4 - Company Accounts

(w) Calculation of Net Profit after Interest and Tax

	Net profit before interest and tax **(PBIT)**	XXX
Less:	Debentures / Loan interest (Debentures Amount X Rate %)	(XXX)
	Profit before tax **(PBT)**	XXX
	Less: Tax	(XXX)
	Profit after interest and tax / Profit for the year	**XXX**

Statement of changes in equity
A set of financial statements for a company must include a statement of changes in equity (SOCIE) in order to comply with the requirements of IAS1: **Presentation of Financial statements**.

The SOCIE is a part of the financial statements of a company, together with the statement of financial position, statement of comprehensive income, statement of cash flows and notes to the financial statements.

For each 'component of equity', a SOCIE shows the amount at the beginning of the period for that component of equity, changes during the period, and its amount at the end of the period.

The purpose of the statement is simply to show how the total amount of equity has changed during the year, and which parts of equity have increased or decreased in amount, and by how much.

ARD Limited
Statement of Changes in Equity for the year ended 31 Dec 2016

	Share Capital	**Share Premium**	**Revaluation Reserve**	**General Reserve**	**Retained Earnings**	**Total Equity**
Balance at Start	XXX	XXX	-	XXX	XXX	XXXX
Profit / (Loss) after interest and tax for the year	-	-	-	-	XX(XX)	XX(XX)
Dividends paid	-	-	-	-	(XX)	(XX)
New Share Issue	XX	XX	-	-	-	XXX
Transfer to General Reserve	-	-	-	XX	(XX)	-
Assets Revalued			XXX			XXX
Balance at End	XXX	XXX	XXX	XXX	XXX	XXXX

ARD Limited
Statement of Financial Position Extract
For the year ended Dec 31, 2015

Equity & Reserves			
AUTRHORIZED SHARE CAPITAL:			
Preference shares Capital	XXX		
Ordinary Share Capital	XXX	XXX	
ISSUED / CALLED UP / PAID UP SHARE CAPITAL:			
Preference share Capital	XXX		
Ordinary Share Capital	XXX	XXX	
General Reserves		XXX	
Retained Earnings		XXX	
Total Shareholder funds			**XXX**
Add: Debentures / Bank Loan			XXX
Capital Employed			**XXX**

Schedule of Non-Current Assets

(To be included in Company Financial Statements – Notes to the Accounts)

	Building	**Motor Vehicles**	**Equipment**	**Total**
	$	$	$	$
Cost				
Balance at 1.Jan.2019	XXX	XXX	XXX	XXXX
Addition	-	XX	XX	XX
Disposal	-	(X)	-	(X)
Balance at 31.Dec.2019	XXX	XXX	XXX	XXXX
Depreciation				
Balance at 1.Jan.2019	XX	XX	XX	XXX
Charge for the year	X	X	X	XX
Disposal	-	(X)	-	(X)
Balance at 31.Dec.2019	XX	XX	XX	XX
Net Book Value				
As at 31.Dec.2019	XX	XX	XX	XX
As at 31.Dec.2018	XX	XX	XX	XX

There are two main types of shares:

1 Preference shares. Holders of these shares get an agreed percentage rate of dividend before the ordinary shareholders receive anything.

2 Ordinary shares. Holders of these shares receive the remainder of the total profits available for dividends. There is no upper limit to the amounts of dividends they can receive.

Types of Preference Shares

Non-cumulative preference shares. These can receive a dividend up to an agreed percentage each year. If the amount paid is less than the maximum agreed amount, the shortfall is lost by the shareholder. The shortfall cannot be carried forward and paid in a future year.

Cumulative preference shares. These also have an agreed maximum percentage dividend. However, any shortfall of dividend paid in a year can be carried forward. These arrears of preference dividends will have to be paid before the ordinary shareholders receive anything.

Participating preference shares:
These shares entitle preference shareholders, not only to receive fix rate dividends but also additional distribution of profits in good trading years.

Redeemable and irredeemable preference shares

Most classes of preference shares are either redeemable or irredeemable.

 Redeemable preference shares will be bought back by the company at a date in the future, and cancelled. When a company buys back and cancels shares, the shares are 'redeemed'. Shares might be redeemed at their nominal value (par value) but the redemption price might be higher.

 Irredeemable preference shares will not be redeemed. Like ordinary shares, they are 'permanent' share capital.

In practice most preference shares issued by companies are redeemable.

Preference shares: equity or debt?
Companies are required to show equity capital separately from liabilities in the statement of financial position. Long-term debt is a non-current liability.
There is no special place in the statement of financial position for preference shares, and preference shares must be classified either as equity or as debt. The rules for deciding whether preference shares are equity or debt are fairly complex, but as a general rule:

 Redeemable preference shares are usually treated as debt capital in financial Reporting

 Irredeemable preference shares are likely to be included in equity.
A consequence of treating preference shares as either equity or debt capital, Depending on circumstances, the dividends paid to preference shareholders are also Treated in one of two ways:

 When preference shares are treated as debt capital and included in non-current liabilities, dividends paid to the preference shareholders are reported as a finance cost in the income statement, similar to interest costs on a loan. These preference dividends reduce the reported profit.

 When preference shares are treated as equity, dividends paid to the shareholders are treated as equity dividends. Accounting for equity dividends is explained later.

Share capital: Different meanings

1) Authorized share capital. Sometimes known as registered capital or nominal capital. This is the total of the share capital which the company is allowed to issue to shareholders.

2) Issued share capital. This is the total of the share capital actually issued to shareholders. If all of the authorized share capital has been issued, then 1 and 2 above would be the same amount.

3) Called-up capital. Where only part of the amount payable on each issued share has been asked for, the total amount asked for on all the issued shares is known as the called-up capital.

4) Uncalled capital. This is the total amount which is to be received in future relating to issued share capital, but which has not yet been asked for.

5) Calls in arrears. The total amount for which payment has been asked for (i.e. 'called for'), but has not yet been paid by shareholders.

6) Paid-up capital. This is the total of the amount of share capital which has been paid for by shareholders.

Types of Share Prices

- Nominal Value / Par Value / Face Value
- Issue Price
- Market Value

Dividends (Preference and Ordinary)
the amount given to shareholders as their share of profits in the company.

Interim and final dividends

Many companies make two (or possibly more) dividend payments each year to the ordinary shareholders.

 There might be a payment during the financial year, based on profits for the first six months of the year. This mid-year dividend is called an interim dividend.

 There is usually a payment after the end of the financial year, based on profits for the full year. This is called a final dividend.

Proposed Dividend
Dividend announced or declared, but not yet issued to the shareholders. It is considered to be a liability or disclosed through notes to the accounts.

Note: Dividend payment by be expressed either on "per share basis" or as a "%age of the share capital".

