

Chapter 15 Financial Statements for Limited Companies (有限公司的財務報表)

15.3 Preparation of an income statements for a limited companies (編製有限公司的損益表)

Worldwide Ltd Trial Balance as at 31 March 2010

	Dr \$	Cr \$
Office equipment, at cost	300,000	
Delivery vans, at cost	120,000	
Accumulated depreciation: Office equipment*		80,000
Accumulated depreciation: Delivery vans*		40,000
Long-term investments	100,000	
Inventories*	64,320	
Trade receivables	38,470	
Bank	6,750	
Trade payables		42,310
6% debentures (redeemable in 2018)*		80,000
Ordinary share capital of \$1 each, fully paid*		200,000
Share premium*		12,000
General reserve*		50,000
Retained profits*		42,000
Sales		430,000
Returns inwards	19,110	
Bank interest revenue		2,800
Purchases	119,000	
Returns outwards		1,500
Carriage inwards	1,000	
Wages and salaries (for office staff)	76,530	
Rent and rates (for office premises)	83,580	
Directors' remuneration	12,000	
Auditors' remuneration	5,000	
Motor expenses (for delivery vans)	10,780	
Sales commissions	7,890	
Debenture interest	2,400	
Bad debts	3,780	
Interim ordinary dividend	10,000	
	<u>980,610</u>	<u>980,610</u>

- *Note: 1. These balances are brought forward from the previous accounting period (last year).
2. The amount of Trade receivables including the deduction of bad debts in trial balance

Additional information:

- Authorised capital: 500,000 ordinary shares of \$1 each.
- Inventories as at 31 March 2010 were valued at \$58,7700.
- Depreciation was to be charged for the year as follows:
Office equipment: 10% per annum on a straight-line basis
Delivery vans: 30% per annum on a reducing-balance basis
- Profits tax for the year amounted to \$6,240.
- The board of directors resolved to transfer \$10,000 to the general reserve.
- The directors declare a final dividend of **\$0.05 per share**.

15.3.1 Presentation method 1 (展示方法一)

Based on the information provided above, the income statement (statement of comprehensive income) can be prepared as follows:

Income Statement for the year ended 31 March 2010		
	\$	\$
Sales		430,000
Less Returns inwards		19,110
		<u>410,890</u>
Less Cost of goods sold:		
Opening inventories	64,320	
Add Purchases	119,000	
Carriage inwards	1,000	
Less Returns outwards	(1,500)	
	<u>182,820</u>	
Less Closing Inventories	(58,770)	(124,050)
Gross profit		<u>286,840</u>
Add Other revenues:		
Bank interest received		2,800
		<u>289,640</u>
Less Expenses:		
Wages and salaries	76,530	
Rent and rates	83,580	
Directors' remuneration	12,000	
Auditors' remuneration	5,000	
Motor expenses (distribution)	10,780	
Sales commissions	7,890	
Debenture interest (\$80,000 x 6%)	4,800	
Bad debts	3,780	
Depreciation: Office equipment (\$300,000 x 10%)	30,000	
Depreciation: Delivery vans (\$120,000 - \$40,000) x 30%	24,000	(258,360)
Net profit		<u>31,280</u>
Less Profit tax		<u>(6,240)</u>
Profit after tax		<u>25,040</u>
Add Retained profits brought forward		<u>42,000</u>
		<u>67,040</u>
Less Appropriations:		
Transfer to general reserve	10,000	
Ordinary share dividend (200,000 x 0.05)	10,000	(20,000)
Retained profits carried forward		<u><u>47,040</u></u>

1. The directors may be entitled to remuneration. **Directors' remuneration** would be charged as an expense (董事酬金會被視作企業的費用).
2. The **auditor's remuneration** would be charged as an expense (核數師酬金會被視作企業的費用).
3. **Debenture interest** would be charged as an expense (債券利息會被視作企業的費用).
4. Part of the profit may be distributed as dividends to the shareholders of the company. The rest would be transferred to **reserves** or carried forward to the following year as **retained profits** (企業可能會把部分利潤撥作股息向股東分派).
5. Firms are required to pay profits tax and only limited companies are required to disclose this information in their published financial statements (有限公司必須要在其公開發表的財務報表內披露有關利得稅的資料).

