

**Note: Higher level questions are marked with an asterisk\***

**4. Meditor**

a) Yes, the company did make a profit. Retained earnings increased by €366,000 to €2,308k at 30 September 2023, which represents the profit retained during the year.

b) The property is Meditor's most significant asset. At €3.5 million, its value on the statement of financial position is much greater than other assets.

c) During the year ended 30 September 2023, Meditor raised €900,000 from an issue of ordinary shares and repaid a €600,000 loan.

Share capital increased by €300,000, and share premium increased by €600,000, revealing that the share issue raised €900,000.

The loan was on the 2022 statement of financial position but is not on the 2023 one. It must have been repaid.

d) The company did not buy any new properties.

The difference between the 2023 and 2022 property figures is €1,260,000, (€3,500,000 - €2,240,000). This is the same as the amount that has been added to the revaluation reserve, which reveals that the property has been revalued during the year. No new properties were purchased.

e) The plant and equipment that Meditor owns has on average been owned for a number of years. This can be deduced from the fact that these assets have been heavily depreciated.

f) At 30 September 2022, the company had an overdraft of €111,000, but at 30 September 2023, there was a positive cash balance of €640,000. While it is a good

sign that the overdraft has been eliminated, the current cash balance is rather high.  
Meditor may plan to invest the funds in the next financial year, perhaps in new plant and equipment.

## **5. Brewce Ltd**

**a)**

**Brewce Ltd**  
**Statement of financial position as at 31 March 2021**

<b>Non-current assets</b>	<b>£'000</b>	<b>£'000</b>
Property, at NBV		8,180
Plant and equipment, at NBV		<u>1,411</u>
		9,591
<b>Current assets</b>		
Inventory	3,671	
Trade receivables	576	
Bank balance	<u>157</u>	
		4,404
		<u>13,995</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Ordinary shares		5,000
6% preference shares		2,000
Share premium		750
Retained profits		<u>2,251</u>
<b>Total equity</b>		10,001
<b>Current liabilities</b>		
5% debenture	3,000	
Trade payables and tax due	994	
		<u>3,994</u>
<b>Total equity and liabilities</b>		<u>13,995</u>

**Brewce Ltd**

**Statement of changes in equity for the year ended 31 March 2021**

Carey & Knowles: Accounting - A Smart Approach  
 Chapter 6 - Company Accounts  
 Solutions to practice questions

	<b>Ordinary share capital</b>	<b>Pref. share capital</b>	<b>Share premium</b>	<b>Retained profits</b>	<b>Total share-holders' equity</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 April 2020	5,000	2,000	750	1,676	9,426
Profit for the year				995	995
Dividends paid				(420)	(420)
At 31 March 2021	<b>5,000</b>	<b>2,000</b>	<b>750</b>	<b>2,251</b>	<b>10,001</b>

**b)** Similarities between preference shares and debentures include:

- Both provide holders with a fixed rate of return.
- Both debenture holders and preference shareholders are repaid before ordinary shareholders, if the company fails.

Differences between preference shares and debentures:

- Debentures are debt on which interest has to be paid. Preference dividends may or may not be paid.
- Debentures are usually secured on assets of the company whereas preference shareholders would have no such security.

**\*6. Shirley**

a) The operating profit is the profit arrived at after all of the operating expenses of the business have been deducted from sales revenues but before any interest payable or receivable is taken into account.

The profit for the year is the profit arrived at after all income and expenses have been taken into account including any tax payable on the profits for the year.

b) A company statement of financial position shows the assets which it owns and the liabilities which it owes, with both assets and liabilities being categorized as either non-current (long term), or current (short term). The statement of financial position also shows the shareholders' equity, which represents the shareholders' investment in the company.

c) The statement of changes in equity shows how the individual elements of shareholders' equity can be reconciled between the last two year-ends:

- Share capital and share premium may have increased as a result of a share issue during the last financial year.
- Retained profits will increase as a result of any profit for the year and be reduced by any dividends paid.
- Any revaluation reserve will increase as a result of any positive revaluations during the last financial year.

d) *Share premium* records the total amount by which shares issued by the company have exceeded their nominal or par value.

*The revaluation reserve* records the increase in value (from cost to valuation) of any properties held by the company.

*Preference shares* are non-voting shares that usually carry a fixed rate of dividend and whose dividend has to be paid before an ordinary dividend can be paid. Their dividends are usually cumulative.

- e) The company can do this because neither preference nor ordinary dividends have to be paid for any given financial year but, before an ordinary dividend can be paid, preference dividends must be paid.
- f) Corporate governance refers to the systems in place within a company to ensure that it is properly managed by the directors in the best interests of all the shareholders.

The basic principles which govern it are:

- responsibility
- accountability
- transparency
- fairness.

See Chapter 6 for more details.

**\*7. Atlas plc**

a)

<b>Atlas plc</b>	
<b>Extract from the statement of profit or loss for the year ended</b>	
<b>31 January 2021</b>	
	<b>£'000</b>
<b>Operating profit</b>	<b>9,456</b>

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Interest (240 + 240 owed)	<u>480</u>
<b>Profit before tax</b>	8,976
Taxation	<u>2,600</u>
<b>Profit for the year</b>	<u><b>6,376</b></u>

b)

<b>Atlas plc</b>	
<b>Statement of comprehensive income for the year ended</b>	
<b>31 January 2021</b>	
	<b>£'000</b>
Profit for the year	6,376
Gain on property revaluation	8,000
	<u>          </u>
<b>Total comprehensive income for the year</b>	<u><b>14,376</b></u>

c)

<b>Atlas plc</b>		
<b>Statement of financial position as at 31 January 2021</b>		
<b>Non-current assets</b>	<b>£'000</b>	<b>£'000</b>
Property, at valuation		75,000
Plant and equipment, at NBV		<u>27,525</u>
		102,525
<b>Current assets</b>		
Inventory	3,610	
Trade receivables	<u>4,339</u>	
		<u>7,949</u>
<b>Total assets</b>		<u><b>110,474</b></u>
<b>EQUITY AND LIABILITIES</b>		

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**Equity**

Ordinary shares of £1 pence each	50,000
4% preference shares of £1 each	5,000
Share premium	6,000
Revaluation reserve (£75k – 67k)	8,000
Retained profits	<u>22,284</u>
<b>Total equity</b>	<b>91,284</b>
<b>Non-current liabilities</b>	
6% debentures	8,000
<b>Current liabilities</b>	
Bank overdraft	1,847
Trade payables	6,503
Interest owing	240
Taxation due	2,600
	<u>11,190</u>
<b>Total equity and liabilities</b>	<b><u>110,474</u></b>

**Atlas plc**

**Statement of changes in equity for the year ended 31 January 2021**

	Ordinary share capital	Pref. share capital	Share premium	Revaluation reserve	Retained profits	Total Share- holders' equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 February 2020	50,000	5,000	6,000		17,608	78,608
Profit for the year					6,376	6,376
Other comprehensive				8,000		8,000

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income						
Dividends paid					(1,700)	(1,700)
At 31 Jan 2021	<b>50,000</b>	<b>5,000</b>	<b>6,000</b>	<b>8,000</b>	<b>22,284</b>	<b>91,284</b>

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**d)**

If Atlas plc issues 10 million ordinary shares in March 2021 at £1.50 per share, then:

- the bank account will increase by £15 million
- the ordinary share capital will increase by £10 million
- the share premium will increase by £5 million.