Difference between

Ordinary shares	**Preference shares**	**Debentures**
Owner of the company	Hybrid	Trade Payables of a company
No fix rate of dividend	Carry fix rate of dividend	Carry fix rate of interest
Dividend cannot be accumulated	Dividends can be accumulated in case of Cumulative Preference Shares.	Interest must be paid in the year, cannot be accumulated
Can vote in AGM	Cannot vote in AGM	Cannot vote in AGM
Last one to get paid upon liquidation	They get paid after debenture holders get paid	First one to get paid upon liquidation
Most Risk	Moderate Risk	Least Risk
Highest Return	Moderate Return	Lowest Return

Public Issue: This is normal issue of shares to general public. A company can issue shares to public to raise more capital , this is done at the market price. Public issues have higher cost of issue (this means the company has to incur high expenses when issuing the shares I.e. advertising and administration). The main advantage of issuing shares is that no interest has to be paid on it and the company only have to provide a return when they actually make profits.

Rights issues: new share issues for cash

Occasionally, a company might issue new shares to obtain cash. An issue of new shares for cash might be in the form of a rights issue.

In a rights issue the existing shareholders have the right to purchase the new shares in proportion to their existing shareholding. For example in a 1 for 3 rights issue, existing shareholders are given the opportunity to buy one new share for every three shares they currently hold.

If existing shareholders do not want to buy the new shares that are offered to them, the shares will be sold to other investors.

When a stock market company makes a rights issue, the price at which the new shares are offered is below the current market price for the shares that are already in issue.

Advantages of a rights issue
There are several advantages with issuing shares in the form of a rights issue.

 A rights issue is a method of raising new capital in the form of cash. Companies might need new capital to expand their business.

 Existing shareholders have the opportunity to buy a proportion of the new shares, so that they retain the same proportion of the total shares in the company as before.

 Since the price of the new shares is below the current market price, the issue should be attractive to shareholders.

Note: A country's company law might require new issues of shares for cash to be made as a rights issue, unless the shareholders agree otherwise. (UK company law, for example, gives shareholders these rights.)

Disadvantages of a rights issue
There are also some disadvantages with rights issues.

 A rights issue usually involves raising a large amount of cash. When a company does not need a large amount of cash, it will try to persuade the shareholders to permit a different method of issuing shares to raise the cash required.

 A rights issue might be unsuccessful when the stock market is depressed and share prices are falling.

 A rights issue can be expensive. It is usually cheaper to obtain new finance by borrowing.

Bonus issue of shares (Capitalization issue)
A bonus issue of shares (also called a capitalization issue) is an issue of free new shares to existing shareholders in proportion to their existing shareholding. For example, if there is a 1 for 3 bonus issue, shareholders will receive one new share free of charge for every three shares they currently hold.

 The company raises no money from a bonus issue.
 A bonus issue is simply a way of converting reserves into share capital.

A bonus issue is accounted for in the main ledger as follows:
 Debit: Reserves (with the nominal value of the new shares)
 Credit: Ordinary share capital

The reserves are reduced when there is a bonus issue, and the nominal value of the issued share capital is increased.

The reserve that is reduced (debited) is normally the **share premium**. If the share premium is not big enough, it is reduced to zero, and any remaining reduction of reserves is made by reducing retained earnings.

Advantages of a bonus issue
A company whose shares are traded on a stock market can use a bonus issue to increase the number of shares in issue. This will bring down the share price and might help to make the shares more marketable.

A bonus issue can be used to reduce the share premium account, or even remove the share premium account entirely from the statement of financial position.

Disadvantages of a bonus issue
Except for the advantages listed above, a bonus issue serves no practical purpose.

No cash is raised from the issue.
If a bonus issue exceeds the size of the share premium account, retained earnings will be reduced by the issue. This would convert profits that are distributable as profits into long-term share capital that cannot be distributed.

Differences between Rights and Bonus Issue

Right Issue	Bonus Issue
Issue is made to maintain the proportional ownership of existing shareholders	It is made when company makes profit but does not have sufficient cash to pay dividends
Shares are issued at a price between nominal value and market value	Shares are issued without charging price
As they are not free shareholders may not subscribe for right issue	As they are free so all shareholder take these shares
As a result of right issue total equity of the company increases	Bonus issue has no effect on the net assets of the business.

Reserves

Reserves are surplus not yet distributed as profit among its share holders. It is the profit which is not appropriated as dividends. Reserves represent the claim that owners have because of the wealth created by the company over the years but not distributed to them.

There are two types of reserves.

1. **Revenue reserves** Those generally result from profits earned by the company but not appropriated as dividend. These represents increase in company's wealth and are available for the distribution of dividends to the shareholders.

Examples are: Retained Earnings / General Reserve/ Non Current Asset Replacement Reserve

2. **Capital reserves** Undistributed profits of a company that for various reasons are not regarded as distributable to share holders as dividend. These include certain profits on the revaluation of capital assets and sum received from the issuance of share over it's per value (Share premium). Capital reserves are also known as UNDISTRIBUTABLE RESERVES".

Examples are: Share Premium / Revaluation Reserve (Surplus)

Revaluation Reserve
This is created when the value of an asset is increased in the books due to a permenant increase in market value. The amount of revaluation reserve is difference between net book value at the time of revaluation and the market value. This is a gain which cannot be transferred to the profit and loss account as it is still not realized (earned) by the company. This reserve can be used in the future if the same asset (on which the reserve was created) value goes down (the loss can be written off against this reserve). This can also be used for Bonus Issue

Share Premium

Share premium occurs when a company issues shares at a price above its nominal (par) value. This excess of share price over nominal value is what is known as share premium.

What are the uses of Share Premium?

• Issue Bonus Shares

• Write off Formation (Preliminary Expenses)

• Write off Goodwill

WHAT IS CONVERTIBLE DEBENTURE/CONVERTIBLE LOAN STOCK?

Special type of debenture which can be converted into shares at a specified date. Upon conversion the debenture holder receives ordinary shares and he gives away is debenture certificate. The shares are sold to them in return of debentures, so that's usually done at market price of share (so share premium will be involved) .

For example A company has convertible loan stock worth $60000. They decided to convert it into shares by issuing 10 Ordinary shares of $1 each for every $15 of debenture. This means company will issue 40000 shares to settle the debenture , each share which is for $1 was sold for $1.5

Debit :	Debenture 60000
Credit :	Ordinary Shares 40000
	Share premium 20000

PURCHASE AND SALE OF BUSINESS

Purchased Goodwill is calculated by the company which is buying the business. The formula used is:

PURCHASE CONSIDERATION (PURCHASE PRICE) – FAIR VALUE OF NET ASSETS ACQUIRED.

IF THE GOODWILL IS NEGATIVE IT IS RECORED AS A NEGATIVE ASSET IN THE BALANCE SHEET i.e. in brackets. It is called negative goodwill. We also use to call it capital reserve.

The Business which is being sold will not calculate goodwill; in fact it will calculate gain or loss on realization (sale), which will be done through a realization account

Sale of Business	**Purchase of Business**
Assets are recorded at net book values in realization for calculating gain or loss	Assets are included at revalued amount (fair value) when calculating goodwill
Profit or Loss on dissolution is shared by partners in profit sharing ratio and become part of capital	Goodwill is directly shown in the balance sheet as an intangible asset. In brackets if goodwill is negative
Shares given to seller are recorded at market value (including premium) in his capital account	Shares issued are recorded in the financed by section of balance sheet , where we separate par value and share premium
Include all asset and current liabilities in your realization account, irrespective of takeover or not (excluding bank account only include if take over).	Only include those assets and current liabilities which are taken over in the calculation of goodwill.

