Practice Assessment: Questions (2.5hrs allowed)

Baljow Limited

Trial balance as at 31 May 20X1

	Dr	Cr
	£'000	£,000
Plant and machinery at cost	12,000	
Ordinary share capital		11,000
6.5% loan stock repayable 20X8		15,000
Purchases	16,546	
Share premium		4,000
Inventory at 1 June 20X0	5,064	
Revaluation reserve		2,200
Distribution costs	8,106	
Cash at bank	3,980	
Trade receivables	7,335	
Trade payables		4,406
Dividends paid	1,600	
Retained earnings at 1 June 20X0		6,059
Administrative expenses	7,240	
Sales		36,824
Prepayments	2,068	
Interest	550	
Accumulated depreciation:		
Buildings		1,500
Plant and machinery		3,500
Land and buildings at cost	20,000	
	84,489	**84,489**

Additional Information:

*All non-specified expenses should be allocated to administrative expenses.

(a) The share capital consists of £1.25 ordinary shares. During the year, the company issued 500,000 new ordinary shares. They had a nominal value of £1.25 but were sold for £1.50 per share. This transaction is included in the trial balance above.

(b) The inventories at the close of business cost £4,280,000. Included in this amount are inventories that cost £1,602,000 which were stolen on 25 July 20X1.

(c) The land belonging to the company which had never been revalued before, cost £10,000,000 and is to be revalued at £9,500,000. This is to be included in the financial statements for the year ended 31 May 20X1.

(d) In March 20X1, £450,000 was paid for advertising promotions which took place in April 20X1.

(e) On 20 August 20X1, the company received information that one of its debtors owing the company £633,000 as at the year-end date, has gone into liquidation.

(f) The corporation tax charge for the year to 31 May 20X1 is estimated at £50,000.

(g) Depreciation is to be provided for the year ended 31 May 20X1 as follows;

Plant and machinery	15% per annum	Reducing balance basis
Buildings	2.5% per annum	Straight line basis

The total depreciation is to be apportioned as follows;
Cost of sales 40%; Distribution costs 40%; Administrative expenses 20%

All of the operations are continuing operations.

You are required to set up the financial statements for Baljow Ltd for the year ended 31 May 20X1.

Task 1 (21marks): ***(List out the journals for your workings)***

Baljow Limited

Statement of profit or loss and other comprehensive income for the year ended 31 May 20X1

Continuing operations:	**£'000**
Revenue	
Cost of sales	
Gross profit	
Distribution costs	
Administrative expenses	
Profit from operations	
Finance costs	
Profit before tax	
Tax	
Profit for the year from continuing operations	
Other comprehensive income:	
Gain/loss on revaluation	
Total comprehensive income for the year	

Workings:

Cost of sales	**£'000**

Administrative expenses	**£'000**

Distribution costs	**£'000**

Finance costs	**£'000**

Baljow Limited

Statement of changes in equity for the year ended 31 May 20X1

	Share capital	Other reserves	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
Balance at 1 June 20X0				
Changes in equity for the year:				
Total comprehensive income for the year				
Dividends paid				
Issue of shares at a premium				
Balance at 31 May 20X1				

Task 2 (19marks):

Baljow Limited Statement of financial position as at 31 May 20X1

ASSETS		£'000
Non – current assets		
Current assets		
Total assets		
EQUITY AND LIABILITIES		
Equity		
Total equity		
Non - current liabilities		
Current liabilities		
Total liabilities		
Total equity and liabilities		

Workings:

Task 3 (8 marks):
(a) The Conceptual Framework for Financial Reporting identifies fundamental and enhancing qualitative characteristics.
You are required to identify and define three fundamental and three enhancing qualitative characteristics.

(b) Give two examples of user groups identified in the Conceptual Framework for Financial Reporting and explain their need for the information in the financial statements.

Task 4 (14 marks):
The directors of Baljow Limited are reviewing the accounting treatment for liabilities under IAS 37- Provisions, Contingent Liabilities & Contingent Assets and they need some guidance.

(a) Define and explain the meaning and accounting treatment for Provisions

(b) Define and explain the meaning and accounting treatment for Contingent Liabilities

(c) Define and explain the meaning and accounting treatment for Contingent Assets

Task 5 (17 marks):
(a) An asset is impaired when the recoverable amount is higher than the carrying amount? True or False

(b) Inventory is valued at the lower of Cost or Recoverable amount? True or False

(c) On 1 June 20X5, there were 40 units in inventory valued at £3.10 each. On 10 June 20X5, 60 units were purchased at £3.20 each and on 15 June 20X5, a further 20 units were purchased at £3.25 each. On 12 June, 30 units were sold for £14 each and on 20 June, 80 units were sold for £14 each.

What is the value of the closing inventory at the end of June 20X5 using:
(i) FIFO inventory valuation methods?
(ii) AVCO inventory valuation methods?

(d) Jemma PLC is preparing its account for the year ending 31 May 20X9 and the trial balance shows the following in respect of corporation tax:

	£
Tax payable at 1 June 20X8	24,180
Tax paid during the year ended 31 May 20X9	22,500

The final agreed corporation tax liability in respect of the profits for the year ending 31 May 20X8 has been settled in full. The estimated corporation tax liability based upon the profits for the year ending 31 May 20X9 is £25,906.

