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## Level 3 Accounting Solutions Booklet

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## **Passport to Success**

### Level 3 Accounting Solutions Booklet



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## Chapter 1

### Solutions to Target Practice Questions

#### Question 1

(a) (i)

	£000	£000
Sales*		345
Less Opening Stock	42	
Purchases	<u>223</u>	
	265	
Closing stock	<u>45</u>	<u>220</u>
Gross profit		125
Less expenses		
Wages (27 000 + 4000)	31	
General expenses	44	
Sales expenses	18	
Insurance (9000 - 2000)	7	
Light, heat and power	4	
Depreciation - machinery (0.20 x 20 000)	4	
- land and buildings	<u>1</u>	<u>109</u>
Net profit		<u>16</u>

(a) (ii)

$$\begin{aligned} 3 \times \text{Gross Profit on Product A} &= 3 (6.5 - 4.0) = 7.5 \\ 1 \times \text{Gross Profit on Product B} &= 1 (15.0 - 10.0) = \underline{5.0} \\ &= \underline{12.5} \end{aligned}$$

$$\frac{7.5}{12.5} \times 125\,000 = \underline{\underline{\pounds 75\,000}} \text{ for Product A}$$

$$125\,000 - 75\,000 = \underline{\underline{\pounds 50\,000}} \text{ for Product B}$$

(b)

**Frank Smith**  
**Balance Sheet as at 31 March 20X9**

<b>Tangible Fixed Assets</b>	<b>Cost £000</b>	<b>Depreciation £000</b>	<b>Net £000</b>
Land and buildings	30	4	26
Machinery	<u>20</u>	<u>8</u>	<u>12</u>
	<u>50</u>	<u>12</u>	38
<b>Current assets</b>			
Stock		45	
Prepaid insurance		2	
Bank		<u>10</u>	
		<u>57</u>	
<b>Liabilities falling due within 1 year</b>			
Accrued wages		<u>4</u>	<u>53</u>
			<u>91</u>
<b>Capital at start of year</b>			91
Add net profit			<u>16</u>
			107
<b>Less drawings</b>			<u>16</u>
			<u>91</u>

**Question 2**

(a)

**Marcus Welby**  
**Sales in March, April and May**

		£
March:	(15 000 – 7 000) x 2	= 16 000
April:	(16 000 – 8 000) x 2	= 16 000
May:	(17 000 – 8 000) x 2	= <u>18 000</u>
		<u>50 000</u>



(b)

**Marcus Welby**  
**Trading and Profit and Loss Account for the 3 months to 31 May 20X8**

	£	£
Sales (50 000 + 6500 + 4500 + 4000)		65 000
Less: Cost of sales		
Opening stock	16 000	
Purchases (11 000 + 11 900 + 10 900 + 19 600 – 11 000)	<u>42 400</u>	
	58 400	
Less drawings	<u>600</u>	
	57 800	
Less closing stock (balancing figure)	<u>12 300</u>	
<b>Gross Profit (30% of sales)</b>		<u>45 500</u> 19 500
Less:		
General expenses (4600 + 3700 + 2700)	11 000	
Depreciation $\{(55\,404 - 1458) \times 0.10 \times 0.25\}$	1 349	
Loss on disposal (1458 – 500)	<u>958</u>	
		<u>13 307</u>
<b>Net Profit</b>		<u><u>6 193</u></u>

(c)

**Marcus Welby**  
**Balance Sheet at 31 May 20X8**

	£	£
<b>Tangible Fixed Assets:</b>		
Fixtures and fittings (76 000 – 2000)	74 000	
Less Accumulated Depreciation (20 596 – 542 + 1349)	<u>21 403</u>	
		52 597
<b>Current Assets</b>		
Stock	12 300	
Debtors (18 000 x 0.5)	9 000	
Bank (10 000 + 63 500 – 48 900)	<u>24 600</u>	
	45 900	
<b>Creditors Payable within One Year</b>		
Creditors	<u>19 600</u>	
		<u>26 300</u> <u>78 897</u>
<b>Capital Account</b>		
Opening balance		77 404
Profit for year		6 193
Less Drawings (4100 + 600)		<u>4 700</u>
		<u>78 897</u>

### Question 3

(a)

**Trent**  
**Manufacturing, Trading and Profit & Loss Account for the year ended 31 December 20X6**

	<b>£000</b>	<b>£000</b>
Raw Materials		
Opening stock	60.00	
Purchases	1 000.00	
Carriage Inwards	<u>30.00</u>	
	1 090.00	
Closing stock	<u>70.00</u>	
		1 020.00
Direct Labour		<u>870.00</u>
<b>PRIME COST</b>		<b>1 890.00</b>
<b>Factory Overheads</b>		
Rent (80% x 90 000)	72.00	
Insurance (11 / 15 x 15 000)	11.00	
Electricity (90% x 75 000)	67.50	
Depreciation: P & M [(900 000 – 400 000) x 20%]	100.00	
Buildings [(130 000 - 80 000) x 4% x 75%]	<u>1.50</u>	
		<u>252.00</u>
		<b>2 142.00</b>
Add opening work in progress	140.00	
Less closing work in progress	<u>52.00</u>	
		<u>88.00</u>
<b>Cost of production</b>		<b><u>2 230.00</u></b>
Sales		2 500.00
Cost of goods sold (Cost of production)		<u>2 230.00</u>
		270.00
<b>Gross profit</b>		
Carriage Outwards	20.00	
Rent (20% x 90 000)	18.00	
Insurance ( $\frac{4}{15} \times 15\ 000$ )	4.00	
Electricity (10% x 75 000)	7.50	
Office Salaries	61.00	
Depreciation – buildings [(30 000 – 80 000) x 4% x 25%]	0.50	
– fittings and fixtures [(97 000 – 7000) x 10%]	<u>9.00</u>	
		<u>120.00</u>
<b>Net profit</b>		<b><u>150.00</u></b>

(b)

**Trent**  
**Balance Sheet at 31 December 20X6**

	<b>Cost £000</b>	<b>Acc Dep £000</b>	<b>NBV £000</b>
<b>Tangible fixed assets</b>			
Land and buildings (10 + 2)	130	12	118
Plant and machinery (400 + 100)	900	500	400
Fixtures and fittings (17 + 9)	<u>97</u>	<u>26</u>	<u>71</u>
	<u>1127</u>	<u>538</u>	589
<b>Current assets</b>			
Stocks: Raw materials		70	
Work in progress			52
Debtors		<u>200</u>	
		<u>322</u>	
<b>Liabilities due within one year</b>			
Creditors		75	
Bank overdraft		<u>125</u>	
		<u>200</u>	
Net current assets			<u>122</u>
			<u>711</u>
<b>Financed by</b>			
Capital at 1 January			650
Net profit			<u>150</u>
			800
Drawings			<u>89</u>
			<u>711</u>

#### Question 4

(a)

**Lara Cricket Club  
Accumulated Fund**

	<b>£000</b>
(18 + 10 + 50) - (5 + 12 + 8 + 18)	35

(b)

**Lara Cricket Club  
Bar Trading Account**

	<b>£000</b>	<b>£000</b>
Sales		300
<i>Less</i> Cost of goods sold:		
Opening stock	10	
Purchases	<u>200</u>	<u>210</u>
Gross profit		90
<i>Less</i> Expenses (25 - 8)		<u>17</u>
Net profit		<u><u>73</u></u>

(c)

**Lara Cricket Club  
Income and Expenditure Account for the year ended 31 December 20X7**

	<b>£000</b>	<b>£000</b>
Members' subscriptions [30 + 5 - (18 - 8)]		25
Bar profit		<u>73</u>
		98
<i>Less</i>		
General expenses	23	
Bank interest	6	
Loss on disposal of fixed assets	12	
Subscriptions written off	<u>8</u>	<u>49</u>
<b>Excess of Income over Expenditure</b>		<u><u>49</u></u>

(d)

**Lara Cricket  
Club Balance Sheet at 31 December 20X7**

	<b>£000</b>	<b>£000</b>
Fixed assets [50 + 40 - (20 + 12)]		58
Current asset: Bank	43 *	
Amount due within one year - creditors (12 + 200 - 195)	<u>17</u>	<u>26</u>
		<u><u>84</u></u>
Accumulated Fund -		
Opening balance		35
Excess of Income over Expenditure		<u>49</u>
		<u><u>84</u></u>

