CHAPTER 1 FINANCIAL REPORTING AND ACCOUNTING

Quick test

Question 1

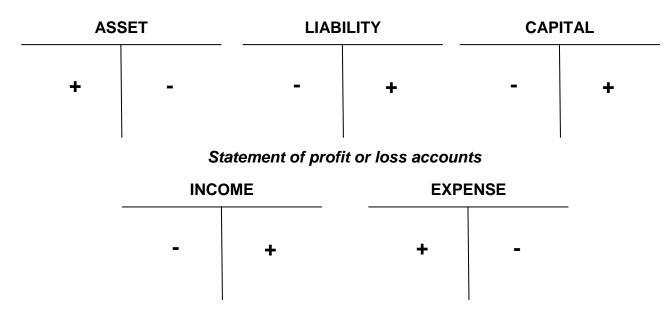
	Transaction	Accounts affected	Type of account	Increase / Decrease
(a)	Owner started business by paying into a business bank	Bank	Asset	Increase
	account	Capital	Capital	Increase
(b)	Loan received	Bank	Asset	Increase
		Loan	Liability	Increase
(C)	Motor car purchased for	Motor vehicles	Asset	Increase
	cheque	Bank	Asset	Decrease
(d)	Goods purchased on credit	Purchases	Expense	Increase
	from supplier Hall	Payables	Liability	Increase
(e)	Goods sold on credit to	Sales	Income	Increase
	customer White	Receivables	Asset	Increase
(f)	Cheque paid for office	Bank	Asset	Decrease
	expenses	Office expenses	Expense	Increase
(g)	Goods sold for cash to	Sales	Income	Increase
	customer Black	Bank	Asset	Increase
(h)	Goods purchased on credit	Purchases	Expense	Increase
	from supplier Marks	Payables	Liability	Increase
(i)	Credit note issued for goods	Sales	Income	Decrease
	returned by White	Receivables	Asset	Decrease
(j)	Credit note received from	Purchases	Expense	Decrease
	Hall for return of faulty goods	Payables	Liability	Decrease
(k)	Cheque paid for car	Insurance	Expense	Increase
	insurance	Bank	Asset	Decrease

(I)	Cheque paid to Hall	Bank	Asset	Decrease
		Payables	Liability	Decrease
(m)	Wages paid in cash	Wages	Expense	Increase
		Cash	Asset	Decrease
(n)	Owner withdrawals to cover	Bank	Asset	Decrease
	personal expenses	Drawings	Capital	Decrease
(0)	Cheque received from White	Bank	Asset	Increase
		Receivables	Asset	Decrease
(p)	Cheque paid to Marks after	Bank	Asset	Decrease
	deducting a £50 cash	Payables	Liability	Decrease
	discount	Discounts received	Income	Increase
(q)	Payment made on loan	Bank	Asset	Decrease
	£1,500 (NB - loan of £5,000 has	Loan	Liability	Decrease
	interest @ 10% p.a. and is being repaid in £1,000 instalments)	Interest	Expense	Increase

Question 2

Follow the rules of double-entry given in the text:

Statement of financial position accounts



Transaction (a): Owner started business by paying into a business bank account increases the asset account Bank and increases the capital account. So the double-entry bookkeeping is:

DOOK		£	£		
Dr	Bank	15,000			
Cr	Capital		15,0	00	
	Bank	Сар	ital		
– Ca	apital 15,000		Bank	15,000	
Doub	e-entry for remaining transactions:				
		5	2		£
(b) L(oan received				
() =	Dr Bank	5,0	000		
	Cr Loan				5,000
(C)	Motor car purchased for cheque				
(0)	Dr Motor vehicles	8,0	000		
	Cr Bank				8,000
(d)	Goods purchased on credit from supp	lier Hall			
(u)	Dr Purchases		250		
	Cr Payables				2,250
(e)	Goods sold on credit to customer Whi	ito			
(0)	Dr Receivables		645		
	Cr Sales				1,645
(f)	Cheque paid for office expenses				
(')	Dr Office Expenses	3	340		
	Cr Bank				340
(g)	Goods sold for cash to customer Blac	k			
(9)	Dr Bank		300		
	Cr Sales				1,300
(h)	Goods purchased on credit from supp	lier Marks			
(1)	Dr Purchases		200		
	Cr Payables				1,200
(i)	Credit note issued for goods returned	by White			
(1)	Dr Sales		245		
	Cr Receivables				245
(j)	Credit note received from Hall for retu	irn of faulty go	ods		
<u></u>				()XFC



