

QUESTION TWO

The following list of balances was extracted from the books of Love Ltd on 31 December 2010.

	£
Sales	382000
Cost of sales	124000
Administrative expenses	156000
Loan interest	800
Freehold premises at cost (land 60000)	132540
Plant & equipment at cost	17000
Accumulated depreciation on plant & equipment to 31.12.09	4000
Stock	22400
Debtors	47600
Accruals	900
Cash at Bank	820
Cash in hand	140
Ordinary share capital (50p each)	20000
Profit and loss account at 31.12.09	4000
Deferred Tax Liability	4500
4% Bank Loan	40000
Trade creditors	5602
5.9% redeemable bonds	9086
Interest paid on bonds	472
Provision for environmental costs	31684

The following adjustments are to be made:

- a) The company issued the 5.9% bonds with a nominal value of £8000 at par on 1.1.07. Redemption is at a premium of £2000 in 5 years time and the effective rate of interest is 10%.

The figure in the trial balance represents the creditor carried forward from 2009.

- b) In its operating activities Love 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 September 2009 it was confirmed that Love Ltd is responsible to rectify the damage it incurred. Love has estimated that this will be at a cost of £40000. This amount, however, will not be due to be paid until 31st December 2013. Due to the current regulations operating in the country, there is no legal requirement for Love to incur these costs. However, it wishes to be seen as an environmentally friendly company and has proven reputation for rectifying any damage that occurs to the environment as a result of its opening activities.
- c) Depreciation is to be provided in the accounts for the year at the following rates:
- Buildings 4% straight line
 - Plant & Equipment 25% straight line
- d) Corporation tax based upon the profits for the year amounting to £16800 is to be provided for.

The deferred tax liability is to be increased to £9500

Requirement

- a) Prepare the profit and loss account of Love Ltd for the year ended 31 December 2010 and the balance sheet at that date.

N.B. Use a discount rate of 6% where necessary.

- b) Calculate the earnings per share for 2010.

(TOTAL 45 MARKS)

QUESTION 2

(W1) BONDS

Year	START	Fin Cost At 10%	CASH FLOW	END
2007	8000	800	(472)	8328
2008	8328	833	7(472)	8689
2009	8689	869	(472)	9086
2010	9086	909	(472)	9523
2011	9523	~~949~~	(472 + 10000)	—

P+L A/C FINANCE CHARGE (2010) = £909

CRS > 1 Yr (2010) = £9523

(W2) Provision

$$\text{Provision (2009)} = 40000 \times \frac{1}{(1.06)^4} = \underline{\underline{£31684^3}}$$

$$\text{Provision (2010)} = 40000 \times \frac{1}{(1.06)^3} = \underline{\underline{£33585^2}}$$

Dr	FINANCE CHARGE	1901	
Cr	PROVISION		1901

W3) $\text{Depn (Buildings)} = 4\% \times (132540 - 6000) = 5062$ £

$\text{Depn (Plant)} = 25\% \times 17000 = 4250$

11 4250
2
9312

W4) Increase in deferred tax = $9500 - 4500 = 5000$ £

W5) Growth in interest accrual = $40000 \times 4\% \times 6\%$

1800

W6) FIXED ASSETS

	COST	DEPN	NBV
2 + B	132540	(5062)	127478
PLANT	17000	(8250)	8750
			<u>136228</u>

P+L A/C For The Y/E 31-12-10

£

Turnover { 382000

Cost of Sales { (124000)

Gross Profit 258000

Admin expenses (¹¹156000 + ¹¹9312) (165312)

Operating Profit 92688

Interest Payable (¹¹800 + ¹¹800 + ²909 + ²1901) (4410)

Profit Before Tax 88278

Tax (¹¹16800 + ²5000) (21800)

Profit for the Year 66478

BALANCE SHEET At 31-12-10

Tangible Fixed Assets

136228

CURRENT ASSETS

Stock

22400

"

Debtors

47600

"

Cash at Bank + In Hand

960

"

70960

CREDITORS < 1yr

Trade creditors

5602

"

Accruals

900

"

Loan interest

800

~~2~~ 2

Tax

16800

~~2~~ 2

24102

Net Current Assets

46858

Total Assets less Current Liabilities

183086

CREDITORS > 1yr

4% Bank Loan

" 2 (40000)

5.9% Bonds

2 (9525)

PROVISION FOR LIABILITIES + CHARGES

Deferred Tax

~~2~~ 2 (9500)

Environmental costs

2 (33585)

90478

Ordinary share capital
P/L A/c Reserve (4000 + 66478)

£
20000
70478
90478

(13)

$$\text{EPS (2010)} = \frac{\text{Profit After Tax} - \text{Pref. Dividend}}{\text{No OF ORDINARY SHARES}}$$

$$= \frac{66478}{40000}$$

$$= \underline{\underline{1.66}}$$

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