Note: Bank Account will only be taken over if the question says clearly, or if it says all assets and liabilities were taken over, or the entire business was taken over. If the seller still has to receive or make a payment from bank account, (say for debtors or creditors) and the question is silent about the bank account, assume it was not taken over.

ISSUE OF SHARES

Q1. You are required to write the Journal Entry for the following transactions:

(a) A company issues 10000 ordinary shares of $1 each at par value

(b) A company issues 10000 ordinary shares of $1 each at $1.2 each

(c) A company issues 5000 ordinary shares of $1 each at a premium of $1 each

(d) A company issues 10000 ordinary shares of $0.5 each at $0.8 each

(e) A company issues 2000 10% $1 preference shares at $1 each

(f) A company issues 6000 8% $0.5 preference shares at a premium of $0.05 each

(g) A company issues 8% debentures of $10000

Q2. Following is the summarized Statement of Financial position for Unique Limited as at 31st December 2009.

	$
Non-Current Assets	60000
Current Assets	30000
Current Liabilities	(10000)
Financed by	
$1 Ordinary share capital	50000
$1 6% Preference share Capital	5000
Revaluation Reserve	3000
Share Premium	5000
Retained Profit	17000

Following transactions are not recorded in the books:

i. An interim dividend of $100 was paid to Preference shareholders and $0.01 per share to ordinary shareholders.

ii. Final dividend for Preference shares was announced together with a final dividend of 10% for ordinary shareholders.

iii. At 31st December 2009, the company issues 10% loan stock worth $20000

REQUIRED:

(a) Write up the journal entries for the above transactions.

(b) Re-draw the Statement of Financial position as at 31st December 2009.

Q3. Following is the summarized Statement of Financial position for Starwars Limited as at 31st July 2009:

	$
Non-Current Assets (N. B. V)	90000
Inventory	3000
Accounts Receivable	12000
Bank	25000
Accounts Payable	(20000)
10% Loan Stock (issued on 1st Jan 2009)	(30000)
Net Assets	80000
Capital & Reserves	
Ordinary share capital ($0.1 each)	40000
Share premium	15000
General reserve	5000
Accumulated Profits	20000
	80000

After the Statement of Financial position is prepared following transactions are completely omitted from the books:

(a) During the year building which had cost $10000 and had a net book value of $8000 was revalued at $11000

(b) On 31st July 2009 a bonus issue (scrip issue) was announced on the basis of 1 share for every 5 held (can also be called a 20% bonus issue)

(c) After the bonus issue, a right issue was announced at par value on the basis of 1 share for every 10 held

(d) No account has been taken for interest due on Loan stock.

(e) The company also decides to create a provision for doubtful debts as 5% of total accounts receivable

(f) During the year Due to flood some amount of inventory which cost $1000 is destroyed and is of no use.

REQUIRED:
Redraw the Statement of Financial position as at 31st July 2009 after adjusting for the above transactions (You should make Journal Entries)

Q4. Following is the extract from the Statement of Financial position of Indiana Limited as at 30th June 2008:

	$
Financed by	
$5 Ordinary Share Capital	170000
7% $1 Preference Share Capital	30000
General Reserve	15000
Share Premium	10000
Retained Profit (P&L)	75000

Following transactions are not recorded in the books:

(i) A 1 for 2 rights issue was announced at $6 each

(ii) A 10% bonus issue was after the rights issue

REQUIRED:

(a) Write up the Journal Entries for the above transaction

(b) Re-draw the Statement of Financial position as at 31st December 2008.

Q5. The Share Capital and Reserves sections from the Statement of Financial positions of two companies are shown below:

	Rites Plc	Bonus Plc
Share capital and Reserves	$ 000	$ 000
Issue Ordinary Shares of 25¢ each	4000	2000
Share Premium Accounts	5000	5000
Revaluation Reserve	3000	3000
Profit and Loss Account	256	256
	12256	10256

Immediately after these Statement of Financial position extracts were prepared, the following occurred:

(i) The directors of Rites Plc declared a rights issue of ordinary shares on the basis of one share for every two held at a premium of 10¢ per share. The rights issue was fully subscribed.

(ii) The directors of Bonus Plc restructured the Statement of Financial position by making a bonus issued on the basis of four shares for every one held. The directors maintained the reserves in their most distributable form.

REQUIRED:

(a) Prepare the share capital and reserves section of the Statement of Financial position of Rites plc to show the effect of the rights issue.

(b) Prepare the share capital and reserves section of the Statement of Financial position of Bonus plc to show the effect of bonus issue.

Q6. Mellors plc and Balden plc have both recently made a rights issue on the basis of 1 share for every 2 held at a premium of 50 cents. Extracts from the Statement of Financial positions following issues are shown below:

Statement of Financial position extracts as at 1 December 2002

	Mellors plc **$m**	**Balden plc** **$m**
Amounts falling due after more than one year		
Debentures	125	200
Capital and Reserves:		
Called up share capital (ordinary shares of $ 1 each)	150	150
Share premium account	75	25
Profit and loss account	25	75

Mellors Plc has used all the funds generated by the rights issue to redeem some of its debentures.

Balden plc has invested all its proceeds in 'state of the art' technology for its business.

REQUIRED:

Prepare Statement of Financial position extracts for Mellors plc and Balden plc to show the position before the rights issue.

Revaluation of Non-Current Assets

Scenario 1

Cost of Machinery on 1st Jan 16 is $100,000. Depreciation is charged on 25% Reducing Balancing Method. On 31st Dec 17 Machinery was revalued at $50,000

Scenario 2

On 31st Dec 18 Machinery was Revalued again at $60,000

Scenario 3

On 31st Dec 19 Machinery was Revalued again at $15,000

Required: Journal Entries for Revaluation of Machinery for all three scenarios

Company Accounts

Q1. Statement of Changes in Equity

The following information is available about Whittlesford plc on 31 December 2011.

	$
500 000 ordinary shares of $1 each	500 000
Share premium	200 000
General reserve	70 000
Retained earnings	298 300

Further information is as follows:

1 The draft profit for the year ended 31 December 2012 was $122 800.

2 On 1 January 2012 property was revalued from $520 000 to $780 000.

3 On 31 January 2012 a rights issue of 1 share for every 5 held was made at a premium of $0.25 each.

4 On 30 June 2012 an interim dividend of $0.08 per share was paid.

5 On 31 October 2012 a bonus issue of shares of 1 for every 4 held was made. The directors decided to keep the reserves in their most flexible form.

6 On 31 December 2012 $40 000 was transferred to general reserve and a final dividend of $0.12 per share was proposed.

7 On 5 January 2013 it was discovered that a customer who had owed $4200 at the year end had been declared bankrupt. It was also discovered that goods in inventory at the year end, with a cost of $3000, had been water damaged and could now only be sold for $600.