	Dr Cr	Payables Purchases	300	300
(k)	Cheque Dr Cr	paid for car insurance Insurance Bank	195	195
(I)	Cheque Dr Cr	paid to Hall Payables Bank	1,125	1,125
(m)	Wages p Dr Cr	oaid in cash Wages Cash	250	250
(n)	Owner w Dr Cr	<i>i</i> ithdrawals to cover personal e Drawings Bank	expenses 500	500
(0)	Cheque Dr Cr	received from White Bank Receivables	900	900
(p)	Cheque Dr Cr Cr	paid to Marks after deducting a Payables Bank Discounts received	a £50 cash discount 1,200	1,150 50
(q)	(NB loan	t made on loan of £5,000 has interest @ 10% epaid in £1,000 instalments) Loan Loan interest Bank	500 p.a. and is 1,000 500	1,500

Bank				Motor Ve	ehicles		
Capital Loan Sales	15,000 5,000 1,300	· ·	8,000 340 195	Bank Balance	8,000 8,000 b/d 8,000	Balance c/d	<u>8,000</u> 8,000
Receivables	,	Payables Drawings Payables & disc Loan & interest Balance c/d	1,125 500 :. 1,150	Datarioe			
Balance b/d	<u>22,200</u> 9,390		22,200				

	Purch	nases		Payables
Payables Payables Balance b/d	2,250 <u>1,200</u> <u>3,450</u> 3,150	Payables Balance c/d	300 <u>3,150</u> <u>3,450</u>	Purchases300Purchases2,250Bank1,125Purchases1,200Bank1,200Balance c/d825
	0,100			3.450 3.450 Balance b/d 825
	Office	expenses		Receivables
Bank Balance b/d	<u>340</u> <u>340</u> 340	Balance c/d	<u>340</u> <u>340</u>	Sales 1,645 Sales 245 Bank 900 Balance c/d 500 1,645 1,645
				Balance b/d 500
	Sa	les		Insurance
Receivables Balance c/d	245 <u>2,700</u> <u>2,945</u>	Receivables Bank Balance b/d	1,645 <u>1,300</u> <u>2,945</u> 2,700	Bank <u>195</u> Balance c/d <u>195</u> <u>195</u> Balance b/d 195
	Wa	l ages		Cash
Cash Balance b/d	<u>250</u> <u>250</u> 250	Balance c/d	<u>250</u> 250	Balance c/d 250 250 Wages 250 250 Balance b/d 250
	Drav	 vings		 Loan
Bank	<u>500</u> 500	Balance c/d	<u>500</u> 500	Bank 1,000 Bank 5,000 Balance c/d <u>4,000</u>
Balance b/d	500 500		<u></u>	5,000 5,000 5,000 5,000 Balance b/d 4,000
	Loan i	nterest		Discounts received
Bank	<u>500</u>	Balance c/d	<u>500</u>	Balance c/d 50 Bank 50
Balance b/d	<u>500</u> 500		<u>500</u>	50 50 Balance b/d 50
Balance c/d	Ca <u>15,000</u> <u>15,000</u>		<u>15,000</u> <u>15,000</u> 15,000	
Trial balance	<u>9</u>			Debit Credit

	£	£
Bank	9,390	
Motor vehicles	8,000	
Purchases	3,150	
Payables		825
Office expenses	340	
Receivables	500	
Sales		2,700
Insurance	195	
Wages	250	
Cash		250
Drawings	500	
Loan		4,000
Loan interest	500	
Discounts received		50
Capital		<u>15,000</u>
	<u>22,825</u>	<u>22,825</u>