\*(300 + 30 + 20) - (18 + 195 + 40 + 25 + 6 + 23)

**Question 5****Alekeson Ltd**

	<b>Dr</b>	<b>Cr</b>
	<b>£</b>	<b>£</b>
Discount allowed	370	
Discount received		370
Motor vehicle at cost	5 000	
Motor vehicles disposal		5 000
Motor vehicles disposal	18 000	
Motor vehicles at cost		18 000
Provision for depreciation on motor vehicles (18 000 - 3000)	15 000	
Motor vehicles disposal		15 000
Motor vehicles disposal (5000 - 3000)	2 000	
Profit & Loss		2 000
Provision for Depreciation on motor vehicles [0.20 x (18 000 - 5000)]	2 600	
Profit & Loss		2 600
Sales (530 - 350)	180	
Debtors control		180
Provision for bad debts (0.1 x 180)	18	
Profit & Loss		18
Profit & Loss	3 000	
Debtors		3 000
Provision for bad debts	300	
Profit & Loss		300
Cost of goods sold (0.8 x 3500)	2 800	
Stock at cost		2 800
Return inwards	2 000	
Return outwards	2 000	
Suspense		4 000

## Question 6

(a)

### George Suspense Account

	£		£
Balance b/d	465	Carriage inwards (2 x 72)	144
Postage (84 - 48)	36	Bank	607
Purchase returns	125		
Trade debtors	<u>125</u>		
	<u>751</u>		<u>751</u>

(b)

	£
Gross profit as per accounts	29 455
Returns outwards	125
Carriage inwards	(144)
Purchases	<u>(150)</u>
Correct gross profit	<u>29 286</u>
Net profit as per accounts	16 340
Postage	36
Stationery	55
Returns outwards	125
Carriage inwards	(144)
Purchases	<u>(150)</u>
Correct net profit	<u>16 262</u>

## Question 7

(a)

<b>Bingo Ltd</b>		
<b>Trading, Profit &amp; Loss and Appropriation Account for the year ended 31 December 20X9</b>		
	<b>£000</b>	<b>£000</b>
Sales (1450 – 15 - 25)		1410
<b>Cost of goods sold</b>		
Purchases (668 - 7 + 20 - 10)	671	
Less closing stock [40 + (0.8 x 15)] - [5 - (4 - 1)]	<u>(50)</u>	
<b>Gross Profit</b>		<u>621</u> 789
Directors remuneration	38	
Wages and salaries (100 - 40 + 38)	98	
Light and heat	28	
General expenses	143	
Rent and rates (37 - 2)	35	
Bad debts	3	
Depreciation – equipment (0.1 x 310)	31	
– motor vehicles (0.15 x 280)	42	
– building [0.02 x (250 - 150 + 10 + 40)]	3	
Debenture interest (10 / 12 x 0.12 x 330)	33	
<b>Net profit for the year</b>		<u>454</u> 335
Less proposed dividends		
Preference dividends (200 x 0.08)	16	
Ordinary dividends (900 x 0.06)	<u>54</u>	
<b>Retained profit</b>		<u>70</u> <u>265</u>

(b)

**Bingo Ltd**  
**Balance Sheet as at 31 December 20X9**

	£000	£000	£000
<b>Tangible Fixed Assets</b>			
Land and buildings	300	3	297
Equipment	310	31	279
Motor vehicles	<u>280</u>	<u>42</u>	<u>238</u>
	<u>890</u>	<u>76</u>	814
<b>Investment</b>			500
<b>Current Assets</b>			
Stock		50	
Debtors (65 - 3 - 15)		47	
Prepayments		<u>2</u>	
		99	
<b>Creditors falling due within one year</b>			
Trade creditors	25		
Accruals (38 + 33)	71		
Proposed dividends (16 + 44)	70		
Bank overdraft	<u>2</u>	<u>168</u>	
<b>Net current liabilities</b>			<u>(69)</u>
			1 245
<b>Creditors falling due after more than one year</b>			
12% Debentures			<u>330</u>
			<u>915</u>
<b>Financed by:</b>			
<b>Capital and Reserves</b>			
Ordinary shares £0.50 each			450
Preference shares £1 each			200
Retained profit			<u>265</u>
			<u>915</u>



## Chapter 2

### Solutions to Target Practice Questions

#### Question 1

(a)

#### Workings

<b>Purchases</b>	<b>Units</b>	<b>£000</b>	
January	350 x 2000 x 0.96	672	See (c)(ii)
April	350 x 2000 x 0.96	672	below
July	400 x 3000 x 0.96	1152	
October	250 x 2600	650	See (d)
December	<u>250</u> x 2600	<u>650</u>	below
	1600	<u>3796</u> **	
<b>Sales</b> 100 x 12	<u>1200</u> x 2500	<u>3000</u> *	
<b>Stock</b>	<u>400</u>		

	<b>£000</b>
(b) (i) FIFO Stock of 400 units would be from the 500 units purchased in October and December. Hence 400 x 2600	1040.00
(ii) WAC 3 796 000 ÷ 1600 x 400	949.00
(iii) Replacement cost As stock to be replaced exceeds 300 units assume trade discount applies hence 400 x 2400 x 96%	921.60
(iv) NRV 400 x [2500 - 80]	968.00
(c) (i) Number of units (1600 - 400) ÷ 400	3 times
(ii) FIFO basis of stock valuation (3 796 000 - 1 040 000) ÷ 1 040 000	2.65 times

(d) **Trading Account the year ended 31 December 20X0**

	<b>£000</b>	<b>£000</b>
Sales		3000 *
Purchases	3796 **	
Stock FIFO	<u>1040</u>	
Gross Profit		<u>2756</u> <u>244</u>

## Question 2

	£
Sales for the month	<u>612 000</u>
Theoretical cost of sales (75% x 612 000)	<u>459 000</u>
Opening stock	318 000
Purchases	<u>412 000</u>
	730 000
Less theoretical cost of sales	<u>459 000</u>
Theoretical closing stock	241 000
Actual closing stock	<u>214 000</u>
Cost of stock destroyed in fire outbreak	<u><u>27 000</u></u>

## Question 3

	£
Stock on 4 November	483 700
Add Cost of goods sold between (1 November and 4 November)	14 800
Add goods returned to supplier	1 800
Less purchases	(38 400)
Less sales returns	<u>(400)</u>
Cost of stock at 31 October 20X7	<u><u>461 500</u></u>

## Chapter 3

### Solutions to Target Practice Questions

#### Question 1

	Sanity Ltd	£	£
List price of asset			200 000
Less trade discount (10% x 200 000)			<u>(20 000)</u>
			180 000
Ancillary costs:			
Shipping and handling costs		3 000	
Pre-production testing costs		12 500	
Site preparation costs			
Electrical cable installation (18 000-8000)		10 000	
Concrete reinforcement		5 500	
Own labour costs		<u>26 000</u>	<u>57 000</u>
Initial cost of the plant			<u><b>237 000</b></u>

#### Question 2

	Y plc		
(a)			
Annual depreciation of building	=		£400 000 40
	=		£10 000
			£
Accumulated depreciation at 1 April 20X6			
Depreciation for the year ended 31 March 20X5			10 000
Depreciation for the year ended 31 March 20X6			<u>10 000</u>
			<u>20 000</u>
Net book value at 1 April 20X6			
Building (£400 000 - £20 000)			380 000
Net book value of land			<u>100 000</u>
			<u><b>480 000</b></u>

Hence, revaluation reserve on 1 April 20X6 is: £420 000 (£900 000 - £480 000)

#### (b)

Depreciation charge on the property for the year ended 31 March 20X7

	=		£650 000 40 - 2
	=		£17 105

(c)

<b>Land</b>			
		£	£
1/4/20X4	Bank	100 000	
1/4/20X6	Revaluation reserve	<u>150 000</u>	Balance c/d
		<u>250 000</u>	<u>250 000</u>
	Balance b/d	250 000	