8 On 17 January 2013 a burglary at the business premises resulted in the loss of computer equipment, $15 700.

REQUIRED

(a) Explain what is meant by keeping reserves in their most flexible form. [3]

(b) Prepare the statement of changes in equity for Whittlesford plc for the year ended

31 December 2012. [13]

(c) Explain whether the event on 17 January 2013 was an adjusting event or a non-adjusting event. [2]

(d) State **three** characteristics of an auditor's report. [3]

Q2. Dolphin Limited is a bakery producing goods for wholesale.

The issued share capital of the company is 300 000 ordinary shares of $2 each.
The directors offered a further 125 000 ordinary shares to family and friends.

The terms of issue were:
1 April 2016 – Payable on application $1.00 per share
30 June 2016 – Final payment $1.10 per share

Applications were received for 150 000 shares. All monies received were entered into a holding account called 'Application for Shares'. Transfers were made from this account to the relevant ledger accounts.

The applicants were issued shares and all final payments were received on the due date. Excess application monies were returned to applicants.

REQUIRED

(a) Prepare the relevant ledger accounts to record the issue of shares.

(b) Explain **two** differences between ordinary shares and preference shares.

(c) Name **one** capital reserve.

Q3. The following balances were extracted from the books of XY plc on 31 January 2017.

	$
Land and buildings - at cost	700 000
Equipment - at cost	320 000
Motor vehicles - at cost	230 000
Accumulated depreciation	
Land and buildings	100 000
Equipment	186 000
Motor vehicles	96 000
Ordinary shares of $5 each	500 000
Share premium	120 000
Retained earnings at 1 February 2016	125 000
Inventory at 1 February 2016	37 100
Trade receivables	102 000
8% Loan	150 000
Provision for doubtful debts	2 100
Revenue	985 000
Purchases	428 000
Administrative expenses	346 000
Distribution costs	144 000
Interim dividend paid	20 000

Additional information

1 Inventories at 31 January 2017 included 100 units of damaged items. These items, with a unit cost of $80, were all sold on 2 February 2017 for $65 each.
At 31 January 2017 all other inventories were valued at cost, $36 000, and had a net realisable value of $85 400.

2 The administrative expenses include an amount of $30 000 for a machine purchased on 1 February 2016. The machine has a useful life of three years and will then be scrapped with nil proceeds. Any costs related to the machine should be charged to the cost of sales.

3 The figure for land and buildings (at cost) includes land which had cost $300 000.

4 During the year, XY plc purchased a motor vehicle which cost $60 000. This was settled by a payment of $40 000 from the bank and the part exchange of an old vehicle. This old vehicle had originally cost $75 000 and had been depreciated by $27 000. Only the bank payment had been recorded in the books of account.

5 Depreciation is to be charged on the following basis:

Land	not depreciated
Buildings	straight-line method over 25 years, charged to cost of sales
Equipment	straight-line method over 5 years, charged to administrative expenses
Motor vehicles	reducing balance method at 20% per annum, charged to distribution costs.

The company policy is to charge a full year's depreciation in the year of purchase and none in the year of sale.

6 Trade receivables included an irrecoverable debt of $8800. A provision for doubtful debts of 4% is to be maintained. These items need to be included in administrative expenses.

7 The loan was obtained on 1 September 2016.

REQUIRED

(a) State **two** objectives of financial statements of a limited company. [2]

(b) Prepare the income statement for the year ended 31 January 2017. [15]

Additional information

In October 2016 XY plc made a bonus issue of 1 ordinary share for every 10 ordinary shares held. No entry had been made in the books of account.

REQUIRED

(c) Prepare the statement of changes in equity for the year ended 31 January 2017. (A total column is not required.) [4]

Additional information

The directors are considering making a further issue of bonus shares rather than paying a cash dividend.

REQUIRED

(d) Advise the directors which course of action they should take. Justify your answer. [4]

[Total: 25]

Q4. The financial statements for Zapf plc for the year ended 30 September 2014 have been completed.

The following information is available.

Zapf plc

Summarised Income Statement for the year ended 30 September 2014

	$
Revenue	756 000
Cost of sales	(454 000)
Gross profit	302 000
Distribution costs	(96 000)
Administrative expenses	(180 000)
Profit from operations	26 000
Income from investments	5 000
Finance costs	(12 000)
Profit before taxation	19 000
Taxation	(4 000)
Profit for the year	15 000

Extract from Statement of Changes in Equity for the year ended 30 September 2014

	Retained earnings $
Balance at 1 October 2013	24 000
Profit for the year	15 000
Dividends paid	(9 000)
Balance at 30 September 2014	30 000

Zapf plc

Statement of Financial Position at 30 September 2014

	$
Non-current assets	
Tangible	
Property, plant and equipment	304 000
Investments	75 000
	379 000
Intangible	
Goodwill	60 000
	439 000
Current assets	
Inventories	74 000
Trade and other receivables	95 000
	169 000
Total assets	608 000
Equity and liabilities	
Equity	
Ordinary shares of $1 each	180 000
5% Non-redeemable preference shares	100 000
Share premium	30 000
Retained earnings	30 000
	340 000
Non-current liabilities	
6% Debentures (2021)	150 000
Current liabilities	
Trade and other payables	53 000
Taxation	4 000
Cash and cash equivalents	61 000
	118 000
Total equity and liabilities	608 000

Extract from notes to the financial statements

Property, plant and equipment	Buildings	Plant and equipment	Motor vehicles	Total
	$	$	$	$
Cost	320 000	158 000	36 000	514 000
Depreciation	112 000	78 000	20 000	210 000
Net book value	208 000	80 000	16 000	304 000

The company accountant is now preparing the budgeted financial statements for the year ending 30 September 2015.

Budgeted information for the year ending 30 September 2015 is available.

1 Revenue is expected to increase by 4%.

2 The percentage of gross profit to sales is expected to increase to 42%.

3 Distribution costs and administrative expenses are both expected to increase by 3%.

4 Income from investments is not expected to change.

5 Finance costs are expected to decrease to $10 000.

6 The tax rate will be 20% on the profit before taxation.

7 No dividends are expected to be paid on the ordinary shares during the year.

8 Capital expenditure for the year is expected to be:

$40 000 on buildings
$18 000 on plant and equipment
$9 000 on motor vehicles
No disposals are expected.

9 Depreciation for the year is expected to be:

$18 000 on buildings
$44 000 on plant and equipment
$12 000 on motor vehicles
Depreciation is included in administrative expenses.

10 The trade receivables collection period is expected to be 45 days. All sales will be on credit.

11 Closing inventory is expected to be valued at $70 000.

12 The trade payables payment period is expected to be 40 days. All purchases will be on credit.

A proposed final dividend of $0.10 per ordinary share is due to be paid on 31 October 2015.

REQUIRED

(Make all calculations to nearest thousand $.)

(a) Prepare the following for the year ending 30 September 2015.