Question 3

P. Glass Statement of profit or loss for the year ended 30 June 20X4

Revenue Less: Returns inwards	£	£	£ 19,647 <u>(205)</u> 19,442
Cost of sales Opening inventories Purchases Less: Returns outwards	13,874 <u>(322)</u>	2,368	
Carriage inwards		13,552 <u>250</u> 16,170 (2,046)	
Closing inventories Gross profit Expenses		<u>(2,946)</u>	<u>(13,224)</u> 6,218
Salaries and wages Rent Insurance		4,206 300 76	
Motor expenses Office expenses Heat and light		554 328 160	
General expenses Discounts allowed		325 <u>68</u>	<u>(6,017)</u>
Net profit for year			201



P. Glass Statement of financial position at 30 June 20X4

	£	£
Non-current assets Premises Motor vehicles Fixtures and fittings	~	5,000 1,800 <u>450</u> 7,250
Current assets Inventories Trade receivables	2,946 <u>3,704</u>	6,650
Total assets		13,900
Capital Capital at 1 July 20X3 Net profit for year Less: Drawings		10,458 <u>201</u> 10,659 <u>(1,200)</u>
Current liabilities Bank overdraft Trade payables	1,710 <u>2,731</u>	9,459
Total capital and liabilities		<u>4,441</u> <u>13,900</u>

Develop your understanding

Question 4

Lytax

Statement of profit or loss for the year ended 31 December 20X2

Revenue Cost of sales		£	£ 159,000
Opening inventories Purchases	79,500 – 1,500	7,800 <u>78,000</u>	
Closing inventories		85,800 <u>(8,000</u>)	77,800
Gross profit Expenses			81,200
Discounts allowed Heat and light		700 1,300	



Insurance	1,400 – (6/12 x 1,000)	900	
Wages and salaries	24,200 + 400	24,600	
General expenses		1,200	
Irrecoverable debts		700	
Increase in allowance fo	r receivables 450 – 300	150	
Loan interest	8% x 15,000	1,200	
Depreciation: Buildings	40,000/50	800	
Plant and	machinery 15% x 38,000	5,700	
Fixtures a	6		
	5% x (21,300 – 5,300)	800	
			<u>38,050</u>
Net profit for year			<u>£ 43,150</u>

Lytax Statement of financial position at 31 December 20X2

Non-current assets	£ Cost	£ Accumulated	£ NBV
Land and buildings Plant and machinery Fixtures and fittings	67,000 38,000 <u>21,300</u> <u>126,300</u>	depreciation 12,800 13,800 <u>6,100</u> <u>32,700</u>	54,200 24,200 <u>15,200</u> 93,600
Current assets Inventories Receivables Less: Allowance for receivables	9,000 (450)	8,000	
Prepayments		8,550 <u>500</u>	17,050
Total assets			£ <u>110,650</u>
Capital Balance at 1 January 20X2 Net profit for the year Drawings	25,000 + 1,500		68,000 <u>43,150</u> 111,150 <u>(26,500</u>)
Balance at 31 December 20X2			84,650
Non-current liabilities 5-year loan			15,000
Current liabilities Bank overdraft Payables Accruals	1,200 + 400	1,000 8,400 <u>1,600</u>	11,000
Total capital and liabilities			£ <u>110,650</u>
			OX



Question 5

Porter Ltd.

Statement of profit or loss for the year ended 31 May 20X6

Revenue Cost of sales		£000	£000 4,377
Opening inventories Purchases		1,071 <u>2,225</u> 3,296	
Closing inventories		<u>1,123</u>	<u>(</u> 2,173)
Gross profit Royalties receivable			2,204 <u>42</u> 2,246
Expenses Wages and salaries Motor expenses Rent General distribution costs General administration expense $(79 - ^{7}/_{12} \times 24 + ^{2}/_{3} \times 6)$ Directors' remuneration Irrecoverable debts Increase in allowance for receive Directors' bonuses Auditors' fees		808 164 210 81 69 185 31 5 36 12	
Depreciation: Plant and machinery Motor vehicles	10% x 1,750 35% x (320 - 145)	175 <u>61</u>	(4.007)
Profit from operations Debenture interest Profit before tax Income tax Profit for the year	7% x 800		(<u>1,837</u>) 409 (<u>56</u>) 353 (<u>102</u>) <u>£ 251</u>

Porter Ltd.

