

Burton plc prepares its accounts to 31 December each year. On 1 July 2001 the company entered into an agreement with Perkins plc for the lease of a moulding machine. The terms included:

- i. neither party could cancel;
- ii. Burton plc is to have responsibility for maintenance;
- iii. 6 instalments of £7,500 are payable half-yearly in arrears.

The cash price of the machine on 1 July was £40,000 and it is considered to have a 3-year life. Burton plc uses a straight-line basis for depreciation from date of purchase. The interest on the finance lease is recognised on the basis of the sum of the digits method.

Required

Show how the above should be reflected in the financial statements of Burton plc for each of the years ended 31 December 2001 and 2002.

BURTON PLC

$$\begin{aligned}\text{Total finance charge} &= (6 \times 7500) - 40000 \\ &= £5000\end{aligned}$$

Period	START	^(W) FINANCE CHG	REPAYMENT	END
1	40000	1429	(7500)	33929
2	33929	1190	(7500)	27619
3	27619	952	(7500)	21671
4	21671	714	(7500)	14285
5	14285	476	(7500)	7261
6	7261	239	(7500)	—

(W1) SUM OF DIGITS METHOD

PERIOD		FINANCE CHARGE £
1	$\frac{6}{1+2+3+4+5+6} \times 5000 =$	1429
2	$\frac{5}{21} \times 5000 =$	1190
3	$\frac{4}{21} \times 5000 =$	952
4	$\frac{3}{21} \times 5000 =$	714
5	$\frac{2}{21} \times 5000 =$	476
6	$\frac{1}{21} \times 5000 =$	239
		<u>5000</u>

(W2)

$$\begin{aligned}\text{Creditors < 1st (2001)} &= (2 \times 7500) - 1190 - 952 \\ &= \underline{\underline{£12858}}\end{aligned}$$

$$\begin{aligned}\text{Creditors > 1st (2002)} &= (2 \times 7500) - 714 - 476 \\ &= \underline{\underline{£13810}}\end{aligned}$$

PLC A/C (EXTRACT)

	2002 £	2001 £
INTEREST PAYABLE	<u>2142</u>	<u>1429</u>
DEPRECIATION	<u>13333</u>	<u>6667*</u>

$$* 40000 \div 3 \times 6/12$$

BALANCE SHEET (EXTRACT)

	2002 £	2001 £
TANGIBLE FIXED ASSETS	<u>20000</u>	<u>33333</u>
CREDITORS < 1 YEAR	<u>13860</u> (W2)	<u>12858</u> (W2)
CREDITORS > 1 YEAR	<u>7761</u>	<u>21071</u>