(i) the budgeted income statement [12]

(ii) the budgeted statement of changes in equity (retained earnings column **only**). [5]

(b) Prepare the following:

(i) the property, plant and equipment section of the non-current assets note to the budgeted financial statements for the year ending 30 September 2015. [7]

(ii) the budgeted statement of financial position at 30 September 2015. [16]

[Total: 40]

Q5. The directors of Corbiere plc have extracted the following balances from the books of account at 30 September 2015.

	Dr	Cr
	$	$
6% debentures (2020)		68 000
Accrued expenses		2 480
Administrative expenses	63 810	
Cash and cash equivalents		12 770
Carriage inwards	3 600	
Distribution costs	49 330	
Interest paid	3 060	
Inventories at 1 October 2014	62 500	
Motor vehicles		
Cost	84 600	
Provision for depreciation		38 760
Plant and machinery		
Cost	68 700	
Provision for depreciation		32 300
Prepaid expenses	4 400	
Property	220 000	
Purchases	392 340	
Retained earnings		69 700
Returns inwards	3 470	
Returns outwards		2 780
Revenue		756 690
Share capital ($1 ordinary shares)		50 000
Share premium		15 000
Trade payables		48 730
Trade receivables	86 500	
Wages and salaries	54 900	

Additional information

The directors have discovered the following.

1 Inventories have all been valued at cost at $73 100 on 30 September 2015.
Included in this valuation are some items which originally cost $5000 but have been damaged. They would normally sell for $10 000. The items could be repaired at a cost of $3000 and then sold for $6500.

2 On 13 October 2015 a flood resulted in the loss of inventory valued at $17 500.

3 Purchase of new plant and machinery on 1 October 2014 of $6000 has been posted in error to administrative expenses.

4 Motor vehicles are to be depreciated at 20% per annum using the straight-line method. The estimated residual value of motor vehicles is $20000. Depreciation is apportioned 80% to distribution costs and the remainder to administrative expenses.

5 Plant and machinery is to be depreciated at 15% per annum using the reducing balance method. Depreciation is apportioned 80% to administrative expenses and the remainder to distribution costs.

6 A payment for administrative expenses of $14 400 has been made on 15 January 2015 covering the period from 1 February 2015 to 31 January 2016.

7 At 30 September 2015 there was an additional accrual for wages and salaries of $1700. Wages and salaries are apportioned between distribution costs and administrative expenses in the ratio 4 : 1.

8 The 6% debenture included in the balances was issued on 1 October 2014.

9 The taxation charge for the year is $28 200.

10 The directors wish to create a provision for doubtful debts equal to 2% of trade receivables at 30 September 2015. This provision is to be treated as an administrative expense.

11 The directors proposed a final dividend of $0.05 per share. No dividends were paid during the year.

REQUIRED

(a) Prepare the income statement for the year ended 30 September 2015 in accordance with International Accounting Standards. [21]

(b) Prepare the statement of financial position at 30 September 2015 in accordance with International Accounting Standards. [13]

(You are not required to prepare notes to financial accounts.)

(c) Explain your treatment of points **1**, **2** and **11** in the additional information. [6]

[Total: 40]

Q6. Pitman plc has been trading for many years. The following balances have been extracted from the books of account at 30 June 2015.

	Dr	Cr
	$	$
Administrative expenses	141 970	
Cash and cash equivalents	650	
Distribution costs	36 120	
Land and buildings		
Cost	135 000	
Provision for depreciation at 1 July 2014		21 840
Fixtures and fittings		
Cost	18 110	
Provision for depreciation at 1 July 2014		5 310
Motor vehicles		
Cost	41 600	
Provision for depreciation at 1 July 2014		19 200
Inventories at 1 July 2014	62 400	
Purchases	268 200	
Retained earnings		30 740
Revenue		563 800
Ordinary share capital ($1 shares)		60 000
Trade payables		80 250
Trade receivables	76 920	
Other payables		870
Other receivables	1 040	

Additional information

1 Inventories were valued at cost $70 300 on 30 June 2015.

2 At 30 June 2015 land and buildings were revalued. Land was valued at $90 000 and buildings at $65 000.

3 Depreciation is to be charged to administrative expenses as follows:

Buildings	2% per annum using the straight-line method
Fixtures and fittings	15% per annum using the reducing balance method
Motor vehicles	25% per annum using the reducing balance method

4 Goods with a cost price of $6000 had been sold on credit at a mark up of 20%. The customer who had purchased these goods has been declared bankrupt and the debt is to be written off. The bad debt is to be charged to administrative expenses.

5 A provision for doubtful debts is to be provided at 2.5% of the closing trade receivables balance. This is to be charged to administrative expenses.

6 On 1 April 2015 the company issued a 5% debenture for $50 000 repayable in 2024. On the same day it also made a fully subscribed rights issue of 1 ordinary share for every 4 ordinary shares held for $1.50 per share. No entries have been made in the books of account in respect of **either** of these items.

7 The taxation charge for the year is $12 650.

REQUIRED

(a) Prepare an income statement for the year ended 30 June 2015 in line with International Accounting Standards. [12]

(b) Prepare the statement of financial position at 30 June 2015 in line with International Accounting Standards. [18]

Q7. Bridlington plc prepares accounts annually to 30 September. The directors provide the following information.

Trial Balance
at 30 September 2013

	Debit	Credit
	$	$
Revenue		936 011
Purchases	479 352	
Distribution costs	108 376	
Administrative expenses	236 758	
Ordinary share capital		400 000
Share premium		40 000
Retained earnings		57 386
Land and buildings		
Cost	380 000	
Accumulated depreciation		78 400
Plant and machinery		
Cost	105 000	
Accumulated depreciation		66 500
Motor vehicles		
Cost	65 000	
Accumulated depreciation		37 578
Loss on disposal of motor vehicle	850	
Inventory at 1 October 2012	177 838	
Provision for doubtful receivables		6 834
Trade receivables	138 450	
Trade payables		51 243
Cash and cash equivalents		17 672
	1 691 624	1 691 624

Additional information

1 Land, which cost $100 000, is not to be depreciated.

2 Depreciation is to be provided as follows:

buildings	4% on cost,
plant and machinery	10% on cost,
motor vehicles	25% reducing balance.

A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

The charge is split in the ratio 3:1 between administrative expenses and distribution costs.

Plant and machinery costing $10 000 was acquired on 1 April 2013.

A motor vehicle which had been purchased on 1 February 2011 for $16 000 was sold on 1 June 2013 for $8 150.

3 The inventory at 30 September 2013 was valued as follows:

Net realisable value	$212 653,
Cost	$172 927.

4 The provision for doubtful receivables is to be provided at 4% of the trade receivables and the movement is to be treated as an administrative expense.

5 An invoice for an administrative expense of $4525 remained unpaid at 30 September 2013.

6 There was a prepayment for a distribution cost at 30 September 2013 of $2760.

7 The tax charge for the year is estimated to be $16730.

REQUIRED

(a) Prepare an income statement for the year ended 30 September 2013. [16]

(b) Prepare a schedule of property, plant and equipment at 30 September 2013 suitable to be used as a note to the accounts. [10]

(c) Prepare a statement of financial position at 30 September 2013. [8]

Additional information

During October 2013 the following transactions took place.