Statement of changes in equity for the year ended 31 May 20X6

	Equity	Preference		
	share	share	Retained	
	capital	capital	earnings	Total
	£000	£000	£000	£000
Balance at 1 June 20X5	600	500	336	1,436
Profit for the year			251	251
Dividends paid			<u>(119)</u>	<u>(119)</u>
Balance at 31 May 20X6	600	500	468	<u>1,568</u>



Porter Ltd. Statement of financial position at 31 May 20X6

Non-current assets		£000 Cost	£000 Accumulated	£000 NBV
Plant and machir Motor vehicles	nery	1,750 <u>320</u> <u>2,070</u>	depreciation 679 <u>206</u> 885	1,071 <u>114</u> 1,185
Current assets Inventories Trade receivables Less: Allowance Prepayments	-	781 (34)	1,123 747 14	
Total assets				<u>1,884</u> <u>3,069</u>
Equity Equity share capi Preference share Retained earning	capital			600 <u>500</u> 1,100 <u>468</u> 1,568
Non-current liabilitie 7% debentures	es			800
Current liabilities Bank overdraft Trade payables Accruals VAT Income tax	4 + 28 + 12 + 36 102 - 76		43 498 80 54 <u>26</u>	701
Total equity and lia	bilities			3,069



Take it further

Question 6

Statement of profit or loss for the year ended 30 June 20X1Revenue $\pounds 000$ Revenue $6,590$ Cost of sales 380 Opening inventories 380 Purchases $4,304$ Closing inventories (440) Gross profit (440) Expenses (440) Wages and salaries 508 Light and heat $62 + 12$ Increase in allowance for receivables $24 - 20$ Other administration expenses 24 Depreciation:Freehold buildingsMotor vehicles $33\% \times (440 - 230)$ Ges on sale 88 Profit from operations $1,242.2$ Interest payable on debentures $8\% \times 400$ Profit before tax $1,186.2$ Income tax (256) Profit for the year 930.2	Falmouth plc					
Revenue $6,590$ Cost of sales 0 pening inventories 380 Purchases $4,304$ $4,684$ Closing inventories (440) $(4,244)$ Gross profit (440) $(4,244)$ Expenses $30 - 8$ 22 Wages and salaries 508 212 Light and heat $62 + 12$ 74 Irrecoverable debts expense $30 - 8$ 22 Increase in allowance for receivables $24 - 20$ 4 Other administration expenses $196 - 5/12 \times 18$ 188.5 Directors' bonuses 24 2 Depreciation:Freehold buildings $400 / 50$ 8 Plant and machinery (1,460- 320 + 40) x 10% 118 Motor vehicles $33\% \times (440 - 230)$ 69.3 Loss on sale 88 $(1,103.8)$ $1,242.2$ $1,242.2$ Interest payable on debentures $8\% \times 400$ 32 Dividends on redeemable preference shares $12\% \times 200$ 24 Profit before tax Income tax (56) $1,186.2$	Statement of profit or loss for the year	Statement of profit or loss for the year ended 30 June 20X1				
Cost of sales Opening inventories 380 Purchases $4,304$ $4,684$ Closing inventories $4,304$ $4,684$ Closing inventories (440) Gross profit Expenses $2,346$ Wages and salaries Light and heat $62 + 12$ $11recoverable debts expense7411recoverable debts expenseWages and salariesLight and heat62 + 1211recoverable debts expense7411recoverable debts expenseOther administration expensesDirectors' bonuses2424Depreciation:Freehold buildings400 / 508Plant and machinery(1,460 - 320 + 40) \times 10\%118Motor vehicles33\% \times (440 - 230)128Profit from operationsInterest payable on debenturesDividends on redeemable preference shares12\% \times 2004Profit before taxIncome tax(56)1,186.2(256)$	2		£000			
Opening inventories 380 Purchases $4,304$ $4,684$ Purchases $4,304$ $4,684$ Closing inventories (440) Gross profit (440) Expenses (440) Wages and salaries 508 Light and heatLight and heat $62 + 12$ Increase in allowance for receivables $24 - 20$ Other administration expenses $196 - 5/12 \times 18$ Directors' bonuses 24 Depreciation:Freehold buildingsMotor vehicles $33\% \times (440 - 230)$ Loss on sale 88 Profit from operations $1,242.2$ Interest payable on debentures $8\% \times 400$ Dividends on redeemable preference shares $22\% \times 200$ Profit before tax $1,186.2$ Income tax (256)				6,590		