<b>Building</b>			
		£	£
1/4/20X4	Bank	400 000	
1/4/20X6	Revaluation reserve	270 000	1/4/20X6 Accumulated dep
		<u>670 000</u>	Balance c/d
	Balance b/d	650 000	<u>650 000</u>
			<u>670 000</u>

<b>Accumulated Depreciation-Building</b>			
		£	£
31/3/20X6	Balance c/d	<u>20 000</u>	31/3/20X5 Profit and loss
		<u>20 000</u>	10 000
			31/3/20X6 Profit and loss
			<u>10 000</u>
			<u>20 000</u>
1/4/20X6	Building	20 000	1/4/20X6 Balance b/d
31/3/20X7	Balance c/d	<u>17 105</u>	20 000
		<u>37 105</u>	31/3/20X7 Profit and loss
			<u>17 105</u>
			<u>37 105</u>

<b>Revaluation Reserve</b>			
		£	£
			1/4/20X6 Land
			150 000
			1/4/20X6 Building
			270 000
31/3/20X7	Balance c/d	<u>420 000</u>	<u>420 000</u>
		<u>420 000</u>	

### Question 3

(a)

- Tigana**
- (i) Cost of the asset
  - (ii) Useful economic life
  - (iii) Residual value of the asset

(b) (i)

<b>Motor Vehicles Account</b>			
		£	£
01 Apr	Balance b/d		31 Mar Balance c/d
	(56 000 + 69 000)	125 000	162 500
01 May	Bank (38 000 - 500)	37 500	
		<u>162 500</u>	<u>162 500</u>

(b) (ii)

**Provision for Depreciation - Motor Vehicles Account**

		£			£
31 Mar	Balance c/d	121 700	01 Apr	Balance b/d	
				(9 / 15 x 56 000) +	
				(12 / 15 x 69 000)	88 800
			31 Mar	Income Statement	32 900
				(3 / 15 x 56 000) +	
				(2 / 15 x 69 000) +	
				(5 / 15 x 37 500)	
		<u>121 700</u>			<u>121 700</u>

(iii)

**Machinery Account**

		£			£
01 Apr	Balance b/d		01 Aug	Asset Disposal	200 000
	(300 000 + 200 000)	500 000	31 Mar	Balance c/d	645 000
01 Apr	Bank	33 000			
01 Aug	Bank	200 000			
01 Aug	Asset Disposal	112 000			
		<u>845 000</u>			<u>845 000</u>

(iv)

**Provision for Depreciation on Machinery**

		£			£
01 Aug	Asset Disposal		01 Apr	Balance b/d	
	(200 000 / 10 x 3)	60 000		(300 000 / 10 x 4) +	
31 Mar	Balance c/d	186 700		(200 000 / 10 x 3)	180 000
			31 Mar	Income Statement	66 700
				(300 000 / 10) +	
				(312 000 / 10) +	
				(33 000 / 6)	
		<u>246 700</u>			<u>246 700</u>

(v)

**Machinery Disposal Account**

		£			£
01 Aug	Machinery	200 000	01 Aug	Provision for Depreciation	60 000
			01 Aug	Machinery	112 000
			31 Mar	Income Statement	28 000
		<u>200 000</u>			<u>200 000</u>

## Chapter 4

### Solutions to Target Practice Questions

#### Question 1

(a)

**Lee, Kong & Tong Partnership**  
**Trading, Profit & Loss and Appropriation Account the year ended 31 December 20X3**  
1/1/ 20X3-31/8/20X3                      1/9/20X3-31/12/20X3

	£	£	£	£	£	£
Sales		300 000				
Opening stock	10 000					
Purchases	150 000					
Closing stock	<u>(40 000)</u>					
Cost of sales		<u>120 000</u>				
Gross profit		<u>180 000</u>		60 000 <sup>W1</sup>		120 000 <sup>W2</sup>
General expenses			4 000			
Other general expenses			4 000 <sup>W3</sup>		2 000 <sup>W4</sup>	
Salaries and wages			4 000 <sup>W5</sup>		8 000 <sup>W6</sup>	
Light & heat			7 000 <sup>W7</sup>		14 000 <sup>W8</sup>	
Rent and rates			3 000 <sup>W9</sup>		9 000 <sup>W10</sup>	
Depreciation						
- plant & machinery			12 800		6 400	
Depreciation						
- motor vehicles			<u>6 000</u>		<u>3 000</u>	
Net profit				<u>40 800</u>		<u>42 400</u>
				<u>19 200</u>		<u>77 600</u>
Share of Profits						
Lee			12 800		31 040	
Kong			<u>6 400</u>		31 040	
Tong					<u>15 520</u>	
				<u>19 200</u>		<u>77 600</u>

#### Workings

1.  $\frac{1}{3} \times 180\,000 = 60\,000$
2.  $\frac{2}{3} \times 180\,000 = 120\,000$
3.  $(10\,000 - 4\,000) / 12 \times 8 = 4\,000$
4.  $(10\,000 - 4\,000) / 12 \times 4 = 2\,000$
5.  $\frac{1}{3} \times 12\,000 = 4\,000$
6.  $\frac{2}{3} \times 12\,000 = 8\,000$
7.  $\frac{1}{3} \times (19\,000 + 2\,000) = 7\,000$
8.  $\frac{2}{3} \times (19\,000 + 2\,000) = 14\,000$
9.  $\frac{1}{4} \times 12 \times 1\,000 = 3\,000$
10.  $\frac{3}{4} \times 12 \times 1\,000 = 9\,000$

(b)

**Lee, Kong & Tong Partnership**  
**Balance Sheet as at 31 December 20X3**

<b>Fixed Assets</b>	£	£	£	£
Plant & Machinery		96 000	29 200	66 800
Motor Vehicles		<u>36 000</u>	<u>19 000</u>	<u>17 000</u>
		<u>132 000</u>	<u>48 200</u>	<u>83 800</u>
<b>Current Assets</b>				
Stock			40 000	
Debtors			<u>21 000</u>	
			61 000	
<b>Creditors falling due within one year</b>				
Creditors		5 000		
Bank		3 000		
Accruals		<u>2 000</u>	<u>10 000</u>	
Net Current Assets				<u>51 000</u>
				<u>134 800</u>
<b>Financed by:</b>	<b>Lee</b>	<b>Kong</b>	<b>Tong</b>	
Capitals	30 000	30 000	10 000	70 000
<b>Current Accounts</b>				
Per Trial Balance	12 000	16 000	10 000	
Goodwill	20 000	10 000		
Goodwill written off	(12 000)	(12 000)	(6 000)	
Drawings	(38 000)	(12 000)	(20 000)	
Share of profits (1/1 – 31/8)	12 800	6 400		
Share of profits (1/9 – 31/12)	<u>31 040</u>	<u>31 040</u>	<u>15 520</u>	
	<u>25 840</u>	<u>39 440</u>	<u>(480)</u>	<u>64,800</u>
				<u>134,800</u>

(c)

**Journal entries for dissolution of partnership**

	<b>Dr</b>	<b>Cr</b>
	<b>£</b>	<b>£</b>
Plant and machinery		66 800
Motor vehicles		17 000
Stock		40 000
Debtors		21 000
Creditors	5 000	
Accruals	2 000	
Bank	3 000	
Realisation	134 800	
Shares in Oliver Ltd	70 000	
Debentures in Oliver Ltd	130 000	
Realisation		200 000
Realisation	65 200	
Capital - Lee		26 080
Kong		26 080
Tong		13 040
Current Account - Lee	25 840	
Current Account - Kong	39 440	
Current Account - Tong		480
Capital - Tong	480	
Capital - Lee		25 840
Capital - Kong		39 440
Oliver Ltd (shares)		70 000
Capital - Lee	30 000	
Capital - Kong	30 000	
Capital - Tong	10 000	
Oliver Ltd (debentures)		130 000
Lee	51 920	
Kong	65 520	
Tong	12 560	



## Question 2

(a)