6 October	A rights issue of 1 share for each 8 held was made at $1.50 per share. The rights were fully taken up. Nominal value of each share is $1.00.
15 October	A bonus issue of 1 share for every 10 held was made. The company maintains its reserves in the most flexible manner.
31 October	Land was revalued at $200000.

Profit for the month of October was $2615.

REQUIRED

(d) Prepare the equity section of the statement of financial position at 31 October 2013. [6]

[Total: 40]

Q8. The directors of Aston plc provided the following financial information at 1 June 2013.

	$000
Ordinary share capital ($1 shares)	25 000
Share premium	5 000
Revaluation reserve	1 000
Retained earnings	2 950
Land	6 000

On 1 July 2013 $1 800 000 8% debentures were issued.
For the year ended 31 May 2014 profit from operations was $3 752 000.
The tax charge for the year was 25% of the profit before taxation.

REQUIRED

(a) Prepare the income statement for the year ended 31 May 2014. [6]

Additional information

On 1 September 2013 a final dividend relating to the previous year of $0.04 per ordinary share was paid.

On 1 October 2013, 5 000 000 ordinary shares of $1 each were issued at a premium of $0.10 per share.

On 1 November 2013 a rights issue was made of 1 ordinary share for every 5 ordinary shares owned at $1 per share. This was fully subscribed.

On 1 February 2014 land was revalued at $7 500 000.

On 1 February 2014 an interim dividend of $0.03 per ordinary share was paid.

On 1 March 2014 a transfer of $500 000 was made from retained earnings to a newly formed general reserve.

On 1 April 2014 the directors proposed a final dividend for the year 50% higher per share than the previous year.

REQUIRED

(b) Copy the following table into your answer booklet and prepare a statement of changes in equity for the year ended 31 May 2014.

Statement of changes in equity

	Share capital $000	Share premium $000	Revaluation reserve $000	General reserves $000	Retained earnings $000	Total $000
Balance at 1 June 2013						
Balance at 31 May 2014						

[20]

(c) Explain the treatment of the final dividend proposed on 1 April 2014. [4]

Additional information

The directors are hoping to expand the business. They are planning a bonus issue of 1 new ordinary share for every 5 ordinary shares held on 31 May 2014.

REQUIRED

(d) Explain what is meant by a bonus issue and also explain whether it would help the expansion plans for the business. [4]

Q9. The directors of Plantin plc have produced the following.

Plantin plc

Statement of Financial Position at 1 April 2014

	$ Cost	$ Depreciation	$ Net book value
Non-current assets			
Tangible			
Property, plant and equipment			
Land and buildings	260 000	90 000	170 000
Plant and equipment	152 000	87 000	65 000
	412 000	177 000	235 000
Investments			55 000
			290 000
Intangible			
Goodwill			80 000
			370 000
Current assets			
Inventories			45 000
Trade and other receivables			56 000
			101 000
Total assets			471 000
Equity			
Ordinary share capital ($1 shares)			100 000
5% Non-redeemable $1 preference shares			80 000
Retained earnings			110 000
			290 000
Non-current liabilities			
5% debentures			100 000
Current liabilities			
Trade and other payables			24 000
Taxation			40 000
Cash and cash equivalents			17 000
			81 000
Total equity and liabilities			471 000

The following information is also available for the following year.

Extract from Income Statement for the year ended 31 March 2015

	$
Profit from operations	74 000
Income from investments	5 000
Finance costs	(12 000)
Profit before taxation	67 000
Taxation	(15 000)
Profit for the year	52 000

Statement of cash flows for the year ended 31 March 2015

	$	$
Operating activities		
Profit from operations		74 000
Depreciation - buildings		28 000
- plant and equipment		33 000
Impairment of goodwill		20 000
Increase in inventories		(30 000)
Increase in trade receivables		(40 000)
Increase in trade payables		30 000
Cash from operations		115 000
Interest paid		(12 000)
Tax paid		(40 000)
Net cash flow from operations		63 000
Investing activities		
Purchase of non-current assets		
- buildings	(80 000)	
- plant and equipment	(80 000)	
Income from investments	5 000	
		(155 000)
Financing activities		
Redemption of debentures	(50 000)	
Proceeds of issue of non-redeemable preference shares	20 000	
Proceeds of issue of 50 000 ordinary shares	80 000	
Dividends paid (preference)	(4 000)	
		46 000
Net decrease in cash and cash equivalents		(46 000)
Cash and cash equivalents at 1 April 2014		(17 000)
Cash and cash equivalents at 31 March 2015		(63 000)

REQUIRED

(a) Prepare an extract from the statement of changes in equity for the year ended 31 March 2015 showing the retained earnings column. [4]

(b) Prepare the property, plant and equipment section of the non-current assets note to the statement of financial position at 31 March 2015. [7]

(c) Prepare Plantin plc's statement of financial position at 31 March 2015.
(Comparatives are not required.) [21]

Q10. ACM plc provided the following information about its non-current assets.

	Accumulated depreciation at 1 January 2015	Cost at 1 January 2015	Cost at 31 December 2015
	$	$	$
Property	17 000	200 000	200 000
Plant and machinery	210 000	258 000	310 000
Delivery vans	10 000	23 000	23 000

Additional information

1 Half of the value of property relates to land. Property is depreciated at the rate of 1% per annum using the straight-line method.

2 Plant and machinery is depreciated at the rate of 10% per annum using the straight-line method. A full year's depreciation is provided in the year of purchase and none in the year of disposal.

On 1 June 2015 a machine, bought on 10 July 2007, was sold for $17 800. This resulted in a profit on disposal of $13 000.

3 The delivery vans are depreciated at the rate of 25% per annum on the reducing balance basis.

REQUIRED

(a) Prepare the disposal of machinery account for the year ended 31 December 2015. [6]

(b) Prepare the non-current assets schedule for inclusion in the published financial statements of the company for the year ended 31 December 2015 in accordance with International Accounting Standards. [8]

(c) Explain why a business depreciates its non-current assets. [3]

Purchase of Business by Company

Q1. Brian Mills and Beryl Smart had been in partnership for many years. Accounts were prepared to 30 April. It was decided that the partners would retire on 30 April 2012 and the business was sold to Chipperfield Ltd.

The partnership's statement of financial position at 30 April 2012 was as follows:

	$	$
Non-current assets		
Property		85 000
Fixtures and fittings		27 500
Plant and machinery		14 750
		127 250
Current assets		
Inventories	28 800	
Trade receivables	10 950	
Bank	5 450	
		45 200
Total assets		172 450
Current liabilities		
Trade payables		13 950
Non-current liabilities		
Loan from Brian Mills at 8% per annum	15 000	
Loan from Beryl Smart at 6% per annum	10 000	25 000
Net assets		133 500
Capital accounts		
Brian Mills		76 000
Beryl Smart		57 500
		133 500

Chipperfield Ltd's statement of financial position at 30 April 2012 was as follows:

	$	$
Non-current assets		
Property		145 000
Fixtures and fittings		57 750
Plant and machinery		18 750
		221 500
Current assets		
Inventories	39 450	
Trade receivables	12 380	
Bank	69 675	
		121 505
Total assets		343 005
Current liabilities		
Trade payables		18 675
Net assets		324 330
Equity		
300 000 Ordinary shares of $0.50		150 000
Share premium		75 000
Retained earnings		99 330
		324 330

Chipperfield Ltd purchased the business on 1 May 2012 for $160 000. The company took over all of the assets (except the bank account) together with the current liabilities. The purchase consideration was:

1. 120 000 ordinary shares of $0.50 nominal value issued at a premium of $0.10.

