

QUESTIONS

Question 1 Multiple choice

1. Three of the following six statements are correct:

1. Listed company regulation is handled by the Financial Services Authority
2. Private limited companies are obliged by law to make only a limited amount of information available to the public, but they are still obliged to produce a full set of accounts for distribution to their shareholders
3. Companies are required by law to produce a Directors' report as part of their financial statements
4. All companies are required to have an annual audit
5. Public limited companies are obliged to have a share capital of £100 000
6. Directors are required at all times to act in the best interests of the shareholders.

Which statements are correct?

- a) 1, 2 & 3
- b) 2, 3 & 6
- c) 3, 4 & 6
- d) 1, 4 & 5

The following information is relevant for questions 2 and 3:

Cherry Chan & Company Limited had 10 000 50p ordinary shares in issue at the start of its financial year on 1 April 20X4. On 1 August 20X4 the company issued a further 2000 shares for cash, and on 1 February 20X5 a further 3000 shares for cash.

The company's directors declared an interim dividend of 2p per share which was paid on 31 August 20X4 in respect of all shares in issue at that time. They declared and paid a further, final, dividend of 5p per share on 31 March 20X5.

Question 2 Cherry Chan & Company Limited

How much dividend was paid by Cherry Chan & Company Limited for the year ending 31 March 20X5?

- a) £990
- b) £840
- c) £700
- d) £1050

Question 3 Katisha

Facts as above. At 1 April 20X4 Katisha owned 3000 shares in Cherry Chan Limited. She decided not to buy any of the new issue of ordinary shares made on 1 August 20X4. However, later in the year she comes into some money and decided to buy 750 shares in the 1 February 20X5 issue.

How much dividend was received by Katisha from Cherry Chan Limited in respect of the year ending 31 March 20X5?

- a) £247.50
- b) £262.50
- c) £210.00
- d) £187.50

Question 4 Dingle Darcus Limited

The directors of Dingle Darcus Limited have asked their chief accountant to prepare a draft income statement for the accounting year which has just ended on 31 December 20X3. They will use the draft for discussion at the next board meeting where they will compare the draft results with the previous year's published income statement. In order to aid comparison they would like the draft income statement to be presented using the following format:

Revenue

Cost of sales

Gross profit or loss

Selling and distribution costs

Administrative expenses
 Operating profit
 Finance costs
 Profit or loss before taxation
 Tax on profit or loss
 Profit for the year

The chief accountant produces the following relevant totals for the year ending 31 December 20X3:

	£
Sales returns	13 077
Purchases returns	16 662
Inventory at 1 January 20X3	1 027 406
Selling and distribution costs	857 973
Interest payable	86 904
Inventory at 31 December 20X3	993 990
Revenue	9 999 937
Purchases	6 637 262
Administrative expenses	1 044 872

Notes:

1. The chief accountant estimates that accruals of distribution costs of £10 260 will be required in addition to the total included in the list above.
2. Of the administrative expenses of £1 044 072, £22 400 relates to the next following accounting period and should be treated as a prepayment.
3. It is estimated that corporation tax of £500 000 will be payable in respect of the year ending 31 December 20X3 and this should be allowed for in calculating profit for the year.

Prepare the draft income statement for Dingle Darcus plc for the year ending 31 December 20X3.

Question 5 Easington Esterhazy Limited

The financial accountant of Easington Esterhazy Limited has drawn up the following list of balances at 28 February 20X5:

	£
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Land and buildings at cost	1 500 000
Accumulated depreciation on buildings 28 February 20X5	465 300
Plant and machinery at cost	1 726 460
Accumulated depreciation on plant & machinery 28 February 20X5	730 460
Other non-current assets at cost	506 000
Accumulated depreciation on other non-current assets 28 February 20X5	174 530
Purchases	1 617 133
Interest paid	18 772
Sales department salaries	72 570
Distribution costs	18 611
Sales office costs	13 255
Directors' remuneration	56 600
Other administrative expenses	68 397
Inventory at 1 March 20X4	215 970
Trade payables	296 731
Long-term loan	200 000
Share capital (£1 shares)	500 000
Inventory at 28 February 20X5	206 803
Cash at bank	8 251
Trade receivables	246 994
Revenue	2 204 772
Retained earnings at 1 March 20X4	1 497 220

Note:

1. The financial accountant estimates that corporation tax of £105 900 will be payable in respect of the year ending 28 February 20X5 and an adjustment must be made for this.

Prepare a income statement for the company for the year ending 28 February 20X5 and a statement of financial position at that date. Both financial statements should be presented in accordance with Companies Act requirements.