Classwork 1

4. Here is the trial balance of RF Ltd as at 30 June 2010.

Trial Balance as at 30 June 2010

	Dr \$	Cr \$
50,000 ordinary shares of \$1 each		50,000
Inventory	38,295	
Accounts receivable and Accounts payable	26,890	12,310
10% debentures		20,000
Non-current assets replacement reserve		10,000
General reserve		6,000
Retained profits		3,964
Debenture interest	1,000	
Equipment at cost	35,000	
Motor vehicles at cost	28,500	
Accumulated depreciation: Equipment		8,400
Motor vehicles		10,350
Bank	3,643	
Cash	180	
Sales and Purchases	66,350	99,500
Returns inwards	1,150	
Carriage inwards	240	
Wages and salaries	10,360	
Rent, rates and insurance	5,170	
Discount allowed	1,246	
Directors' remuneration	2,500	
	<u>220,524</u>	<u>220,524</u>

Additional information:

- (i) Inventory as at 30 June 2010 was valued at \$49,371.
- (ii) A dividend of 15% was proposed.
- (iii) Accrued expenses included: rent \$700, directors' remuneration \$2,500.
- (iv) Depreciation was to be charged on a reducing-balance basis: equipment at 10%, motor vehicles at 20%.
- (v) Transfers to reserves included: general reserve \$2,000, non-current assets replacement reserve \$1,000.

Required: Draw up an income statement for the year ended 30 June 2010 (for internal use).

Income Statement for the year ended 30 June 2010

	\$	\$
Sales	99,500	
Less Returns inwards	(1,150)	98,350
Less Cost of goods sold:		
Opening inventories	38,295	
Add Purchases	66,350	
Carriage inwards	240	
	104,885	
Less Closing Inventories	(49,371)	(55,514)
Gross profit		42,836
Less Expenses:		
Wages and salaries	10,360	
Rent, rates and insurance (\$5,170 + \$700)	5,870	
Discounts allowed	1,246	
Debenture interest (\$20,000 × 10%)	2,000	
Depreciation: Equipment [(\$35,000 – \$8,400) × 10%]	2,660	
Motor vehicles [(\$28,500 – \$10,350) × 20%]	3,630	
Directors' remuneration (\$2,500 + \$2,500)	5,000	(30,766)
Net profit		12,070
Add Retained profits brought forward		3,964
		16,034
Less Appropriations:		
Transfer to general reserve	2,000	
Transfer to non-current assets replacement reserve	1,000	
Ordinary dividend (\$50,000 × 15%)	7,500	(10,500)
Retained profits carried forward		5,534

15.3.2 Presentation method 2 (展示方法二)

Prepare the financial statement with the presentation and disclosure requirements of the HKFRSs.

Statement of Comprehensive income for the year ended 31 March 2010

	\$	\$
Sales (revenue or turnover)		410,890
Less Cost of sales		(124,050)
Gross profit		286,840
Add Other income (other revenues)		2,800
		289,640
Less Expenses:		
Administrative expenses (76,530 + 83,580 + 12,000 + 5,000 + 30,000)	207,110	
Distribution expenses (10,780 + 7,890 + 24,000)	42,670	
Other operating expenses (Bad debts)	3,780	
Finance expenses (finance costs)	4,800	(258,360)
Profit before tax		31,280
Less income tax expenses (taxation)		(6,240)
Profit for the year (Profit after tax)		25,040

The published income statement has been simplified (簡單) from the internal income statement in several aspects:

- 1 Details of the cost of goods sold are omitted (略去銷貨成本的詳情). Only the total is shown (只展示總額).
- 2 Details of other revenues are omitted (略去其他收益的詳情). Only the total is shown (只展示總額).
- 3 Expenses are classified into various categories by function. (按功能)
 - (i) **Administrative expenses (行政費用)** : refer to expenses incurred in the management of affairs of a business.
 - (ii) **Distribution expenses (分銷費用)** : refer to expenses incurred in the selling and distribution of goods and/or services.
 - (iii) **Finance expenses (融資費用)** : refer to expenses incurred in the borrowing of funds.
 - (iii) **Other operating expenses (其他營業費用)** : refer to expenses other than distribution, administrative or finance expenses.