### Tweddle, Carlsberg & Edey Partnership

	£	£		£
Plant and machinery		130 000	Cash - plant and machinery	185 000
Office equipment		22 500	Cash - office equipment	29 500
Motor vehicles		22 000	Cash - motor vehicles	18 000
Stock		55 000	Tweddle - stock	57 000
Trade debtors		23 700	Cash - debtors	28 400
Expenses		500	Discount-creditors	1 200
			(15 200 - 4 000 - 10 000)	
Share of profit				
Tweddle (1/2)	32 700			
Carlsberg (1/3)	21 800			
Edey (1/6)	<u>10 900</u>			
		<u>65 400</u>		
		<u>319 100</u>		<u>319 100</u>

(b)

### Capital Accounts

	Tweddle £	Carlsberg £	Edey £		Tweddle £	Carlsberg £	Edey £
Realisation	57 000			Bal b/f	90 000	60 000	30 000
Bank	69 700	81 800	40 900	Creditors	4 000		
				Realisation	32 700	21 800	10 900
	<u>126 700</u>	<u>81 800</u>	<u>40 900</u>		<u>126 700</u>	<u>81 800</u>	<u>40 900</u>

(c)

### Bank Account

	£		£	
Bal b/f		2 000	Realisation expenses	500
Realisation - plant and machinery	185 000		Bank loan	60 000
Realisation - equipment	29 500		Creditors	10 000
Realisation - motor vehicle	18 000			
Realisation - debtors	28 400		Capitals - Tweddle	69 700
			Capital - Carlsberg	81 800
			Capital - Edey	<u>40 900</u>
		<u>262 900</u>		<u>262 900</u>

### Question 3

**Tony, Bill and John  
Partnership Appropriation Account Year ended 31 December 20X6**

	1 Jan – 31 Jul 20X6		1 Aug – 31 Dec 20X6	
	£	£	£	£
Net profit (60 000 x 7 / 12) (60 000 x 5 / 12)		35 000		25 000
Add interest on drawings - Tony		<u>100</u>		<u>125</u>
		35 100		25 125
Less interest on capital - Tony	700		292	
Bill	467		646	
John	<u>233</u>	<u>1 400</u>	<u>167</u>	<u>1 105</u>
		33 700		24 020
 Residual profits				
Tony 3/6 ; 2/5	16 850		9 608	
Bill 2/6 ; 2/5	11 233		9 608	
John 1/6 ; 1/5	<u>5 617</u>	<u>33 700</u>	<u>4,804</u>	<u>24 020</u>

#### Workings

**Interest on capital - 1 January 20X6 to 31 July 20X6**

Tony	$(30\,000 - 6000) \times 5\% \times 7 / 12$	= 700
Bill	$(20\,000 - 4000) \times 5\% \times 7 / 12$	= 467
John	$(10\,000 - 2000) \times 5\% \times 7 / 12$	= 233

**Interest on capital - 1 August 20X6 to 31 December 20X6**

Tony	$(30\,000 - 6000 - 10\,000) \times 5\% \times 5 / 12$	= 292
Bill	$(20\,000 - 4000 + 15\,000) \times 5\% \times 5 / 12$	= 646
John	$(10\,000 - 2000) \times 5\% \times 5 / 12$	= 167

**Interest on drawings - 1 January 20X6 to 31 July 20X6**

Tony	$(3000 \times 10\% \times 4 / 12)$	= 100
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**Interest on drawings - 1 August 20X6 to 31 December 20X6**

Tony	$(3000 \times 10\% \times 5 / 12)$	= 125
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## Question 4

### Geoff, Rose and Freda

(a)

Goodwill as Bill is paying £5000 and is entitled to 5/20 of the profit so the total goodwill must be £20 000.

#### Journal

	Dr £	Cr £
Goodwill	20 000	
Geoff		10 000
Rose		6 000
Freda		4 000
Rose	9 000	
Freda	6 000	
Bill	5 000	
Goodwill		20 000

(b)

#### Current Accounts

	R £	F £	B £	G £		R £	F £	B £	G £
Balance	2 500	-	-	-	Balance	-	1 500	2 500	-
Drawings	12 500	9 500	8 500	-	Profit	20 000	12 000	8 000	-
Contra	5 000	-	-	-	Contra	-	2 500	2 500	-
Capital	-	6 500	4 500	-		-	-	-	-
	<u>20 000</u>	<u>16 000</u>	<u>13 000</u>	<u>-</u>		<u>20 000</u>	<u>16 000</u>	<u>13 000</u>	<u>-</u>
 					Profit	-	17 100	11 400	9 500
Drawings	-	9 000	6 000	7 500		-	-	-	-
Balance c/f	-	8 100	5 400	2 000		-	-	-	-
	<u>-</u>	<u>17 100</u>	<u>11 400</u>	<u>9 500</u>		<u>-</u>	<u>17 100</u>	<u>11 400</u>	<u>9 500</u>

#### Capital Accounts

	G £	R £	F £	B £		G £	R £	F £	B £
Goodwill	-	9 000	6 000	5 000	Balance	45 000	30 000	20 000	-
Bank	18 000	-	-	-	Goodwill	10 000	6 000	4 000	-
Loan	37 000	-	-	-	Current	-	6 500	4 500	-
Balance	-	36 500	25 500	10 000	Bank	-	3 000	3 000	15 000
	<u>55 000</u>	<u>45 500</u>	<u>31 500</u>	<u>15 000</u>		<u>55 000</u>	<u>45 500</u>	<u>31 500</u>	<u>15 000</u>

## Chapter 5

### Solutions to Target Practice Questions

#### Question 1

	Ardvak plc	
	Dr	Cr
	£000	£000
Bank (150 000 x 1.2)	180	
Application (100 000 x 1.2)		120
Allotment		60
Bank (100 000 x 0.8) – 60 000	20	
Allotment		20
Application	120	
Allotment	80	
Preference share capital		200
Debentures	300	
Share premium account	15	
Bank		315
Bank [3 750 000 x 2 / 15 x (£0.50 + £0.25)]	375	
Ordinary share capital [(3 750 000 / 15) x 2 x 0.5]		250
Share Premium		125
Share premium (100 000 – 15 000 + 125 000)	210	
Revaluation reserve	100	
General reserve	115	
Ordinary share capital [(3 750 000 + 5000) / 5 x 0.5]		425

**Question 2****Gardening Supplies plc**

<b>(a) Journal entries</b>	<b>Dr £000</b>	<b>Cr £000</b>
(1) Share premium	128	
Revaluation reserve	150	
Profit and loss account	122	
Ordinary Share capital		400
(2) Bank [(5000 - 2000 - 1600) x 0.3]	420	
Ordinary shares (1480 x 0.25)		350
Share premium		70
(3) Bank (100 x 1.10)	110	
Preference share Capital		100
Share premium		10
(4) 9% Debenture loan	250	
Debenture Premium (250 x 0.02)	5	
Bank		255
(5) Machinery	500	
Bank		500

<b>(b)</b>	<b>£000</b>	<b>£000</b>
5 000 000 ordinary shares of £0.25	1 250	
4 000 000 8% preference shares of £1		400
Share premium		80
Profit and loss account		48

**(c) Effect on bank balance**

$$(420\,000 + 110\,000 - 255\,000 - 500\,000) = \text{£}225\,000$$

**(d) Reason for replacing debentures shares**

This reduces the financial risk of the company.