(i) What is the tax charge that will be shown in the company’s statement of profit or loss?
(ii) What is the tax liability that will be shown in the company’s statement of financial position?

(e) Yeal Ltd has £13,600 profits from operations (before deducting depreciation) for the year ended 31 Jan 20X3. What is the amount of cash generated from operating activities where the following occurred:

	YE 31 Jan 20X3	YE 31 Jan 20X2
	£	£
Trade and other receivables	15,260	9,800
Inventories	14,491	16,108
Trade and other payables	13,008	10,089
Gain on disposal of non-current assets	1,260	980
Depreciation	2,564	3,450

Task 6 (28 marks):

(a) Jabi Ltd purchased some of Bantel Ltd's ordinary share capital on 1 January 20X5, when Bantel's retained earnings were £26,000.

Statement of financial positions of Jabi Ltd and Bantel Ltd as at 31 December 20X5

	Jabi Ltd	**Bantel Ltd**
ASSETS	**£**	**£**
Non-current assets:		
Property, plant and equipment	190,000	128,000
Investments: 63,000 shares in Bantel Ltd	99,000	0
Current Assets	101,000	69,000
Total Assets	**390,000**	**197,000**
EQUITY AND LIABILITIES		
Equity:		
Called up share capital (£1 ordinary shares)	196,000	90,000
Retained earnings	73,000	62,000
	269,000	152,000
Current liabilities	121,000	45,000
Total equity and Liabilities	**390,000**	**197,000**

At the end of the year goodwill had suffered an impairment of 20%. Jabi Ltd sold goods costing £15,000 for £22,500 and only 20% of these items have been sold by Bantel Ltd at the end of the accounting year. There was a short term loan given to Bantel Ltd from Jabi Ltd of £5,000 and this had not been repaid by the end of the year.

Required: Prepare the consolidated statement of financial position as at 31 December 20X5.

Jabi Ltd Consolidated statement of financial position as at 31 December 20X5

	£
ASSETS	
Non-current Assets	
Goodwill	
Property, plant and equipment	
Current assets	
Total Assets	
EQUITY & LIABILITIES	
Equity	
Share capital	
Retained earnings	
Non-controlling interest	
Total equity	
Non-current liabilities	
Current liabilities	
Total liabilities	
Total equity and liabilities	

Workings:

Goodwill	**£**

Retained earnings	**£**

(b) The statements of comprehensive income of JAT plc and Pandel Ltd for the year ended 31 December 20X5 are shown below.

	JAT plc	Pandel Ltd
Continuing operations	**£'000**	**£'000**
Revenue	4,900	2,450
Cost of sales	(2,660)	(1,400)
Gross profit	2,240	1,050
Other income (dividends from Pandel Ltd)	410	-
Distribution costs	(578)	(349)
Administrative expenses	(439)	(530)
Profit before tax	1,633	171
Tax	(462)	(33)
Profit for the year	1,171	138

Further information:

a. The issued share capital of Pandel Ltd consists of 60,000 ordinary shares of £1 each.
b. JAT plc acquired 45,000 of the ordinary shares of Pandel Ltd on 1 January 20X2.
c. During the year, Pandel Ltd made sales totalling £220,000 to JAT plc which cost £120,000. 60% of these goods had been sold by 31 December 20X5.

You are required to prepare the consolidated statement of profit or loss of Pames plc and its subsidiary for the year ended 31 December 20X5.

Consolidated statement of profit or loss for the year ended 31 December 20X5

Continuing operations:	**£'000**
Revenue	
Cost of sales	
Gross profit	
Other income	
Distribution costs	
Administrative expenses	
Profit from operations	
Tax	
Profit after tax	

Task 7 (20 marks):
You are required to state the formula and prepare the following ratios for Bazz Ltd for the years ended 30 June 20X0 and 20X1, using the information provided below.

- Gross profit percentage
- Operating expense/ revenue percentage
- Interest cover
- Return on capital employed
- Return on shareholders funds

	20X0	20X1
	£	£
Revenue	25,000	27,250
Cost of sales	(14,680)	(14,796)
Gross profit	10,320	12,454
Operating expenses	(3,939)	(6,398)
Profit from operations	6,381	6,056
Finance cost	(480)	(507)
Profit before tax	5,901	5,549
Tax	(1,006)	(1,580)
Profit after tax	4,895	3,969
Total equity	13,000	16,500
Total non-current liabilities	4,210	6,990

Ratio	**Formula**	**Computation of ratio (to one decimal place)**	
		20X0	20X1
Gross profit percentage			
Operating expense/ revenue percentage			
Interest cover			
Return on capital employed			
Return on shareholders funds			

Task 8 (23 marks):
You have been asked to look at the efficiency and effectiveness of the management of this company by using the ratios below which you have calculated for the last two years of Mantod Limited.

	20X1	20X0
Gross profit percentage	35%	30%
Operating profit percentage	11%	12%
Inventory holding days	25days	29days
Current ratio	0.6:1	1.3:1

Prepare a report to Johnny Fisher, a shareholder to include:

(a) Comments on whether Mantod Ltd has performed better or worse across the two years in respect of each of the calculated ratios, giving possible reasons for any differences.
(b) Advice Johnny Fisher on whether he should maintain his investment in the company or not.