

65.3 A drill to practise accounting for reserves in a limited company

For each of the companies below, state the double entry required to account for the given situation, and show the entries on the relevant accounts.

1.

ABB plc has the balance sheet shown below:

ABB Balance Sheet

Net Assets	<u>£4 700</u>
Issued Share Capital	2 500
Share Premium	700
Other Reserves	300
Retained Profit	<u>1 200</u>
	<u>£4 700</u>

The company now wishes to redeem £500 of share capital at par, 'out of profits'.

Double Entry

DR	Issued Share Capital	£500	
CR	Net Assets		£500

DR	Retained Profit	£500	
CR	Capital Redemption Reserve		£500

Entries on Accounts

<i>Issued Share Capital</i>		<i>Net Assets</i>	
<i>redeemed and cancelled</i>	500	<i>b/f</i>	2 500
		<i>b/f</i>	4 700
		<i>repaid to shareholders</i>	500
<i>Retained Profit</i>		<i>Capital Redemption Reserve</i>	
<i>to Capital Redemption</i>	500		<i>from Retained Profit</i>
			500

ABB Balance Sheet after redemption of shares	
Net Assets	<u>£4 200</u>
Issued Share Capital	2 000
Share Premium	700
Other Reserves	300
Capital Redemption Reserve	500
Retained Profit	<u>700</u>
	<u>£4 200</u>

2.

BCC plc has the balance sheet shown below:

BCC Balance Sheet

Net Assets	<u>£5 500</u>
Issued Share Capital	3 000
Share Premium	500
Revaluation Reserve	750
Retained Profit	<u>1 250</u>
	<u>£5 500</u>

The company now wishes to establish a General Reserve of £250.

Double Entry

DR	Retained Profit	£250	
CR	General Reserve		£250

Entries on Accounts

<i>Retained Profit</i>				<i>General Reserve</i>			
<i>to General Reserve</i>	250	<i>b/f</i>	1 250		<i>from Retained Profit</i>	250	

BCC Balance Sheet	
after creation of General Reserve	
Net Assets	<u>£5 500</u>
Issued Share Capital	3 000
Share Premium	500
Revaluation Reserve	750
General Reserve	250
Retained Profit	<u>1 000</u>
	<u>£5 500</u>

3.

CDD plc has the balance sheet shown below:

CDD Balance Sheet

Net Assets	<u>£3 900</u>
Issued Share Capital	1 000
Share Premium	1 200
General Reserve	300
Retained Profit	<u>1 400</u>
	<u>£3 900</u>

The company now wishes to reduce its General Reserve to £200.

Double Entry

DR	General Reserve	£100	
CR	Retained Profit		£100

Entries on Accounts

<i>General Reserve</i>				<i>Retained Profit</i>			
<i>to</i>					<i>b/f</i>		1 400
<i>Retained Profit</i>	100	<i>b/f</i>	300		<i>from General Reserve</i>	100	

CDD Balance Sheet	
after reduction of General Reserve	
Net Assets	<u>£3 900</u>
Issued Share Capital	1 000
Share Premium	1 200
General Reserve	200
Retained Profit	<u>1 500</u>
	<u>£3 900</u>