Purchases $4,304$ $4,684$ Closing inventories (440) Gross profit $(4,244)$ Expenses (440) Wages and salaries 508 Light and heat $62 + 12$ Increase in allowance for receivables $24 - 20$ Other administration expenses $196 - 5/12 \times 18$ Directors' bonuses 24 Depreciation:Freehold buildings $400 / 50$ 8 Plant and machinery $(1,460 - 320 + 40) \times 10\%$ $(1,460 - 320 + 40) \times 10\%$ 118 Motor vehicles $33\% \times (440 - 230)$ Loss on sale 88 Profit from operations $(1,103.8)$ Interest payable on debentures $8\% \times 400$ Dividends on redeemable preference shares $22\% \times 200$ Profit before tax (56) Income tax (256)			200			
Closing inventories $4,684$ (440)Gross profit $(4,244)$ Expenses $2,346$ Wages and salaries 508 Light and heat $62 + 12$ Irrecoverable debts expense $30 - 8$ 22Increase in allowance for receivables24 - 204Other administration expenses $196 - 5/12 \times 18$ Directors' bonuses24Depreciation:Freehold buildings400 / 508Plant and machinery $(1,460 - 320 + 40) \times 10\%$ Motor vehicles $33\% \times (440 - 230)$ Loss on sale 88 Profit from operations $1,242.2$ Interest payable on debentures $8\% \times 400$ Dividends on redeemable preference shares $12\% \times 200$ Profit before tax $1,186.2$ Income tax (256)						
Closing inventories (440) Gross profit $(4,244)$ Expenses $2,346$ Wages and salaries 508 Light and heat $62 + 12$ Irrecoverable debts expense $30 - 8$ 22Increase in allowance for receivables24Other administration expensesDirectors' bonuses 24 Depreciation:Freehold buildings400 / 508Plant and machinery $(1,460 - 320 + 40) \times 10\%$ $(1,460 - 320 + 40) \times 10\%$ 118 Motor vehicles $33\% \times (440 - 230)$ Loss on sale 88 Profit from operations $1,242.2$ Interest payable on debentures $8\% \times 400$ Dividends on redeemable preference shares 22% Profit before tax (56) Profit before tax (256)	Purchases	-				
(4,244)Gross profit(4,244)Expenses $2,346$ Wages and salaries 508 Light and heat $62 + 12$ Irrecoverable debts expense $30 - 8$ Increase in allowance for receivables $24 - 20$ Other administration expenses $196 - 5/12 \times 18$ Directors' bonuses 24 Depreciation:Freehold buildingsYear $(1,460 - 320 + 40) \times 10\%$ Motor vehicles $33\% \times (440 - 230)$ Loss on sale88Profit from operations $1,242.2$ Interest payable on debentures $8\% \times 400$ Dividends on redeemable preference shares 24 Profit before tax (56) Profit before tax (256)	Closing inventories		•			
Gross profit2,346Expenses $32,346$ Wages and salaries 508 Light and heat $62 + 12$ Irrecoverable debts expense $30 - 8$ Irrecoverable debts expense $30 - 8$ Other administration expenses $196 - 5/12 \times 18$ Directors' bonuses 24 Depreciation:Freehold buildingsYear 118 Motor vehicles $33\% \times (440 - 230)$ Loss on sale 88 Profit from operations $1,242.2$ Interest payable on debentures $8\% \times 400$ Dividends on redeemable preference shares $2\% \times 200$ Profit before tax (56) Income tax (256)	Closing inventories	-	(440)	(1211)		
Expenses508Wages and salaries508Light and heat $62 + 12$ Irrecoverable debts expense $30 - 8$ Increase in allowance for receivables $24 - 20$ Other administration expenses $196 - 5/12 \times 18$ Directors' bonuses 24 Depreciation:Freehold buildings $400 / 50$ 8Plant and machinery $(1,460 - 320 + 40) \times 10\%$ $(1,460 - 320 + 40) \times 10\%$ 118 Motor vehicles $33\% \times (440 - 230)$ Loss on sale88Profit from operations $1,242.2$ Interest payable on debentures $8\% \times 400$ Dividends on redeemable preference shares 22 Profit before tax $(,56)$ Income tax $(,256)$	Gross profit		-			
Wages and salaries508Light and heat $62 + 12$ 74Irrecoverable debts expense $30 - 8$ 22Increase in allowance for receivables $24 - 20$ 4Other administration expenses $196 - 5/12 \times 18$ 188.5 Directors' bonuses24Depreciation:Freehold buildings $400 / 50$ Plant and machinery(1,460 - 320 + 40) x 10%118Motor vehicles $33\% \times (440 - 230)$ 69.3 Loss on sale88Profit from operations $1,242.2$ Interest payable on debentures $8\% \times 400$ 32 Dividends on redeemable preference shares $12\% \times 200$ 24 Profit before tax $1,186.2$ (256)	•			2,040		