2. 30 000 6% non-redeemable preference shares of $0.50.

3. 10% debentures redeemable in 2020 issued so that Brian and Beryl receive the same interest payments as in the partnership.

4. The balance paid from the bank account.

The partnership assets were re-valued as follows:

	$
Property	95 000
Fixtures and fittings	24 500
Plant and machinery	12 500
Inventories	27 500
Trade receivables	10 250

REQUIRED

(a) Prepare Chipperfield Ltd's statement of financial position at 1 May 2012, after the partnership had been acquired.

Q2. Prescott, Rohini and Singh have been in partnership for many years with a profit sharing ratio of 2: 2: 1. Their statement of financial position (balance sheet) at 30 June 2011 was as follows:

Prescott, Rohini and Singh

Statement of Financial Position (Balance Sheet) at 30 June 2011

		$		$
Non-current assets				
Land and buildings		100 000		
Fixtures and fittings		34 500		
Motor vehicles		16 750		151 250
Current assets				
Inventories		23 500		
Trade receivables		14 850		
Bank		7 595		
			45 945	
Current liabilities				
Trade payables			9 450	36 495
				187745
Non-current liabilities				
Loan from Prescott at 12%				(25 000)
				162 745
Financed by:				
Capital Accounts	Prescott	70 345		
	Rohini	54 250		
	Singh	38 150		162 745

The partners sold their business to Ashburton Ltd on 1 July 2011 for $215 000. Ashburton Ltd took over all of the assets and liabilities except the bank account.

The purchase consideration was satisfied by:

1 The issue of 100 000 ordinary shares of $1 at a premium of $0.50.

2 The issue of 8% debentures redeemable at par in 2020 to Prescott to ensure that he receives the same amount of annual interest that he received from the loan.

3 The balance was paid by cash.

On 1 July 2011 the partnership assets were revalued as follows:

	$
Land and buildings	115 000
Fixtures and fittings	32 000
Motor vehicles	15 000
Inventories	22 000
Trade receivables	13 500

Ashburton Ltd's statement of financial position (balance sheet) at 30 June 2011 was as follows:

Ashburton Ltd
Statement of Financial Position (Balance Sheet) at 30 June 2011

	$	$
Non-current assets		
Land and buildings	125 000	
Fixtures and fi ttings	67 750	
Motor vehicles	24 975	217 725
Current assets		
Inventories	22 875	
Trade receivables	14 363	
Bank	28 462	
	65 700	
Current liabilities		
Trade payables	14 630	51 070
		268 795
Financed by:		
Ordinary shares of $1		200 000
Share premium		20 000
Retained profi t		48 795
		268 795

REQUIRED

(a) Prepare Ashburton Ltd's statement of financial position immediately after the acquisition of the partnership [22]

Q3. The Statement of Financial position of Drakar Ltd at 31 March 2000 was as follows:

	$	$
Non-Current Assets		790000
Current assets		
Inventory	38000	
Trade Receivables	68000	
	106000	
Trade Payables: amounts falling due in less than one year		
Trade Payables	31000	
Bank overdraft	21000	
	52000	
Net current assets		54000
		844000
Trade Payables: amounts falling due in more than one year		
8% debentures (2026)		(120000)
Net assets		724000
Share capital and reserves		
Ordinary shares of $1 each fully paid		500000
Retained profit		224000
		724000

Drakar Ltd acquired the partnership of Aamer and Bjorn before the start of business on 1 April 2009. The partners shared profits in the ratio of 3:2 respectively.

The purchase consideration was $150000 made up as follows:

50000 ordinary shares of $1 each in Drakar Ltd
$20000 in 8% debentures at par
$10000 in cash

The shares in Drakar Ltd were distributed in profits sharing ratios. The debentures were shared equally between the partners.

The Statement of Financial position of Aamer and Bjorn at 1 April 2009 was:

	$	$
Non-Current Assets		
Goodwill	37000	
Fixtures and fittings	50000	87000
Current assets		
Inventory	20000	
Trade Receivables	17000	
Bank balance	8000	
	45000	
Current liabilities		
Trade Payables	12000	33000
		120000
Capital accounts		
Aamer		70000
Bjorn		50000
		120000

Drakar Ltd took over the assets at the following valuations:

Fixture and fittings	$40000
Inventory	$18000
Trade Receivables	At book value

The company also took responsibility for the settlement of the Trade Payables of Aamer and Bjorn.

Aamer and Bjorn retained the bank balance.

REQUIRED:

(a) Prepare capital accounts to show the entries necessary to close the books of account of Aamer and Bjorn.

In order to finance the acquisition of the partnership and plans for future expansion a rights issue of 1 new ordinary share of every five held was made to the original shareholders of Drakar Ltd at a price of $2.50 per share. The issue was completed successfully on 31 March 2009. The issue expenses amounted to $30000.

REQUIRED:

(b) Prepare the Statement of Financial position of Drakar Ltd as it appeared before the start of business on 1 April 2009 after the rights issue and the acquisition of the partnership of Aamer and Bjorn.

(c) Explain two advantages that a company hopes to gain by using a rights issue to raise additional capital.

MERGER INTO A COMPANY:

Q1. Gary and Phil are partners in a business called Free they share profits equally. Michael and Norman are partners in a business call Masons sharing profits in the ratio 2:3. They have decided to merge the two partnership business into a newly formed company call Free Masons Limited. Following information is available for the two partnership businesses as at 31st December 2008.

	Free	**Masons**
Non-Current Assets		
Premises	-	60000
Motor van	9000	12000
Plant and machinery	71000	30000
Fixtures	5000	3000
Current assets		
Inventory	4000	16000
Trade Receivables	12000	12000
Bank	14000	22000
Less Trade Payables	(5000)	(10000)
Capital employed	110000	145000
Financed by		
Capital Gary	40000	
Capital Phil	60000	
Capital Michael	-	70000
Capital Norman	-	75000
Loan – Gary (8%)	10000	
	110000	145000

The company took over all the assets (except bank and Trade Receivables) from free, no liabilities were taken over. Trade Receivables paid $11600 in full settlement and Trade Payables were paid in full. Cost of dissolving the business amounts to $600.

The purchase consideration was settled as follows:

- 10% debentures to Gary which will give him same interest as he used to receive from the partnership on his loan.
- 13000 ordinary shares in "Free Masons Limited" of $5 each issued at $7. These were divided equally between the partners.