## Chapter 6

### Solutions to Target Practice Questions

#### Question 1

##### Alpha Ltd

		£	£
(a)	Cost of investment		290 000
	Net assets		
	Ordinary shares	50 000	
	Share premium	30 000	
	Retained earnings at date of acquisition	<u>90 000</u>	
	Net assets at the date of acquisition		<u>170 000</u>
	Goodwill		<u>120 000</u>
(b)	Parent company's retained earnings		100 000
	Post acquisition earnings of subsidiary (150 000 – 90 000)		<u>60 000</u>
			<u>160 000</u>

(c)

##### Alpha plc Consolidated Balance Sheet at 31 December 20X7

	£	£
<b>Fixed assets</b>		
Goodwill		120 000
Tangible fixed assets (500 000 + 140 000)		640 000
Investments (290 000 - 290 000) + 60 000		<u>60 000</u>
		820 000
<b>Current assets</b>		
Stock (100 000 + 50 000)	150 000	
Trade debtors (100 000 + 40 000)	140 000	
Bank (30 000 + 20 000)	<u>50 000</u>	
	<u>340 000</u>	
<b>Creditors: amounts due within one year</b>		
Trade creditors (90 000 + 60 000)	150 000	
Accruals (40 000 + 20 000)	<u>60 000</u>	
	<u>210 000</u>	
<b>Net current assets</b>		<u>130 000</u>
		<u>950 000</u>
<b>Capital and reserves</b>		
Ordinary share capital		650 000
Reserves		
Share premium	100 000	
Revaluation reserves	40 000	
Retained earnings	<u>160 000</u>	<u>300 000</u>
		<u>950 000</u>

## Question 2

(a)

### Nana plc

	£	£
Cost of investment		250 000
Net assets		
Ordinary shares	50 000	
Share premium	70 000	
Retained earnings	<u>80 000</u>	
	<u>200 000</u>	
Group share	x 75%	<u>150 000</u>
Goodwill		<u>100 000</u>

(b)

Parent company's retained earnings		100 000
Post acquisition earnings of subsidiary (110 000 – 80 000 x 75%)		<u>22 500</u>
		<u>122 500</u>
Ordinary shares (25% x 50 000)	12 500	
Share premium (25% x 70 000)	17 500	
Retained earnings (25% x 110 000)		<u>27 500</u>
		<u>57 500</u>

(d)

### Nana plc Consolidated Balance Sheet at 31 December 20X6

	£	£
<b>Fixed assets</b>		
Goodwill		100 000
Tangible fixed assets (510 000 + 110 000)		620 000
Investments (280 000 - 250 000) + 90 000		<u>120 000</u>
		840 000
<b>Current assets</b>		
Stock (140 000 + 40 000)	180 000	
Trade debtors (80 000 + 60 000)	140 000	
Bank (10 000 + 10 000)	<u>20 000</u>	
	<u>340 000</u>	
<b>Creditors: amounts due within one year</b>		
Trade creditors (80 000 + 50 000)	130 000	
Accruals (50 000 + 30 000)	<u>80 000</u>	
	<u>210 000</u>	
<b>Net current assets</b>		<u>130 000</u>
		<u>970 000</u>
<b>Capital and reserves</b>		
Ordinary share capital		700 000
Share premium	50 000	
Revaluation reserves	40 000	
Retained earnings	<u>122 500</u>	<u>212 500</u>
		912 500
(c) Minority interest		<u>57 500</u>
		<u>970 000</u>

### Question 3

		Santo plc	
		£	£
(a)	Cost of investment		260 000
	Net assets		
	Ordinary shares	100 000	
	Share premium	20 000	
	Retained earnings	<u>50 000</u>	
		<u>170 000</u>	
		x 70%	
	Group share		<u>119 000</u>
	Goodwill		<u>141 000</u>
(b)	Parent company's retained earnings		200 000
	Post acquisition earnings of subsidiary [70% x (110 000 - 50 000)]	<u>42 000</u>	
			<u>242 000</u>
	Ordinary shares (30% x 100 000)		30 000
	Share premium (30% x 20 000)		6 000
	Retained earnings (30% x 110 000)		<u>33 000</u>
			<u>69 000</u>



(d)

**Santo plc**  
**Consolidated Balance Sheet at 31 December 20X6**

	£	£
<b>Fixed assets</b>		
Goodwill		141 000
Tangible fixed assets (500 000 + 110 000)		610 000
Investments (295 000 - 260 000) + 90 000		<u>125 000</u>
		876 000
<b>Current assets</b>		
Stock	172 000 <sup>W1</sup>	
Trade debtors	126 600 <sup>W2</sup>	
Dividend receivable (1400 - 1400)	-	
Bank (10 000 + 30 000)	<u>40 000</u>	
	<u>338 600</u>	
<b>Creditors: amounts due within one year</b>		
Trade creditors	125 000 <sup>W3</sup>	
Dividend payable – parent	8 000	
Dividend payable – minority (2000 - 1400)	600	
Accruals (47 000 + 28 000)	<u>75 000</u>	
	<u>208 600</u>	
<b>Net current assets</b>		<u>130 000</u>
		<u>1 006 000</u>
<b>Capital and reserves</b>		
Ordinary share capital		600 000
Share premium	40 000	
Revaluation reserve	55 000	
Retained earnings	<u>242 000</u>	<u>337 000</u>
		937 000
(c) Minority interest		<u>69 000</u>
		<u>1 006 000</u>

**Workings**

1. Santo	145 000
Jing	20 000
In transit from Santo to Jing	<u>7 000</u>
	<u>172 000</u>
2. Santo	78 600
Jing	60 000
Inter-company balance	<u>(12 000)</u>
	<u>126 600</u>
3. Santo	80 000
Jing	50 000
In transit from Santo to Jing	7 000
Inter-company balance	<u>(12 000)</u>
	<u>125 000</u>

## Question 4

### Donna plc Consolidated Balance Sheet at 31 December 20X6

	£	£
<b>Fixed assets</b>		
Goodwill		113 000 <sup>W5</sup>
Tangible fixed assets (595 000 + 118 000)		713 000
Investments (215 000 - 215 000) + 60 000		<u>60 000</u>
		886 000
<b>Current assets</b>		
Stock	144 500 <sup>W3</sup>	
Trade debtors	130 600 <sup>W1</sup>	
Dividend receivable (3000 - 3000)	-	
Bank	<u>44 500<sup>W4</sup></u>	
	<u>319 600</u>	
<b>Creditors: amounts due within one year</b>		
Trade creditors	128 000 <sup>W2</sup>	
Dividend payable – parent	10 000	
Dividend payable – minority (5000 - 3000)	2 000	
Accruals (41 000 + 28 600)	<u>69 600</u>	
	<u>209 600</u>	
<b>Net current assets</b>		<u>110 000</u>
		<u>996 000</u>
<b>Capital and reserves</b>		
Ordinary share capital		600 000
Reserves		
Share premium	30 000	
Revaluation reserves	34 000	
Retained earnings	<u>242 840<sup>W6</sup></u>	<u>306 840</u>
		906 840
Minority interest (40% x 222 900)		<u>89 160</u>
		<u>996 000</u>
<b>Workings</b>		
1. Donna		79 600
Ling		66 000
Inter-company balance		<u>(15 000)</u>
		<u>130 600</u>
2. Donna		88 000
Ling		45 000
Stock in transit		6 000
Cash in transit		4 000
Inter-company balance		<u>(15 000)</u>
		<u>128 000</u>
3. Donna		115 000
Ling		27 000
Stock in transit		6 000
Unrealised profit (15 000 + 6 000) x 20 / 120		<u>(3 500)</u>
		<u>144 500</u>

4.	Donna	10 000
	Ling	30 500
	Cash in transit	<u>4 000</u>
		<u>44 500</u>

5.		£	£
	Cost of investment		215 000
	Net assets		
	Share capital	100 000	
	Retained earnings	20 000	
	Share premium	<u>50 000</u>	
		<u>170 000</u>	
	Group's share of the net assets (60% x 170 000)		<u>102 000</u>
			<u>113 000</u>

6.		£
	Parent company's retained earnings	211 600
	Parent company's share of subsidiary's proposed dividend (60% x 5000)	3 000
	Group's share of post acquisition profit [60% x (102 900 – 50 000)]	31 740
	Less unrealised profit on stock	<u>(3 500)</u>
		<u>242 840</u>

## Chapter 7

### Solutions to Target Practice Questions

#### Question 1

	<b>Kim Ltd</b>	
(a)		
	Net cash inflow/outflow from operating activities:	
		<b>£000</b>
	Operating profit (200 000 – 120 000)	80 000
	Depreciation of buildings $\left(\frac{2}{98} \times 98\,000\right)$	2 000
	Depreciation of plant and machinery $\left(\frac{10}{90} \times 45\,000\right)$	5 000
	Depreciation of equipment $\left(\frac{20}{80} \times 30\,000\right)$	7 500
	Increase in stocks	(19 500)
	Increase in debtors	(40 500)
	Increase in creditors	<u>13 000</u>
	Net cash inflow from operating activities	<u>47 500</u>
(b)	Returns on Investment and Servicing of Finance:	
	Interest paid (3000 - 1000) outflow	2 000
	Preference dividend (8% x 40 000)	<u>3 200</u>
		<u>5 200</u>
(c)	Net Cash Inflow from financing:	
	Issue of Ordinary Shares	100 000
	Preference Shares	40 000
	Debentures	<u>30 000</u>
		<u>170 000</u>
(d)	Equity Dividends paid: (27 000 - 3200 - 5000)	<u>18 800</u>
(e)	Capital Expenditure:	
	Buildings (98 000 + 2000)	100 000
	Plant and machinery (45 000 + 5000)	50 000
	Equipment (30 000 + 7500)	<u>37 500</u>
		<u>187 500</u>