This method may require arbitrary allocations and involve considerable judgement. For example, some companies would classify bad debts as selling expenses instead of other expenses.

- 4 Three profit figures are shown: (i) gross profit (毛利), (ii) profit before tax (稅前利潤) and (iii) profit for the year (profit after tax 稅後利潤).
- 5 Retained profits (留存利潤) and appropriation items (分配項目) are not shown in the income statement. The balance of **retained profits** at the end of the accounting period is shown in the **statement of financial position**.

Classwork 2

1. The following trial balance was extracted from the books of Speed Ltd as at 30 April 2010:

	Dr \$	Cr \$
Sales		2,860,000
Purchases	2,054,000	
Electricity	13,650	
Rent and rates	28,600	
Salaries	334,100	
Sundry expenses	9,230	
Interest on debentures	11,700	
Inventory	260,000	
Machinery:		
Cost	520,000	
Accumulated depreciation		130,000
Motor vehicles at cost	208,000	
260,000 ordinary shares of \$1 each		260,000
General reserve		29,900
Retained profits		213,980
15% debenture (repayable in 2016)		156,000
Accounts receivable	208,000	
Accounts payable		62,400
Bank	65,000	
	<u>3,712,280</u>	<u>3,712,280</u>

The following information is also given:

- Inventory as at 30 April 2010 was valued at \$347,750.
- Depreciation was to be charged on the following assets using the reducing-balance method:

Machinery	10% per annum	Motor vehicles	12.5% per annum
-----------	---------------	----------------	-----------------

Though the motor vehicles were purchased in early 2010, it is the company policy to charge a full year's depreciation in the year of acquisition.
- Rates prepaid on 30 April 2010 amounted to \$2,600.
- Electricity accrued as at 30 April 2010 amounted to \$1,950.
- Salaries included directors' remuneration \$70,200.
- Profits tax for the year was estimated to be \$67,000.
- The directors proposed to transfer \$52,000 of the profits to the general reserve and to declare a final dividend of \$0.5 per share.
- Electricity, rent and rates, salaries and depreciation are classified as administrative expenses. Sundry expenses are classified as other operating expenses.

Required: Draw up an income statement for the year ended 30 April 2010 for external use.

Statement of Comprehensive Income for the year ended 30 April 2010

	\$
Sales	2,860,000
Cost of sales (W1)	(1,966,250)
Gross profit	893,750
Administrative expenses (W2)	(440,700)
Other operating expenses	(9,230)
Operating profit	443,820
Finance expenses (\$156,000 × 15%)	(23,400)
Profit before tax	420,420
Taxation	(67,000)
Profit after tax	353,420

W1 : Cost of sale

	\$
Opening inventory	260,000
Add Purchases	2,054,000
	2,314,000
Less Closing inventory	(347,750)
	<u>1,966,250</u>

W2: Administrative expenses

	\$
Electricity (\$13,650 + \$1,950)	15,600
Rent and rates (\$28,600 – \$2,600)	26,000
Salaries	334,100
Depreciation: Machinery [(\$520,000 – \$130,000) × 10%]	39,000
Motor vehicles (\$208,000 × 12.5%)	26,000
	<u>440,700</u>

15.4 Preparation of a statement of financial position for a limited company

15.4.1 Presentation method 1 (展示方法一)

Format 1

Balance Sheet as at 31 March 2010			
	\$	\$	\$
Non Current assets	Cost	Accumulated depreciation	Net book value
Office equipment	300,000	110,000	190,000
Delivery vans	120,000	64,000	56,000
	<u>420,000</u>	<u>174,000</u>	<u>246,000</u>
Long-term investments			<u>100,000</u>
			<u>346,000</u>
Current assets			
Inventories		58,770	
Accounts receivable		38,470	
Bank		16,750	
		<u>113,990</u>	
Less Current Liabilities			
Accounts payable	42,310		
Accrued expenses (\$80,000 x 6% – \$2,400)	2,400		
Tax payable	<u>6,240</u>	<u>(50,950)</u>	
Net Current assets			<u>63,040</u>
			<u>409,040</u>
Financed by:			
Capital and reserves			
Ordinary share capital			200,000
Share premium			12,000
General reserve (\$50,000 + \$10,000)			60,000
Retained profits (after appropriation)			37,040
Proposed dividend			10,000
			<u>329,040</u>
Non-current liabilities			
6% debentures			<u>80,000</u>
			<u>409,040</u>

Investments held for long-term purposes are shown at cost as a non-current asset. If they are held for resale in the foreseeable future, it should be shown at fair market value as a current asset.