ANSWERS

Answer 1 Multiple choice

The correct statements are:

1. Listed company regulation is handled by the Financial Services Authority
2. Private limited companies are obliged by law to make only a limited amount of information available to the public, but they are still obliged to produce a full set of accounts for distribution to their shareholders
3. Companies are required by law to produce a Directors' report as part of their financial statements

The correct answer is a).

Answer 2 Cherry Chan & Company Limited

The interim dividend was paid on 31 August 20X4 on the number of shares in issue at the time:

$$10\,000 + 2\,000 \text{ (issued 1 August 20X4)} = 12\,000$$

$$\text{Interim dividend} = 12\,000 \times 2\text{p} = \text{£}240$$

The final dividend was paid on 31 March 20X5 in respect of the number of shares in issue at the time: $12\,000 + 3\,000 \text{ (issued 1 February 20X5)} = 15\,000$

$$\text{Final dividend} = 15\,000 \times 5\text{p} = \text{£}750$$

$$\text{Total dividend paid by the company for the year ending 31 March 20X5} = \text{£}240 + \text{£}750 = \text{£}990$$

The correct answer is a).

Answer 3 Katisha

At 31 August 20X4 (the time of the interim dividend payment) Katisha owned 3000 shares. Her interim dividend was: $3000 \times 2p = £60$

At 31 March 20X5 Katisha owned 3750 shares (the original 3000 + 750 shares bought on 1 February 20X5). Her final dividend was $3750 \times 5p = £187.50$

Katisha's dividend received from Cherry Chan & Company Limited in respect of the year ending 31 March 20X5 is $£60 + £187.50 = £247.50$

The correct answer is a).

Answer 4 Dingle Darcus Limited

Workings

1. Revenue

	£
Revenue	9 999 937
Less: returns	<u>(13 077)</u>
	<u>9 986 860</u>

2. Cost of sales

Opening inventory at 1 January 20X3	1 027 406
Purchases less returns (£6 637 262 – 16 662)	<u>6 620 600</u>
	7 648 006
Closing inventory at 31 December 20X3	<u>(993 990)</u>
	<u>6 654 016</u>

Dingle Darcus plc: draft income statement for the year ending 31 March 20X3

	£
Revenue (working 1)	9 986 860
Cost of sales (working 2)	<u>(6 654 016)</u>
Gross profit	<u>3 332 844</u>

Selling and distribution costs (£857 973 + 10 260)	(868 233)
Administrative expenses (£1 044 872 – 22 400)	(1 022 472)
Operating profit	<u>1 442 139</u>
Finance costs	(86 904)
Profit before taxation	<u>1 355 235</u>
Tax	(500 000)
Profit for the year	<u>855 235</u>

Answer 5 Easington Esterhazy Limited

Workings

1. Cost of sales

	£
Inventory at 1 March 20X4	215 970
Purchases	<u>1 617 133</u>
	1 833 103
Inventory at 28 February 20X5	<u>(206 803)</u>
	<u>1 626 300</u>

2. Selling and distribution costs

	£
Sales department salaries	72 570
Distribution costs	18 611
Sales office costs	<u>13 255</u>
	<u>104 436</u>

3. Administrative expenses

	£
Directors' remuneration	56 600
Other administrative expenses	<u>68 397</u>
	<u>124 997</u>

4. Non-current assets (at carrying amount)

Land and buildings (£1 500 000 – 465 300)	1 034 700
Plant and machinery (£1 726 460 – 730 460)	996 000
Other non-current assets (£506 000 – 174 530)	<u>331 470</u>
	<u>2 362 170</u>

5. Other payables

Corporation tax payable: £105 900

Easington Esterhazy Limited: income statement for the year ending 28 February 20X5

	£
Revenue	2 204 772
Cost of sales (working 1)	(1 626 300)
Gross profit	<u>578 472</u>
Selling and distribution costs (working 2)	(104 436)
Administrative expenses (working 3)	(124 997)
Operating profit	<u>349 039</u>
Finance costs	(18 772)
Profit before taxation	<u>330 267</u>
Tax	(105 900)
Profit for the year	<u>224 367</u>

Easington Esterhazy Limited: statement of financial position at 28 February 20X5

	£	£
ASSETS		
Non-current assets		
Tangible non-current assets (working 4)		2 362 170
Current assets		
Inventory	206 803	
Trade receivables	246 994	

Cash at bank	8 251	
		462 048
		2 824 218
EQUITY AND LIABILITIES		
Equity		
Share capital		500 000
Retained earnings (£1 497 220 + 224 367)		1 721 587
		2 221 587
Non-current liabilities		200 000
Current liabilities		
Trade payables	296 731	
Other payables (working 5)	105 900	
		402 631
		2 824 218