

32.1 A drill to practise the different year-end treatments of revenue expenditure and capital expenditure**REQUIRED**

- a) show how each of the following transactions would be initially recorded in the accounts of the business concerned
- b) show any necessary transfers (to the P&L Account or otherwise) at the year-end, and
- c) show how any remaining balances would be shown in the balance sheet at the year-end

1.

At the start of a year, a business purchases a machine for use in the business, paying a total price of £7 650 to the supplier. The price paid is made up as follows:

	£
machine	4 500
installation	1 000
one year's insurance	150
one year's servicing	200
delivery charge	300
training for machine operators	1 500
	<u>£7 650</u>

The business expects to use the machine for fifteen years before it is scrapped with no value.

a) initial recording b) transfers to P&L

<i>Machine Cost</i>			
<i>machine</i>	4 500		
<i>installation</i>	1 000		
<i>delivery</i>	300		
	<u>5 800</u>	<i>c/f</i>	<u>5 800</u>
<i>b/f</i>	5 800		

<i>Provision for Depreciation</i>		
	<i>to P&L</i>	387

<i>Insurance</i>		
150	<i>to P&L</i>	150

<i>Training</i>		
1 500	<i>to P&L</i>	1 500

<i>Servicing</i>		
200	<i>to P&L</i>	200

<i>Money & Promises</i>	
	7 650

<i>P&L Account</i>	
<i>depreciation</i>	387
<i>insurance</i>	150
<i>servicing</i>	200
<i>training</i>	1 500

c) treatment of remaining balances in balance sheet

	£
Fixed Asset Cost	5 800
Provision for Depreciation	<u>(387)</u>
Net Book Value	<u>£5 413</u>

2.

The payments made by a building firm during a period include wages £540 000 and building materials £400 000.

Included in these amounts are wages of £20 000 in respect of work done on a new storage shed which the firm has built for itself, and materials costing £30 000 which were also used in the construction of the new shed.

a) initial recording b) transfers to other accounts

Wages		Provision for Depreciation	
<i>paid</i>	540 000		<i>to P&L</i> 1 000
		<i>to Shed Cost</i>	20 000
		<i>to P&L</i>	520 000
Materials		P&L Account	
<i>paid</i>	400 000		
		<i>depreciation</i>	1 000
		<i>wages</i>	520 000
		<i>materials</i>	370 000
Money & Promises			
			940 000
Shed (fixed asset) Cost			
<i>wages</i>	20 000		
<i>materials</i>	30 000	<i>c/f</i>	50 000
	<u>50 000</u>		<u>50 000</u>
<i>b/f</i>	50 000		

c) treatment of remaining balances in balance sheet

Fixed Asset – shed cost	50 000
Provision for Depreciation	(1 000)
Net Book Value	<u>£49 000</u>

Notice: we have arbitrarily assumed that the shed will be depreciated at 2% per year.

3.

A pharmaceutical business pays total salaries of £500 000 in a period.

Analysis at the end of the period shows that this includes salaries of production managers £300 000, and salaries of research scientists £200 000.

Of the salaries paid to research scientists, £120 000 relates to general research with no specific project yet envisaged, while £80 000 relates to final testing of a new drug to be marketed in the following year.

a) initial recording b) transfers to other accounts

Salaries			
paid	500 000	to P&L	300 000
		to Research	200 000
Money & Promises			
			500 000
Research			
salaries	200 000	to P&L	120 000
		to new drug	80 000
	200 000		200 000
New Drug (= Fixed Asset)			
testing cost	80 000		

Provision for Depreciation	
	to P&L ?

P&L Account	
depreciation	?
salaries	
– management	300 000
– research	120 000

c) treatment of remaining balances in balance sheet

	£
Fixed Asset – new drug cost	80 000
Provision for Depreciation	?
Net Book Value	?

Notice: there may be other costs included as part of the capitalized or ‘fixed asset’ cost of the new drug, and without further information we do not know how the depreciation of this fixed asset should be accounted for.