Light and heat $62 + 12$ 74 Irrecoverable debts expense $30 - 8$ 22 Increase in allowance for receivables $24 - 20$ 4 Other administration expenses $196 - 5/12 \times 18$ 188.5 Directors' bonuses 24 Depreciation:Freehold buildings $400 / 50$ 8 Plant and machinery $(1,460 - 320 + 40) \times 10\%$ 118 Motor vehicles $33\% \times (440 - 230)$ 69.3 Loss on sale 88 Profit from operations $1,242.2$ Interest payable on debentures $8\% \times 400$ 32 Dividends on redeemable preference shares $12\% \times 200$ 24 Profit before tax (56) $1,186.2$ Income tax (256) (256)	•		508			
Irrecoverable debts expense $30-8$ 22 Increase in allowance for receivables $24 - 20$ 4Other administration expenses $196 - 5/12 \times 18$ 188.5 Directors' bonuses 24 Depreciation:Freehold buildings $400 / 50$ 8Plant and machinery $(1,460 - 320 + 40) \times 10\%$ 118 Motor vehicles $33\% \times (440 - 230)$ 69.3 Loss on sale88Profit from operations $1,242.2$ Interest payable on debentures $8\% \times 400$ 32 Dividends on redeemable preference shares $12\% \times 200$ 24 Profit before tax $1,186.2$ (256)	•	62 + 12				
Other administration expenses $196 - 5/12 \times 18$ 188.5 Directors' bonuses24Depreciation:Freehold buildings $400 / 50$ 8Plant and machinery (1,460- 320 + 40) x 10%118Motor vehicles $33\% \times (440 - 230)$ 69.3 Loss on sale88Profit from operations1,242.2Interest payable on debentures $8\% \times 400$ 32 Dividends on redeemable preference shares $2\% \times 200$ 24 Profit before tax1,186.2Income tax(256)	•	30 – 8	22			
Directors' bonuses 24 Depreciation:Freehold buildings $400 / 50$ 8Plant and machinery (1,460- $320 + 40$) x 10% 118Motor vehicles $33\% x (440 - 230)$ 69.3Loss on sale88Profit from operations Interest payable on debentures1,242.2Interest payable on debentures8% x 40032Dividends on redeemable preference shares $12\% x 200$ 24Profit before tax Income tax(56)1,186.2 (256)	Increase in allowance for receivable	s 24-20	4			
Depreciation:Freehold buildings $400 / 50$ 8Plant and machinery (1,460- 320 + 40) x 10%118Motor vehicles $33\% x (440 - 230)$ 69.3 Loss on sale88Profit from operations Interest payable on debentures1,242.2Interest payable on debentures8% x 40032Dividends on redeemable preference shares 12% x 20024Profit before tax Income tax(56)1,186.2 (256)	Other administration expenses 1	196 - 5/12 x 18	188.5			
Plant and machinery $(1,460-320+40) \times 10\%$ 118Motor vehicles $33\% \times (440-230)$ 69.3 Loss on sale88(1,103.8)Profit from operations1,242.2Interest payable on debentures $8\% \times 400$ 32 Dividends on redeemable preference shares $12\% \times 200$ 24 Profit before tax(56)Income tax $1,186.2$						
$\begin{array}{cccc} (1,460-320+40) \times 10\% & 118 \\ Motor vehicles & 33\% \times (440-230) & 69.3 \\ Loss on sale & & & & & \\ \hline \\ Profit from operations & & & & & \\ Interest payable on debentures & 8\% \times 400 & 32 \\ Dividends on redeemable preference shares 12\% \times 200 & 24 & & \\ \hline \\ Profit before tax & & & & & \\ Income tax & & & & & \\ \hline \end{array}$			8			
Motor vehicles $33\% \times (440 - 230)$ 69.3 Loss on sale88Profit from operations1,242.2Interest payable on debentures $8\% \times 400$ 32 Dividends on redeemable preference shares $12\% \times 200$ 24 Profit before tax(56)Income tax(256)	•		110			
Loss on sale88Profit from operations1,242.2Interest payable on debentures8% x 400Dividends on redeemable preference shares12% x 200Profit before tax(56)Income tax1,186.2(256)						
Profit from operations(1,103.8)Interest payable on debentures8% x 40032Dividends on redeemable preference shares12% x 20024(56)Profit before tax1,186.2Income tax(256)		3370 X (440 - 230)				
Profit from operations1,242.2Interest payable on debentures8% x 40032Dividends on redeemable preference shares12% x 20024(56)Profit before tax1,186.2Income tax(256)		-	00	$(1\ 103\ 8)$		
Interest payable on debentures8% x 40032Dividends on redeemable preference shares12% x 20024(56)Profit before tax1,186.2Income tax(256)	Profit from operations		-			
Dividends on redeemable preference shares 12% x 20024(56)Profit before taxIncome tax(256)	•	8% x 400	32	.,		
(56)Profit before tax1,186.2Income tax(256)						
Profit before tax 1,186.2 (256)	p			(56)		
Income tax (256)	Profit before tax		-	\ /		
Profit for the year 930.2	Income tax					
	Profit for the year		-	930.2		