## Question 2

### Robber Ltd

	£
(a) Retained profit	36 675
Add proposed dividend	16 000
Add interest paid	6 000
Less interest received	<u>(450)</u>
Operating profit	58 225
Loss on disposal (3690 - 2000)	1 690
Trade debtors (25 000 – 12 000)	13 000
Trade creditors (19 000 - 3000)	16 000
Stock (5000 – 5500)	(500)
Depreciation (9850 + 6000)	<u>15 850</u>
Net cash inflow from operating activities	<u>104 265</u>
(b) Capital expenditure	
Purchase of investments	(25 000)
Sale of fixed assets	2 000
Purchase of tangible fixed assets (55 800 – 3000 + 6000 + 3690)	<u>(62 490)</u>
Net cash outflow from capital expenditure	<u>(85 490)</u>
(c) Financing	
Issue of ordinary shares (50 000 x 1.5)	75000
Expenses of share issue	(800)
Debentures redeemed	<u>(20 000)</u>
Net cash inflow from financing	<u>54 200</u>
(d) Return on investment and servicing of finance	
Debenture interest	(6 000)
Interest received	<u>450</u>
Net cash outflow from return on investment and servicing of finance	<u>(5 550)</u>

### Question 3

(a) **Millennium Ltd**  
**Reconciliation of operating profit to net cash inflow from operating activities**

	£
Operating profit [140 800 – 80 000 + 19 500 + 7500 + (0.10 x 50 000)]	92 800
Depreciation (90 000 – 70 000 + 10 000)	30 000
Profit on sale of fixed assets	(5000)
Increase in Stock (75 000 – 60 000)	(15 000)
Decrease in debtors (35 000 – 40 000)	5 000
Increase in creditors (62 700 – 58 000)	<u>4 700</u>
	<u>112 500</u>

(b) **Millennium Ltd**  
**Cash Flow Statement for the Year ended 31 December 20X1**

	£	£
<b>Net cash inflow from operating activities (see reconciliation)</b>		112 500
<b>Returns on investments and servicing of finance</b>		
Debenture interest		(5 000)
<b>Capital expenditure</b>		
Sale of fixtures (175 000 – 150 000 – 10 000 + 5000)	20 000	
Purchase of land & buildings (400 000 – 200 000)	<u>(200 000)</u>	
<b>Net Outflow</b>		(180 000)
Equity dividends paid (22 000 + 7500)		<u>(29 500)</u>
<b>Net cash outflow before financing</b>		(102 000)
<b>Financing</b>		
Issue of ordinary shares [(150 000 – 100 000) + (75 000 – 25 000)]		<u>100 000</u>
<b>Net decrease in Cash</b>		<u>(2 000)</u>

## Chapter 8

### Solutions to Target Practice Questions

#### Question 1

John Rogers

##### (a) Amounts in respect of 20X7

- (i) Mark up percentage on cost  $\frac{(720 - 288) \times 100}{288} = \underline{150\%}$
- (ii) Average credit period  $\frac{60}{720} \times 12 = \underline{1 \text{ month}}$
- (iii) Average payment period  $\frac{36}{288} \times 12 = \underline{1.5 \text{ months}}$

##### (b) Gross profit for 20X8

$$\begin{aligned} \text{Purchases (cost of goods sold)} &= 288\,000 \times 1.2 = \text{£}345\,600 \\ \text{Profit} &= 345\,600 \times 1.25 = \underline{\text{£}432\,000} \end{aligned}$$

##### (c) Effect of plans on bank balance at 31 December 20X8

$$\text{Debtors} \quad \frac{432\,000 + 345\,600}{12} \times 1.5 = \text{£}97\,200$$

$$\text{Stock} \quad 45\,000 + 18\,000 = \text{£}63\,000$$

$$\text{Creditors} \quad \frac{(345\,600 + 18\,000)}{12} \times 2 = \text{£}60\,600$$

$$63\,000 + 97\,200 + \text{Bank} - 60\,600 = \text{£}79\,600$$

$$\text{Bank} = \text{£}20\,600 \text{ overdrawn or i.e. } \underline{\text{£}30\,600 \text{ decrease.}}$$

##### (d) Acid test ratio

$$\text{At 31 December 20X7} \quad \frac{60 + 10}{36} = \underline{1.94:1}$$

$$\text{At 31 December 20X8} \quad \frac{97.2}{60.6 + 20.6} = \underline{1.2:1}$$

## Question 2

### Ross plc and Clark Ltd

(a)	Ross plc	Clark Ltd
(i) <b>Working Capital ratio:</b>	<b>£000</b>	<b>£000</b>
Stock	320	120
Debtors	220	100
Bank	<u>150</u>	<u>30</u>
	<u>690</u>	<u>250</u>
	<b>£000</b>	<b>£000</b>
Creditors	35	40
Debentures (150 ÷ 6)	<u>25</u>	<u>—</u>
	<u>60</u>	<u>40</u>
	690 ÷ 60 = <u>11.5:1</u>	250 ÷ 40 = <u>6.25:1</u>
(ii) <b>Acid Test:</b>	<b>£000</b>	<b>£000</b>
Current Assets	690	250
Less Stock	<u>320</u>	<u>120</u>
	<u>370</u>	<u>130</u>
	370 ÷ 60 = <u>6.17:1</u>	130 ÷ 40 = <u>3.25:1</u>
(iii) <b>Tangible Fixed Assets to Working Capital ratio:</b>		
	$\frac{(270 - 20) + (530 - 150) + (340 - 160)}{690 - 60}$	$\frac{(110 - 10) + (310 - 130) + (135 - 65)}{250 - 40}$
	= <u>1.29:1</u>	= <u>1.67:1</u>
(iv) <b>Net Assets per Ordinary Share</b>		
	$\frac{1000 + 115}{1000} = \underline{1.12}$	$\frac{500 + 60}{500 \div 0.5} = \underline{0.56}$
(v) <b>Return on closing equity investment:</b>		
	$\frac{70 - (0.08 \times 200)}{1\,000 + 115 - (0.08 \times 200)} \times 100 = 4.91\%$	$\frac{10}{500 + 60} \times 100 = 1.79\%$



### Question 3

#### Wond plc

#### Workings:

	£
Sales	12 500
Cost of sales	(9 200)
Gross profit	3 300
Operating expenses	(500)
Operating profit	2 800
Interest	(6)
Net profit	2 794
Proposed dividend	(1 000)
	<u>1 794</u>

(i) Gross profit ratio	$(3300 / 12\ 500 \times 100)$	= 26.40%
(ii) Net profit ratio	$(2800 / 12\ 500 \times 100)$	= 22.40%
(iii) Interest cover	$(2800 / 6)$	= 466.67times
(iv) Return on capital employed	$(2800 / (4000 + 10\ 000 + 3000 + 3140 + 1794))$	= 12.77%
(v) Earnings Per Share	$(2794 / 20\ 000)$	= £0.14 per share
(vi) Stock turnover ratio	$(9200 / 1\ 200 + 1\ 000 / 2)$	= 8.36 times
(vii) Working capital ratio	$[(160 + 4120 + 1000) / (2240 + 1000)^*]$	= 1.63 : 1
(viii) Acid test ratio	$[(160+4120) / 3240]$	= 1.32 : 1
(ix) Debtors collection period	$[(4120 / 12\ 500) \times 365]$	= 120 days
(x) Dividend yield	$0.05 / 3 \times 100$	= 1.67%
(xi) Earnings yield	$0.14 / 3 \times 100$	= 4.67%