The company decided that the book values of assets taken over are fair but the Plant and Machinery should be valued at $80000.

For the partnership of Masons, the company took over all the assets and Trade Payables (except bank and fixtures). Cost of dissolving the business amounts to $800. The fixtures were taken by Norman at an agreed value of $2500.

The purchase consideration was $150000 which was settled as follows:

- $10000 10% debenture at par, to be divided equally between the two partners.
- 20000 ordinary shares in "Free Masons Limited" of $5 each issued at $7. These were divided in the profit sharing ratio between the partners.

The company decided to place the following fair values on assets and liabilities take over:

Premises	90000
Motor van	5000
Plant and Machinery	35000
Inventory	15000
Trade Receivables	10000
Trade Payables	9000

REQUIRED:

(a) Prepare realisation accounts, capital accounts, and bank accounts for both the partnership businesses.

(b) Prepare the Statement of Financial position of Free Masons Limited.

(c) It was decided that all the shareholders (the four partners) will keep equal amount of shares. In order to achieve this they will buy or sell shares to each other. Calculate the number of shares to be sold or purchased by each partner in order to maintain the desired shareholding.

Q2. Amandeep, Bruce and Chetan have been in partnership in trading as Abcan. They share profits and losses in the ratio 3:2:1 respectively. Gurpreet and Hibo have been in partnership trading as Gurbo. They share profits and losses equally.
At 31 March 2007 the summarized Statements of Financial position of both businesses were as follows:

	Abcan $	**Gurbo** $
Premises	100000	70000
Machinery	35000	13000
Vehicles	78000	-
Investments at cost	12000	-
Inventory	10000	5000
Trade Receivables	14000	9000
Balance at bank	8500	4000
25	257500	101000
Less Trade Payables	7500	6000
	250000	95000
Less 8% Loan from Chetan	30000	
	220000	
Capital accounts Amandeep -	100000	
Bruce	70000	
Chetan	50000	
Gurpreet		50000
Hibo		45000
	220000	95000

The partners agreed to form a limited company, ABCOGH LTD, to take over both businesses.
All Abcan's assets were transferred to ABCOGH Ltd with the exception of three vehicles, investment, Trade Receivables and balance at bank.
The agreed values of assets taken over by the company are:

	Abcan $	**Gurbo** $
Premises	170000	100000
Machinery	30000	10000
The remaining vehicles	40000	-
Inventory	9000	5000

The purchase consideration for Abcan was $240000 as follows:

1. 57000 7% preference shares of $1 each to be distributed in profit sharing ratios.
2. Sufficient 6% debentures stock to give Chetan the same return as he had received on his loan to the partnership.
3. The balance as ordinary shares of $1 at a premium of $0.30 per share distributed to the partners in proportion to their capital account balances at 31 March 2007.

Abscan collected $12900 cash from Trade Receivables. Trade Payables accepted $7100 in full settlement of amounts due to them.

The three vehicles which have been used by the partners were taken over by them as follows:

Partner	Agreed take over price
	$
Amandeep	10000
Bruce	7500
chetan	7800

The investments at cost were purchased by Bruce at an agreed value of $13400.

The purchase consideration for Gurbo was $134000 as follows.

1. 43000 7% preference shares of $1 each to be distributed in profit sharing ratios.
2. The balance as ordinary shares to be shared equally.

Costs involved in dissolving the Abcan partnership amounted to $6400, costs to dissolve the Gurbo partnership were $3100.

Gurbo collected $7000 cash from Trade Receivables. Trade Payables were paid the amounts due to them.

REQUIRED:

(a) Prepare partnership capital accounts at 31 March 2007 for both businesses to show the closing entries in both sets of partnership books of account.

It was agreed that the issued ordinary share capital would be held as follows:

Amandeep	30%
Bruce	10%
Chetan	20%
Gurpreet	20%
Hibo	20%

It was further agreed that the transfer price of any ordinary shares would be $1.30 per share

REQUIRED:

(b) Calculate the number of ordinary shares received by each partner.

(c) Calculate the amounts of cash payable or receivable by each shareholder to achieve the required shareholding.

(d) Prepare a Statement of Financial position for ABCOGH Ltd at 31 March 2007 immediately after incorporation.

(e) Explain briefly on possible reason why the partners decided to change their business into a company.

Q3. Wong was a sole trader. Gruber and Gupta were in partnership and did not have a partnership agreement.

Both of the businesses had been experiencing falling profits for a number of years due to large supermarkets opening in their town. They agreed that GWG Ltd be formed on 1 April 2008 to take over both businesses in order that they could better compete with larger businesses.

The new company has an authorised share capital of 500000 ordinary shares of $1 each.

The summarized Statements of Financial position of Wong and Gruber and Gupta at 31 March 2008 are shown:

	Wong		**Gruber and Gupta**	
	$	**$**	**$**	**$**
Non-Current Assets				
Net book value – premises		16000		50000
Equipment		20000		30000
		36000		80000
Current assets				
Inventory	6000		15000	
Trade Receivables	3000		11000	
Bank balance	1000		-	
	10000		26000	
Current liabilities				
Trade Payables	4000		2000	
Bank overdraft	-	6000	5000	19000
		42000		99000
Capital accounts – Wong		42000		
Gruber				40000
Gupta				60000
Current accounts – Gruber				500
Gupta				(1500)
				99000

Profits earned over the past 5 years were:

Year ended 31 March	**Wong**	**Gruber and Gupta**
	$	**$**
2004	29000	55000
2005	25000	49000
2006	17000	42000
2007	13000	25000
2008	11000	19000

The purchase consideration had been agreed at 3 times the average profits for the past five years. The purchase consideration was settled by each of Wong, Gruber and Gupta receiving:

$25000 7% debentures (2028) issued at par, and
24000 ordinary shares of $1 each in GWG Ltd.

Additional information:

(i) Trade Receivables and Trade Payables were not taken over by GWG Ltd. Wong and Gruber and Gupta each undertook to collect their own Trade Receivables and pay their own Trade Payables.

(ii) Wong's Trade Receivables paid $2800 in full settlement and Gruber and Gupta collected $10000 from their Trade Receivables.

(iii) Wong paid his Trade Payables $3600 while Gruber and Gupta paid their Trade Payables in full.

(iv) Wong sold his equipment for $18000 cash.

(v) Costs of dissolution of Wong's business were $700 and for Gruber and Gupta $2100.

(vi) The remaining assets were over by GWG Ltd at the following agreed values.

	Wong **$**	**Gruber and Gupta** **$**
Non-Current Assets		
Premises	50000	80000
Equipment	-	20000
Inventory	5000	14500

(vii) Gruber and Gupta each have enough personal cash resources to make up any deficit which may arise on their capital accounts.

<u>REQUIRED:</u>

(a) Prepare a realisation account, a bank account and a capital account to close Wong's books of account.

(b) Prepare a realisation account, a bank account and capital accounts to close the partnership books of accounts.

(c) Prepare the Statement of Financial position of GWG Ltd at 1 April 2008 immediately after the formation of the company and before any other transactions had taken place.