Falmouth plc Statement of changes in equity for the year ended 30 June 20X1

	Equity share capital £000	Retained earnings £000	<i>Total</i> £000
Balance at 1 July 20X0	500	368	868
Profit for the year		930.2	930.2
Dividends paid		(56)	(56)
Balance at 30 June 20X1	500	1,242.2	1,742.2



Falmouth plc Statement of financial position at 30 June 20X1

Non-current assets Freehold land and buildings Plant and machinery Motor vehicles		£000 <i>Cost</i> 860 1,180 440 2,480	£000 Accumulated depreciation 48 370 299.3 717.3	£000 <i>NBV</i> 812 810 140.7 1,762.7
Current assets Inventories Receivables Less: allowance for receivables	578 + 8	586 (24)	440 562	
Prepayments Bank			7.5 168	1,177.5
Total assets			-	2,940.2
Equity Equity share capital Retained earnings			500 1,242.2	1,742.2
Long-term liabilities Redeemable preference share cap 8% debentures	bital		200 400	
Current liabilities Payables Accruals Debenture interest payable Redeemable preference dividend Income tax payable	12 + 24 32 – 16 24 – 12 256 – 112		390 36 16 12 144	600
Total equity and liabilities				<u>598</u> 2,940.2
Workings			-	
Sale of plant and machinery Original cost Accumulated depreciation Net book value at time of disposal Proceeds Loss on sale	60% x 320)	-	£000 320 (192) 128 40 88



Cos	st of plant and machinery	
	Per trial balance	1,460
+	Proceeds incorrectly credited	40
-	Plant sold	(320)
		1,180

Previous irrecoverable debt received

This amount had been written off as an irrecoverable debt in previous years. The correct accounting treatment is to credit the amount received to irrecoverable debts, i.e. to reduce this year's irrecoverable debts expense. The adjustment required is therefore:

Dr Receivables

Cr Irrecoverable debts