\*0.05 x 2 x 10 000

### Question 4

#### Moga plc

(a) (i) Current ratio	$360 / 190$	= 1.89:1
(ii) Acid test ratio	$182 / 190$	= 0.96:1
(iii) Debtors collection period	$\frac{182 + 60 / 2 \times 365}{4500}$	= 9.81 days
(iv) Gross profit to sales ratio	$1200 / 4500 \times 100$	= 27.67%
(v) Earnings per share	$\frac{222 - 4}{360}$	= £0.61 per share
(vi) Price earnings ratio	$2 / 0.61$	= 3.28
(vii) Dividend yield	$\frac{60 - 4}{720}$	= 7.78%

- (b) Reasons for increase in gross profit ratio  
 Increase in selling price per unit  
 Decrease in cost per unit due to bulk purchasing  
 Change in sales mix

### Question 5

#### Knight Ltd Preliminary workings

Sales	$\frac{12\ 000}{x} \times 365 = 30$	
	$x =$	<u>£146 000</u>
Cost of sales	60% x 146 000	<u>£87 600</u>
Trade creditors	$\frac{x}{95\ 120} \times 365 = 15$	
	$x =$	<u>£3 910</u>
Purchases	87 600 + (0.2 x 87 600) – 10 000	<u>£95 120</u>

(a)

#### Knight Ltd Budgeted Trading, Profit & Loss and Appropriation Account for the year ending 31 December 20X9

	£	£
Sales		146 000
Less cost of sales		
Opening stock	10 000	
Purchases	<u>95 120</u>	
	105 120	
Less closing stock (0.2 x 87 600)	<u>17 520</u>	<u>87 600</u>
Gross profit		58 400
Depreciation (0.1 x 200 000)	20 000	
Other operating expenses	<u>15 000</u>	<u>(35 000)</u>
Net profit		23 400
Proposed dividend (0.02 x 150 000)		<u>(3 000)</u>
Retained profit for the year		20 400
Retained profit brought forward		<u>52 000</u>
Retained profit carried forward		<u>72 400</u>

(b)

**Knight Ltd - Budgeted Bank Account**

	£	£
Opening balance		12 000
Receipts from customers (146 000 + 6000 – 12 000)		<u>140 000</u>
		152 000
<b>Less payments</b>		
Operating expenses (15 000 - 1000)	14 000	
Payment to suppliers (95 120 + 4000 - 3910)	95 210	
Loan repayment	<u>22 000</u>	<u>131 210</u>
Closing bank balance		<u>20 790</u>

(c)

**Knight Ltd - Budgeted Balance Sheet as at 31 December 20X9**

	£	£	£
<b>Sundry Fixed Assets</b>			180 000
<b>Current Assets</b>			
Stocks		17 520	
Debtors		12 000	
Bank		<u>20 790</u>	
		50 310	
<b>Current Liabilities</b>			
Creditors and Accruals (3910 + 1000)	4 910		
Proposed dividend	<u>3 000</u>	<u>7 910</u>	<u>42 400</u>
			<u>222 400</u>
<b>Financed by:</b>			
Ordinary Share capital			150 000
Retained profit			<u>72 400</u>
			<u>222 400</u>

## Chapter 9

### Solutions to Target Practice Questions

#### Question 1

Alan

#### Cash Budget

	January £	February £	March £	April £
<b>Receipts</b>				
Redundancy	80 000	9 000	3 890	9 090
Sales	<u>-</u>	<u>15 200</u>	<u>57 100</u>	<u>80 000</u>
	<u>80 000</u>	<u>24 200</u>	<u>60 990</u>	<u>89 090</u>
<b>Payments</b>				
Machinery	60 000			
Purchases - raw materials	10 000	11 550	24 500	26 950
Wages	-	4 800	19 800	22 200
Variable overheads	-	960	4 600	7 080
Fixed overheads	<u>1 000</u>	<u>3 000</u>	<u>3 000</u>	<u>3 000</u>
	<u>71 000</u>	<u>20 310</u>	<u>51 900</u>	<u>59 230</u>
Balance c/d	9 000	3 890	9 090	29 860

#### Workings:

##### Sales

	Amount £	20% £	Disc 5% £	Net £	50% £	20% £	8% £	Total Cash £
January	-	-	-	-	-	-	-	-
February	80 000	16 000	800	15 200	-	-	-	15 200
March	90 000	18 000	900	17 100	40 000	-	-	57 100
April	100 000	20 000	1 000	19 000	45 000	16 000	-	80 000
May	100 000	20 000	1 000	19 000	50 000	18 000	6 400	93 400

##### Production

	£	£	£	£	Total £
January	800	-	-	-	800
February	2 400	900	-	-	3 300
March	-	2 700	1 000	-	3 700
April	-	-	3 000	1 000	4 000
May	<u>-</u>	<u>-</u>	<u>-</u>	<u>3 000</u>	<u>3 000</u>
	<u>3 200</u>	<u>3 600</u>	<u>4 000</u>	<u>4 000</u>	<u>14 800</u>

##### Purchases

	Production	50% £	Total £	Price £	Amount £
January	3300 in Feb	1 650	1 650	7	11 550
February	3700 in Mar	1 850	3 500	7	24 500
March	4000 in Apr	2 000	3 850	7	26 950

**Direct Wages**

	£	£
January	800 x 6	4 800
February	3300 x 6	19 800
March	3700 x 6	22 200
April	4000 x 6	24 000

**Paid in**

February
March
April
May

**Variable Overheads**

		February £	March £	April £	May £
January	800 x 2 = 1600	960	640	-	-
February	3300 x 2 = 6600	-	3960	2640	-
March	3700 x 2 = 7400	-	-	4440	2960
April	4000 x 2 = 8000	-	-	-	-
		<u>960</u>	<u>4600</u>	<u>7080</u>	<u>2960</u>

**Fixed Overheads**

		January £	February £	March £	April £
January	3000	1000	2000	-	-
February	3000	-	1000	2000	-
March	3000	-	-	1000	2000
April	3000	-	-	-	1000
		<u>1000</u>	<u>3000</u>	<u>3000</u>	<u>3000</u>

**Question 2****Mendes Ltd****CASH BUDGET**

	January £	February £	March £	April £	May £	June £
<b>Receipts</b>						
Jan sales	940	940	-	-	-	-
Feb sales	-	1 880	1 880	-	-	-
March sales	-	-	3 760	3 760	-	-
April sales	-	-	-	3 760	3 760	-
May sales	-	-	-	-	4 700	4 700
June sales	-	-	-	-	-	4 700
	<u>940</u>	<u>2 820</u>	<u>5 640</u>	<u>7 520</u>	<u>8 460</u>	<u>9 400</u>
<b>Payments</b>						
Development	7 200	-	-	-	-	-
Machinery	-	-	6 000	-	6 000	-
Materials	-	10 000	5 000	5 000	5 000	5 000
Labour	3 200	3 200	3 200	3 200	3 200	3 200
Overhead	800	800	800	800	800	800
	<u>11 200</u>	<u>14 000</u>	<u>15 000</u>	<u>9 000</u>	<u>15 000</u>	<u>9 000</u>
Monthly deficit	(10 260)	(11 180)	(9 360)	(1 480)	(6 540)	400
Cumulative deficit	(10 260)	(21 440)	(30 800)	(32 280)	(38 820)	(38 420)

## Chapter 10

### Solutions to end Target Practice Questions

#### Question 1

##### Mendes Ltd

(i)

#### Break-even units

Contribution per unit:

	£	£
Selling price		9.40
Direct material	5.00	
Direct labour	<u>3.20</u>	<u>8.20</u>
Unit contribution		<u>1.20</u>

Fixed Costs

Depreciation $[(12\ 000 - 2\ 400) / 5]$		1 920
Development costs $(7200 / 5)$		1 440
Other fixed costs $(800 \times 12)$		<u>9 600</u>
Total		<u>12 960</u>
Break-even units $(12\ 960 / 1.2)$	<u>10 800 units</u>	

(ii) **Units necessary to earn 10% on total cost**

Contribution per unit:

	£
Selling price	9.40
Unit direct cost plus required profit $(8.20 + 0.82)$	<u>9.02</u>
Contribution	0.38

Fixed costs plus required profit $(12\ 960 + 1296)$	<u>14 256</u>
Units necessary $(14\ 256 / 0.38)$	<u>37 520</u>

