

QUESTION TWO

The following list of balances was extracted from the books of Kitchentech Ltd on 31 December 2007. The company is involved in the retailing of hardware through four shops which it owns in various parts of the country.

	£
Sales	1,875,893
Cost of sales	1,447,777
Administrative expenses	124,723
Directors' salaries	43,352
Debenture interest to 30.6.07	3,000
Freehold premises at cost (land £100,000)	215,000
Motor vehicles, at cost	37,581
Accumulated depreciation on motor vehicles to 31.12.06	16,581
Plant & equipment at cost	26,550
Accumulated depreciation on plant & equipment to 31.12.06	8,200
Stock	88,452
Debtors	18,550
Creditors and accruals	47,609
Bank overdraft	11,433
Cash in hand	386
Provision for bad debts at 31.12.06	1,200
Share capital	100,000
Profit and loss account at 31.12.06	18,455
Deferred Tax Liability	16,000
10% debentures	60,000
Lease rentals	150,000

The following adjustments are to be made :

- a) The trial balance includes a charge of £150,000 being the first 2 of 10 payments of £75,000 each in respect of a 5 year lease of an item of plant. The payments were made on 1 January 2007 and 1 July 2007. The fair value of this plant at the date it was leased was £600,000. Information from the finance department confirms that this is a finance lease and the implicit interest rate is 10% per annum. *Month period.*
- b) Depreciation is to be provided in the accounts for the year at the following rates:
 - Buildings = 2% straight line
 - Motor vehicles = 25% reducing balance
 - Plant & Equipment = 10% on cost

- c) Directors' fees of £2,000 for each of the 3 directors are to be provided for.
- d) The debtors include a balance of £400 owing from Catering Supplies Ltd. This is to be written off as it has proved irrecoverable. The provision for bad debts is to be adjusted to 10% of debtors.
- e) Corporation tax based upon the profits for the year amounting to £20,000 is to be provided.

The deferred tax liability is to be increased to £21,000.

- f) A dividend of 14% is to be provided on the ordinary share capital. The authorised ordinary share capital is £200,000 divided into £1 shares. All issued shares are fully paid.

Requirement

Prepare the profit and loss account of Kitchentech Ltd for the year ended 31 December 2007 and the balance sheet at that date.

(Total 40 marks)

QUESTION 2

Profit + Loss Account for Y/E 31st December 2007

	£
Sales	1875893 ^{1/2}
Cost of Sales	<u>(1447777) ^{1/2}</u>
Gross Profit	428116
Admin Expenses	(245295)
Operating Profit	<u>182821</u>
Interest Payable (3000+3000+52500+50250) ^{1/2 2 1}	<u>(108750)</u>
Profit before Tax	74071
Tax (20000 + 5000) ^{1/2 2}	<u>(25000)</u>
Profit after Tax	49071
Dividends	(14000) ^{1/2}
Retained profit for the Year	<u>35071</u>
P+C A/C b/f	18455 ^{1/2}
P+C A/C c/f	<u><u>53526</u></u>

			£	
Depn (buildings)	=	2% x 115000	=	2300
Depn (vehicles)	=	25% x (37581-16581)	=	5250
Depn (plant)	=	10% x (26550+600000)	=	62655
				<u>70205</u>

Dr Directors fees (in admin exps)	6000	
Cr accruals		6000

Provision for doubtful debts = $10\% \times (18550 - 400) =$ £1815
therefore £615 increase

Dr Tax Charge	5000	
Cr Deferred tax provision		5000

Ordinary dividend = $14\% \times 100000 =$ £14000

Admin Expenses

Per trial balance	124723
Directors Salaries	43352
Directors fees	6000
Depreciation	70205
Bad Debts written off	400
Increase in provision for doubtful debts	615
	<u>245295</u>

Balance Sheet at 31-12-07

	£	£
Tangible Fixed Assets		784145
CURRENT ASSETS		
Stock	88452	
Debtors (18550-400-1815)	16335	
Cash at Bank and In Hand	386	
	<u>105173</u>	
CREDITORS < 1YR	<u>204267</u>	
NET CURRENT LIABILITIES		<u>99094</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		685051
CREDITORS > 1TR (60000 + 450525)		(510525)
PROVISION FOR LIABILITIES + CHARGES		
Deferred Tax		<u>(21000)</u>
		<u>153526</u>
Share capital	100000	
P+C A/C Reserve	53526	
	<u>153526</u>	

W1

	PERIOD	START	REPAYMENT	FIN CHG AT 10%	END
	1	600000	(75000)	52500	577500
31.12.07	2	577500	(75000)	50250	552750
	3	552750	(75000)	47775	525525
	4	525525	(75000)	45053	495578

P+C A/C charge (2007) = 52500 + 50250
= £102750

CR < 1yr (at 31.12.07) = (2x75000) - 47775
= £102225

CR > 1yr = 552750 - 102225 = £450525

W8 Tangible fixed Assets

Land & Buildings	215000	(2300)	212700
Motor Vehicles	37581	(21831)	15750
Plant & Equipment	626550	(70855)	555695
	879131	(94986)	784145

W9 Creditors & 1yr

Trade creditors per TB	47609 ¹¹ / ₂
Overdraft	11433 ¹¹ / ₂
Tax creditor	20000 ¹ / ₁
Dividend	14000 ¹ / ₁
Directors fees	6000 ¹ / ₁
Finance lease	102225 ¹ / ₁
Interest accrual	3000 ¹ / ₁
	<u>204267</u>