Prepared by D. El-Hoss

Limited Liability Final Accounts

4 Timpani Ltd makes machine parts and their financial year ends on 31 March. After preparing the income statement (trading and profit and loss account) for the year ended 31 March 2010 the trial balance showed the following items.

	$
Bank	500 Dr
Bank loan (repayable 2011)	2 800
Trade payables (creditors)	700
Trade receivables (debtors)	1 000
Plant and equipment	20 000
Provision for depreciation	12 000
Inventory (stock) at cost	3 000
Share capital	5 000
Profit for the year	4 000

Timpani Ltd found that the inventory (stock) could be sold for only $2700.

REQUIRED

(a) (i) State the basis on which inventory (stock) should be valued at the end of a financial year.

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.... [3]

(ii) State the value that Timpani Ltd should use for inventory (stock) in the balance sheet at 31 March 2010.

.... [1]

(iii) State the effect on the company's profit for the year of adjusting the value of inventory (stock).

.... [2]

For Examiner's Use

REQUIRED

(b) Prepare Timpani Ltd's balance sheet at 31 March 2010.

Timpani Ltd
Balance Sheet at 31 March 2010

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.... [11]

Timpani Ltd must repay its bank loan by 31 March 2011. The company is not sure if it will be able to repay the loan.

Timpani Ltd decides to take some action to enable it to repay the bank loan when it becomes due.

REQUIRED

(c) For **each** proposed action place a tick (✓) under the correct heading to show if it might be successful.

	Successful	Not successful
Reduce dividend paid		
Reduce depreciation		
Reduce trade payables (creditors)		

[6]

(d) (i) Name the accounting principle which states that a business is assumed to continue to operate indefinitely.

.... [1]

(ii) If a business is not expected to continue, state the value at which its assets should be valued in the balance sheet.

....

.... [2]

[Total: 26]

For Examiner's Use

5 Ellis Ltd was formed some years ago. It raised funds from the issue of preference shares, ordinary shares and debentures.

REQUIRED

(a) Explain **two** features of **each** of the following.

(i) Preference shares

1 ....

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2 ....

.... [4]

(ii) Ordinary shares

1 ....

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2 ....

.... [4]

Ellis Ltd has an authorised share capital consisting of 200 000 5% preference shares of $1 each and 800 000 ordinary shares of $0.50 each.

Half of the preference shares and 600 000 of the ordinary shares have been issued. The company has also issued $100 000 4% debentures.

On 1 April 2009 the balance on the profit and loss account brought forward was $10 000.

After the appropriations the profit retained for the year ended 31 March 2010 was $5000.

For Examiner's Use

REQUIRED

(b) Prepare a relevant extract from the balance sheet of Ellis Ltd at 31 March 2010 to show the issued capital and reserves.

Ellis Ltd
Extract from Balance Sheet at 31 March 2010

Capital and Reserves

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.... [6]

On 31 March 2010 the directors proposed to pay the preference share dividend and to pay an ordinary share dividend of $0.05 per share.

On 31 March 2010 one year's interest on debentures was accrued.

REQUIRED

(c) Prepare a relevant extract from the current liabilities section of the balance sheet of Ellis Ltd at 31 March 2010.

Ellis Ltd
Extract from Balance Sheet at 31 March 2010

Current Liabilities

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.... [6]

[Total: 20]

For Examiner's Use

2 DEC Ltd was formed some years ago. It raised funds from the issue of ordinary shares, preference shares and debentures.

REQUIRED

(a) Explain the meaning of the term 'limited liability'.

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....[2]

(b) State **two** differences between preference shares and debentures.

(i) ....

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(ii) ....

....[4]

(c) Explain the meaning of **each** of the following terms.

(i) Authorised capital

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....[2]

(ii) Called-up capital

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....[2]

(iii) Paid-up capital

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....[2]

The following information was taken from the books of DEC Ltd on 31 March 2010.

	$
Profit for the year (net profit)	22 000
Profit and loss account balance 1 April 2009	4 300
6% Preference shares of $1 each	70 000
Ordinary shares of $1 each	150 000

During the year ended 31 March 2010 the company paid an interim dividend of 2% on the preference shares.

On 31 March 2010 the directors proposed:

1 A transfer of $3000 to a general reserve.
2 To pay the remainder of the preference share dividend.
3 To pay a dividend of 8% on the ordinary shares.

REQUIRED

(d) Prepare the profit and loss appropriation account of DEC Ltd for the year ended 31 March 2010.

DEC Ltd
Profit and Loss Appropriation Account for the year ended 31 March 2010

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....[11]

[Total: 23]

4 The financial year of Searle Ltd ends on 31 August.

Searle Ltd has the following capital structure.

