

QUESTION TWO

The following list of balances was extracted from the books of Lucas Ltd on 31 December 2016.

	£
Sales	758000
Cost of sales	426000
Administrative expenses	86000
Loan interest paid	1000
Freehold premises at cost (land £134000)	286000
Plant & equipment at cost	151000
Accumulated depreciation on plant & equipment to 31.12.15	16500
Stock	74500
Debtors	18700
Accruals	4300
Cash at Bank	31200
Cash in hand	856
Ordinary share capital (50p each)	24000
Profit and loss account at 31.12.15	16500
Deferred Tax Liability	4600
4% Bank Loan	50000
Trade creditors	11300
2% redeemable preference shares	195056
Dividend paid on redeemable preference shares	5000

The following adjustments are to be made:

- a) On 1 January 2013 Lucas Ltd issued 2500 redeemable preference shares with a par value of £100 each to investors at £55. The shares are redeemable at par on 31 December 2017 and have a fixed dividend rate of 2%. The effective rate of interest is 15.62%.

The figure in the trial balance represents the creditor carried forward from 2015.

- b) In its operating activities Lucas 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 December 2016 it was confirmed that Lucas Ltd is responsible to rectify the damage it incurred. Lucas has estimated that this will be at a cost of £14000. This amount, however, will not be due to be paid until 31st December 2020. Due to the current regulations operating in the country, there is no legal requirement for Lucas to incur these costs. However, it wishes to be seen as 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 25% straight line

- d) Corporation tax based upon the profits for the year amounting to £41200 is to be provided for.

The deferred tax liability is to be increased to £7800

Requirement

- a) Prepare the profit and loss account of Lucas Ltd for the year ended 31 December 2016 and the balance sheet at that date.

N.B. Use a discount rate of 3% where necessary.

- b) Calculate the earnings per share for 2016.

(Total 32 marks)

②

Profit + Loss Account For Y/E 31-12-16

£

Turnover	758,000
Cost of sales	(426,000)
Gross Profit	332,000
Admin expenses (8,600 + 43,800)	(129,900)
Operating Profit	202,100
Interest Payable (1,000 + 1,000 + 30,468)	(32,468)
Profit Before Tax	169,632
Tax (412.00 + 3,200)	(4,400)
Profit For the Year	125,232

EPS (2016) >

BALANCE SHEET AT 31-12-16

TANGIBLE FIXED ASSETS

389039

CURRENT ASSETS

STOCK

74500

DUTY

18700

CASH AT BANK + IN HAND
(31200 + 256)

32056

125256

CREDITORS & LIABILITIES

Trade Creditors

11300

Tax Creditors

21200

Interest Accrued

1000

Accruals

4300

53800

NET CURRENT ASSETS

67456

TOTAL ASSETS LESS CURRENT LIABILITIES

466495

CREDITORS & LIABILITIES

2% BANK LOAN

PREFERENCE SHARES

(50000)
(220524)

PROVISION FOR LIABILITIES & CHARGES

Environmental cost

Deferred Tax

(12439)
(7800)

165732

Share Capital

Profit & Loss Account (16500 + 125232)

24000
141732

165732

(W1) PREFERENCE SHARES

YEAR	START	FINANCE COST	CASH FLOW	END
2013	137500	At 15.62%		
2014	153978	21478	(5000)	153978
2015	173029	24051	(5000)	173029
2016	195056	27073	(5000)	195056
2017	220524	30468	(5000)	220524
		34476	(25000)	

(W2) PROVISION

$$\text{Provision at 31-12-16} = 14000 \times \frac{1}{(1.03)^4} = 112439$$

Dr Fixed Assets (Factories) 12439

Cr Provision 12439

(W3) DEPRECIATION

$$\text{Depn (Buildings)} = 2\% \times (236000 - 134000) = 3040$$

$$\text{Depn (P + E)} = 25\% \times (151000 + 12439) = 40860$$

43900

(W4) LOAN

$$\text{Loan interest due} = 4\% \times 50000 = \underline{\underline{2000}}$$

$$\text{Loan interest paid} = \underline{\underline{1000}}$$

$$\text{Accrual} = \underline{\underline{1000}}$$

(W5) Intangible Fixed Assets

	Cost	Dep	Net
L + BS	2,360,000	(30,400)	2,329,600
P + E	1,634,339	(57,360)	1,576,979
			<u><u>3,906,579</u></u>

(W6)

$$\begin{aligned} \text{Increase in deferred tax} &= 7800 - 4600 \\ &= \underline{\underline{3200}} \end{aligned}$$