability	6300

The following adjustments are to be made:

- a) The company issued the 6% bonds with a nominal value of £1000000 at par on 1st April 2013. Redemption is at a premium of £200000 on 31st March 2016 and the effective rate of interest is 12%.

The figure in the trial balance represents the creditor carried forward from 2014

- b) On 1st April 2014 Luke acquired a newly constructed oil platform at a cost of £4 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 6 year's time when the oil reserves have been exhausted. The estimated cost of this on 31 March 2020 will be £8 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.

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

- Leasehold property 1% straight line
- Plant & equipment 20% straight line

d) Corporation tax based upon the profits for the year amounting to £24.96 million is to be provided for.

The deferred tax liability is to be increased to £8.4 million.

Requirement

a) Prepare the profit and loss account of Luke Ltd for the year ended 31 March 2015 and the balance sheet at that date.

N.B. Use a discount rate of 5% where necessary.
Work to the nearest £'000

b) Calculate the earnings per share for 2015.

(Total 32 marks)

(2) Profit + Loss Account For Y/E 31-3-15

Turnover	£1000 450000
Cost of Sales	(284000)
Gross Profit	<u>166000</u>
Admin expenses (18500 + 11945)	(30445)
Distribution costs	(36500)
Operating Profit	<u>99055</u>
Interest payable (2250 + 750 + 298 + 127)	(3425)
Profit Before Tax	<u>95630</u>
Tax (24960 + 2100)	(27060)
Profit for the Year	<u><u>68570</u></u>

$$EPS(2015) = \frac{68570}{12000} = \underline{\underline{5.71}}$$

BALANCE SHEET AT 31-3-15

	£1000	£1000
Tangible Fixed Assets		156535

Current Assets

Stock	22900
Debtors	14900
Cash at Bank + In Hand	150
	<u>37950</u>

CREDITORS < 1yr

Trade creditors	28600
Accruals	1850
Tax creditor	24960
Loan interest	750
	<u>56160</u>

Net Current Liabilities	(18210)
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Total Assets less Current Liabilities	<u>138325</u>
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CREDITORS > 1yr

10% Bank loan	(30000)
6% Bonds	(1127)

Provision For LIABILITIES + CHARGES

Environmental costs	(6268)
Deferred Tax	(8400)

	<u>92530</u>
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Share capital	6000
Profit + Loss Account (17960 + 68570)	86530

	<u>92530</u>
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(W1) 6% BONDS

YEAR	START	12% FINANCE COST	CASH PAID	END
	£1000	£1000	£1000	£1000
1	1000	120	(60)	1060
~~11-3-14~~ 2	1060	<u>127</u>	(60)	<u>1127</u>
3	1127	133	(60 + 1200)	

(W2) Provision

• Provision at 1-4-14 = $8m \times \frac{1}{(1.05)^6} = \underline{\underline{5970}}$ £1000

Dr	P & E	5970	
Cr	provision	5970	

• Provision at 31-3-15 = $8m \times \frac{1}{(1.05)^5} = \underline{\underline{6268}}$ £1000

Dr	interest payable	298	
Cr	provision	298	

(W3) DEPRECIATION

$$\text{Dep. (leasehold property)} = 1\% \times 138100 = \begin{array}{r} \text{£1000} \\ 1381 \end{array}$$

$$\text{Dep. (plant + equipt)} = 20\% \times (46850 + 5970) = 10564$$

11945

(W4) Increase in deferred tax = $8400 - 6300 = \begin{array}{r} \text{£1000} \\ 2100 \end{array}$

(W5) BANK LOAN

$$\text{Interest due} = 10\% \times 30000 = \begin{array}{r} \text{£1000} \\ 3000 \end{array}$$

$$\text{Interest paid} = \begin{array}{r} 2250 \end{array}$$

$$\therefore \text{Interest accenal} = \begin{array}{r} 750 \end{array}$$

(W6) TANGIBLE FIXED ASSETS

	Cost	Provn	NRV
Property	138100	(7921)	130179
Plant	52820	(26464)	26356
	46850 + 5970		<u>156535</u>