(iii) **Units necessary to earn 5% on sales revenue**

Contribution per unit:

	£
Selling price less profit $(9.40 \times 0.95)$	8.93
Direct Costs	<u>8.20</u>
Contribution	<u>0.73</u>
Fixed costs £12 960	
Units necessary $(12\ 960 / 0.73)$	<u>17 750</u>

## Question 2

### Shoe Retailer

(a) Break-even sales units:  $\frac{90\,000 + 40\,000 + 110\,000}{40 - 20}$

= 16 000 pairs

Margin of safety:  $\frac{25\,000 - 16\,000}{25\,000} \times 100$

= 36%

(b) Net profit on sale of 20,000 pairs of shoes:

$$20\,000 (40 - 25) - 240\,000$$

= £60 000

(c) Number of pairs which must be sold to earn a net profit of £10,000 if a commission of £2.50 per pair were to be introduced:

$$\frac{10\,000 + 240\,000}{15.00 - 2.50}$$

= 20 000 pairs

(d) Number of pairs which must be sold to break even after increasing advertising by £20 000 and increasing selling price by 12½%:

$$\frac{240\,000 + 20\,000}{(40 \times 1.125) - 25}$$

= 13 000 pairs

(e) Need to know the proportions in which shoes sold to men and ladies in order to calculate a weighted contributed.

If break even point required for each **product** then would need to divide the fixed costs between the 2 products and there is no obvious basis for doing this etc.

### Question 3

#### Quixote

(a) **Break-even point (units)**  $\frac{50\,000 + 20\,000}{10 - 5 - 1}$

= 17 500 discs

**Break-even sales**

17 500 x 10

= £175 000

(b) **Profit on sale of 20 000 discs**

	£	£
Contribution (20 000 x 4)		80 000
Less fixed costs:		
Manufacturing costs	50 000	
Selling expenses	<u>20 000</u>	<u>70 000</u>
Anticipated profit		<u>10 000</u>

(c) **Advertising campaign**

(3000 x 4) – 10 000 = £2000

Comment: Campaign worthwhile

(d) **Minimum price for special order**

$\frac{(50\,000 \times 5) + 30\,000}{50\,000}$  = £5.60

(e) **Difficulties in real life situations might include the following:**

- (i) Non-linear costs
- (ii) Non-linear revenues
- (iii) Multi-product situations create problems of allocation and interdependence



## Question 4

### Teeside Bag Ltd

(a)

(i) Break Even sales in units and value

$$\frac{500\,000}{15 - 7 - 3}$$

Break even sales in units = 100 000 units

Break even sales in value = 100 000 x 15  
= £1 500 000

(ii) Current Production Level

$$= \frac{500\,000 + 520\,000}{5}$$

204 000 units

(b) Depreciation (200000 / 4)

£50 000 per annum

New selling price (15 - 2)

£13

Advertising

£160 000

(i) Break even under new proposal

$$= \frac{500\,000 + 50\,000 + 160\,000}{13 - 7 - 3}$$

236 667 units

(ii) Units to achieve a profit of  
\$520,000

$$= \frac{550\,000 + 520\,000 + 160\,000}{3}$$

410 000 units

(c) Under the new proposal, the company will have to sell 410 000 units to achieve the current level of profit. However, 410 000 units is above the new capacity of (204 000 x 2) 408 000 units. Therefore the proposal should be rejected.

## Chapter 11

### Solutions to Target Practice Questions

#### Question 1

(a) Using Net Present Value

#### Ronniemag Ltd

##### Project A

	Time 0	Year 1	Year 2	Year 3	Year 4	Year 5
Initial Investment	(65 000)					
Annual cash flows		25 000	25 000	25 000	25 000	10 000
Net cash flows	(65 000)	25 000	25 000	25 000	25 000	10 000
Discount factor	1	0.909	0.826	0.751	0.683	0.621
Present value	(65 000)	22 725	20 650	18 775	17 075	6 210

##### Project B

	Time 0	Year 1	Year 2	Year 3	Year 4	Year 5
Initial Investment	(45 000)					
Annual cash flows		11 000	11 000	11 000	11 000	11 000
Net cash flows	(45 000)	11 000	11 000	11 000	11 000	11 000
Discount factor	1	0.909	0.826	0.751	0.683	0.621
Present value	(45 000)	9 999	9 086	8 261	7 513	6 831

##### Project C

	Time 0	Year 1	Year 2	Year 3	Year 4	Year 5
Initial Investment	(155 000)					
Annual cash flows		30 000	40 000	20 000	140 000	(60 000)
Net cash flows	(155 000)	30 000	40 000	20 000	140 000	(60 000)
Discount factor	1	0.909	0.826	0.751	0.683	0.621
Present value	(155 000)	27 270	33 040	15 020	95 620	(37 260)

Hence, the best project is project A

(b) **Using Payback period Method**

**Project A**

Time	Cash flow	Unrecovered cash flow
0	(65 000)	(65 000)
1	25 000	40 000
2	25 000	15 000
3	25 000	0

Payback period = 2 years + (15 000 / 25 000) x 12  
= 2 years 7.2 months

**Project B**

Time	Cash flow	Unrecovered initial outlay
0	(45 000)	(45 000)
1	11 000	(34 000)
2	11 000	(23 000)
3	11 000	(12 000)
4	11 000	(1 000)
5	11 000	0

Payback period = 4 years + (1000 / 11 000) x 12  
= 4 years 1 month

**Project C**

Time	Cash flow	Unrecovered initial outlay
0	(155 000)	(155 000)
1	30 000	(125 000)
2	40 000	(85 000)
3	20 000	(65 000)
4	140 000	75 000

Payback period = 3 years + (75 000 / 140 000) x 12  
= 3 years 6 months

Using payback criterion, the best project is A - It has the shortest payback period.  
Remember, cash flows after the payback period are ignored.

(c) **Accounting rate return**

	Investment A	Investment B	Investment C
Total inflows	110 000	55 000	230 000
Total outflows	(65 000)	(45 000)	(215 000)
Total profit	45 000	10 000	15 000
Average Profit	45 000 / 5 = 9000	10 000 / 5 = 2000	15 000 / 5 = 3000
ARR	9000 / 65 000 x 100	2000 / 45 000 x 100	3000 / 155 000
	13.8%	4.4%	1.9%

Firm should invest in project A - It has the highest accounting rate of return

(d) On all three methods of appraisal project A gives the best results. It should be chosen.

## Chapter 12

### Solutions to Target Practice Questions

#### Question 1

The net book value was arrived at after deducting the accumulated depreciation on the assets from their costs. This means that the assets were originally recorded at cost. This is in line with the historical cost convention. The cost of assets consumed in each year is charged as depreciation expense in the profit and loss account. This is in line with the matching concept.

#### Question 2

- (a) It is possible for the stapler to be used for more than one financial year. However, the materiality concept would require the cost of the stapler to be charged to the profit and loss account in the year in which it is acquired.
- (b) The matching convention requires the profit and loss account for the year ended 31 December 20X7 to include an estimate of the electricity bill for the period 1 November 20X7 to 31 December 20X7.  
The rent paid for the nine months to 30 June 20 X8 includes a prepayment of 6/9 x 80,000.  
Again, the matching concept requires the prepaid amount to be shown in the balance sheet at 31 December 20X7 and expensed in the financial year ending 30 June 20X8.
- (c) The historical cost convention requires fixed assets to be reported on the balance sheet at cost less accumulated depreciation (net book value). Hence, the fixed asset should be reported at the book value of £10,000. The market value of £25,000 should be ignored.
- (d) It is very likely that the firm would not be able to recover the £60,000 owed by the customer. Hence, an application of the prudence concept would require the amount owed by the customer to be written off to the profit and loss account for the year ended 31 December 20X7.
- (e) The cost of the holiday is not a business expense. It is a private expense incurred by the proprietor of the business and should have been paid out of the private bank account of the proprietor. An application of the business entity concept would result in the cost of the holiday being charged to the drawings account of the proprietor.
- (f) The realisation concept requires the sale to be recognised in the year in which the goods are invoiced and delivered to the customer. Hence, the sale to Mr X would be recognised in the financial year ending 31 December 20X7.