

## Chapter 11 Financial reporting by limited companies

### Questions

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 £50 000, all of which must be issued for cash
  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 has 10 000 50p ordinary shares in issue at the start of its financial year on 1 April 20X4. On 1 August 20X4 the company issues a further 2000 shares for cash, and on 1 February 20X5 a further 3000 shares for cash.

The company's directors declare an interim dividend of 2p per share which is payable on 31 August 20X4 in respect of all shares in issue at that time. They declare a further, final, dividend of 5p per share for which an accrual is to be made in the financial statements at the year end, 31 March 20X5.

2. How much dividend is payable by Cherry Chan & Company Limited for the year ending 31 March 20X5?
  - (a) £990

- (b) £240
- (c) £800
- (d) £1050

3. Facts as above. At 1 April 20X4 Katisha owns 3000 shares in Cherry Chan Limited. She decides 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 decides to buy 750 shares in the 1 February 20X5 issue.

How much dividend is receivable 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

4. The directors of Dingle Darcus Limited have asked their chief accountant to prepare a draft profit and loss account 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 profit and loss account. In order to aid comparison they would like the draft profit and loss account to be presented using the following format:

Turnover

Cost of sales

Gross profit or loss

Selling and distribution costs

Administrative expenses

Operating profit

Interest payable and similar charges

Profit or loss on ordinary activities before taxation

Tax on profit or loss on ordinary activities

Profit or loss on ordinary activities after taxation

Dividends

Retained profit or loss

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

	£
Sales returns	13 077
Purchases returns	16 662
Stock at 1 January 20X3	1 027 406
Selling and distribution costs	857 973
Interest payable	86 904
Stock at 31 December 20X3	993 990
Sales	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 retained profit for the year.
4. No dividend has yet been paid to the shareholders. The directors have informed the chief accountant that they intend to declare a dividend of £100 000 payable in respect of this accounting period.

Prepare the draft profit and loss account for Dingle Darcus plc for the year ending 31 December 20X3.

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

	£
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 fixed assets at cost	506 000
Accumulated depreciation on other fixed 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
Stock at 1 March 20X4	215 970
Trade creditors	296 731
Long-term loan	200 000
Share capital (£1 shares)	500 000
Stock at 28 February 20X5	206 803
Cash at bank	8 251
Debtors	246 994
Sales	2 204 772
Retained earnings at 1 March 20X4	1 497 220

Notes:

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.
2. The directors have declared a dividend of 15% of ordinary share capital for the year ending 28 February 20X5 and this must be adjusted for. There was no interim dividend payment.

Prepare a profit and loss account for the company for the year ending 28 February 20X5 and a balance sheet at that date. Both

financial statements should be presented in accordance with Companies Act requirements.

## Answers

1. 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).

2. Cherry Chan & Company Limited

The interim dividend is paid on 31 August 20X4 on the number of shares in issue at the time: 10 000 + 2 000 (issued 1 August 20X4) = 12 000

Interim dividend = 12 000 × 2p = £240

The final dividend is accrued at 31 March 20X5 in respect of the number of shares in issue at the time: 12 000 + 3 000 (issued 1 February 20X5) = 15 000

Final dividend = 15 000 × 5p = £750

Total dividend payable by the company for the year ending 31 March 20X5 = £240 + £750 = £990

The correct answer is (a).

3. Katisha

At 31 August 20X4 (the time of the interim dividend payment) Katisha owns 3000 shares. Her interim dividend is: 3000 × 2p = £60

At 31 March 20X5 Katisha owns 3750 shares (the original 3000 + 750 shares bought on 1 February 20X5). Her final dividend is 3750 × 5p = £187.50

Katisha's dividend receivable 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).

4. Dingle Darcus Limited

Workings

1. Turnover

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

2. Cost of sales

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

Dingle Darcus plc: draft profit and loss account for the year ending 31 March 20X3

	£
Turnover (working 1)	9 986 860
Cost of sales (working 2)	(6 654 016)
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>
Interest payable and similar charges	(86 904)
Profit on ordinary activities before taxation	<u>1 355 235</u>
Taxation	(500 000)
Profit on ordinary activities after taxation	<u>855 235</u>
Dividends:	(100 000)
Retained profit	<u>755 235</u>

5. Easington Esterhazy Limited

Workings

1. Cost of sales

Stock at 1 March 20X	215 970
Purchases	<u>1 617 133</u>
	1 833 103
Stock 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. Fixed assets (at net book value)

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

5. Dividend

Final dividend payable: £500 000 (ordinary share capital) × 15% = £75 000

This must be included in the profit and loss account and in other creditors in the balance sheet.

6. Other creditors

Dividend payable (see working 5)	75 000
Corporation tax payable	<u>105 900</u>
	<u>180 900</u>



Easington Esterhazy Limited: profit and loss account for the year ending 28 February 20X5

	£
Turnover	2 204 772
Cost of sales (working 1)	(1 626 300)
Gross profit	<hr/> 578 472
Selling and distribution costs (working 2)	(104 436)
Administrative expenses (working 3)	(124 997)
Operating profit	<hr/> 349 039
Interest payable and similar charges	(18 772)
Profit on ordinary activities before taxation	<hr/> 330 267
Taxation	(105 900)
Profit on ordinary activities after taxation	<hr/> 224 367
Dividends (working 5)	(75 000)
Profit for the financial year	<hr/> 149 367 <hr/>

Easington Esterhazy Limited: balance sheet at 28 February 20X5

	£	£
Fixed assets		
Tangible assets (working 4)		2 362 170
Current assets		
Stock	206 803	
Debtors	246 994	
Cash at bank	8 251	
	<hr/> 462 048 <hr/>	
Creditors: amounts falling due within one year		
Trade creditors	296 731	
Other creditors (working 6)	180 900	
	<hr/> 477 631 <hr/>	
Net current liabilities		(15 583)
Total assets less current liabilities		<hr/> 2 346 587 <hr/>
Creditors: amounts falling due after		<hr/> (200 000) <hr/>

more than one year	
	<hr/>
	2 146 587
Capital and reserves	
Share capital	500 000
Retained earnings (£1 497 220 + 149 367)	1 646 587
	<hr/>
	2 146 587
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