Authorised share capital	80 000 ordinary shares of $0.50 each
	40 000 4% preference shares of $1 each
Paid-up share capital	60 000 ordinary shares of $0.50 each
	25 000 4% preference shares of $1 each
Loan capital	$15 000 3% debentures

During the year ended 31 August 2010 one year's preference share dividend was paid.

On 31 August 2010 one year's interest on debentures was accrued.

On 31 August 2010 the directors recommended the payment of an ordinary share dividend of 5%.

REQUIRED

(a) Explain the difference between authorised share capital and paid-up share capital.

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.... [4]

(b) Calculate the following. Show your workings.

(i) Dividend paid on preference shares (in $)

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.... [2]

(ii) Interest payable on debentures (in $)

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.... [2]

For Examiner's Use

(iii) Dividend to be paid on ordinary shares (in $)

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.... [2]

(c) Complete the following table to indicate where **each** of the following should appear in the financial statements (final accounts) of Searle Ltd for the year ended 31 August 2010. If the item does not appear write "No entry".

The first has been completed as an example.

	Income statement (profit and loss account)	Appropriation account	Balance sheet
Preference share dividend paid	*No entry*	✓	*No entry*
Debenture interest payable	....	....	....
Ordinary share dividend payable	....	....	....

[4]

(d) Calculate the capital employed on 31 August 2010.

Show your workings.

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.... [1]

(e) Using a net profit figure of $11 840, calculate the return on capital employed (ROCE). The calculation should be correct to **two** decimal places.

Show your workings.

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.... [2]

(f) Explain why the directors of Searle Ltd will be pleased that the return on capital employed (ROCE) is higher than at the end of the previous financial year.

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.... [2]

[Total: 19]

1 The following is the profit and loss appropriation account of Silston Ltd for the year ended 31 October 2010.

For Examiner's Use

	$	$
Profit for the year (Net profit)		18 200
Less Transfer to general reserve	3 000	
Preference share dividend proposed	1 600	
Ordinary share dividend paid	1 200	
Ordinary share dividend proposed	3 600	9 400
Profit retained in the year		8 800
Balance brought forward from previous year		2 200
Balance carried forward to next year		11 000

The following information is also available at 31 October 2010.

		$
Issued share capital –	4% Preference shares of $1 each	40 000
	Ordinary shares of $1 each	80 000
3% Debentures of $100 each		20 000
Inventory (stock)		13 350
Trade payables (creditors)		6 500
Trade receivables (debtors)		11 200
Provision for doubtful debts		224
Cash		210
Bank overdraft		2 736
Non-current (fixed) assets at cost		174 000
Provision for depreciation of non-current (fixed) assets		26 100
General reserve at 1 November 2009		4 000

REQUIRED

(a) Prepare the balance sheet of Silston Ltd at 31 October 2010.

Silston Ltd
Balance Sheet at 31 October 2010

For Examiner's Use

[13]

For Examiner's Use

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

(i) ....

....

(ii) ....

.... [4]

(c) State **two** features of debentures.

(i) ....

....

(ii) ....

.... [4]

[Total: 21]

3 White Rose Ltd was formed some years ago. The company raised funds from the issue of ordinary shares and debentures.

REQUIRED

(a) Explain why it is an advantage to the shareholders in White Rose Ltd to have limited liability.

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.... [2]

(b) State **two** differences between ordinary shares and debentures.

1 ....

....

2 ....

.... [4]

White Rose Ltd provided the following information at the end of the financial year on 31 August 2012.

1 The issued share capital consisted of 350 000 ordinary shares of $0.50 each.

2 The company had issued 1000 5% debentures of $100 each.

3 On 1 September 2011:

General reserve	$18 500
Retained profit	$7 300

4 The profit for the year ended 31 August 2012 was $36 000.

5 During the year ended 31 August 2012 an interim dividend of 3% on the ordinary shares was paid.

6 On 31 August 2012 it was decided to transfer $10 000 to general reserve and pay a dividend of 4% on the ordinary shares.

For Examiner's Use

REQUIRED

(c) Prepare the profit and loss appropriation account of White Rose Ltd for the year ended 31 August 2012.

White Rose Ltd
Profit and Loss Appropriation Account for the year ended 31 August 2012

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.... [9]

(d) Prepare the capital and reserves section of the balance sheet of White Rose Ltd at 31 August 2012.

White Rose Ltd
Extract from Balance Sheet at 31 August 2012

Capital and Reserves

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.... [5]

For Examiner's Use

(e) Prepare the non-current liabilities section of the balance sheet of White Rose Ltd at 31 August 2012.

White Rose Ltd
Extract from Balance Sheet at 31 August 2012

Non-current liabilities

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.... [2]

[Total: 22]