1. The **tax payable** should be shown as a **current liability** (應付稅項應列作流動負債).
2. There are usually two types of **long-term financing** (長期融資):
 - (i) **capital and reserves** (資本及儲備);
 - (ii) **non-current liabilities** (非流動負債).
3. **Capital** (資本) means the **issued share capital** (已發行股本). The **amount of authorized share capital** (法定股本的金額) should be **disclosed** (披露) as a **note to the financial statements** (在財務報表附註內).
4. The **share premium** (股本溢價), **general reserve** (普通儲備) and **retained profits (retained earnings)** (留存利潤) are some of the **common types of reserves** (常見的儲備類別).
5. The figure of **retained profit** (留存利潤) is taken from the **balance carried forward** (餘額移後) **after appropriation** (扣減分配後) in the **income statement** (損益表).
6. **Debentures issued** (已發行債券) should be shown as a **non-current liability** (非流動負債). If the debentures are going to be **redeemed** (贖回) in the **following year** (在下年度), they should be shown as a **current liability** (流動負債).

Format 2

Balance Sheet as at 31 March 2010

	\$	\$	\$
ASSETS		Accumulated	Net book
Non Current assets	Cost	depreciation	value
Office equipment	300,000	110,000	190,000
Delivery vans	120,000	64,000	56,000
	<u>420,000</u>	<u>174,000</u>	<u>246,000</u>
Long-term investments			100,000
			<u>346,000</u>
Current assets			
Inventories			58,770
Accounts receivable			38,470
Bank			16,750
			<u>113,990</u>
Total assets			<u>459,990</u>
EQUITY AND LIABILITIES			
Equity			
Ordinary share capital			200,000
Share premium			12,000
General reserve (\$50,000 + \$10,000)			60,000
Retained profits (after appropriation)			47,040
Proposed dividend			10,000
			<u>329,040</u>
Non-current liabilities			
6% debentures			<u>80,000</u>
Current Liabilities			
Accounts payable			42,310
Accrued expenses (\$80,000 x 6% – \$2,400)			2,400
Tax payable			6,240
			<u>50,950</u>
Total liabilities			<u>130,950</u>
Total equity and liabilities			<u>459,990</u>

Classwork 3

2. Here is the trial balance of RF Ltd as at 30 June 2010.

Trial Balance as at 30 June 2010

	Dr \$	Cr \$
50,000 ordinary shares of \$1 each		50,000
Inventory	38,295	
Accounts receivable and Accounts payable	26,890	12,310
10% debentures		20,000
Non-current assets replacement reserve		10,000
General reserve		6,000
Retained profits		3,964
Debenture interest	1,000	
Equipment at cost	35,000	
Motor vehicles at cost	28,500	
Accumulated depreciation: Equipment		8,400
Motor vehicles		10,350
Bank	3,643	
Cash	180	
Sales		99,500
Purchases	66,350	
Returns inwards	1,150	
Carriage inwards	240	
Wages and salaries	10,360	
Rent, rates and insurance	5,170	
Discount allowed	1,246	
Directors' remuneration	2,500	
	<u>220,524</u>	<u>220,524</u>

Additional information:

- (i) Inventory as at 30 June 2010 was valued at \$49,371.
- (ii) A dividend of 15% was proposed.
- (iii) Accrued expenses included: rent \$700, directors' remuneration \$2,500.
- (iv) Depreciation was to be charged on a reducing-balance basis: equipment at 10%, motor vehicles at 20%.
- (v) Transfers to reserves included: general reserve \$2,000, non-current assets replacement reserve \$1,000.
- (vi) It is given that the retained profits for the year is \$5,534.

Draw up a balance sheet as at 30 June 2010 (for internal use).

Balance Sheet as at 30 June 2010

	\$	\$	\$
	Cost	Accumulated depreciation	Net book value
Non Current assets			
Equipment	35,000	11,060	23,940
Motor vehicles	28,500	13,980	14,520
	<u>63,500</u>	<u>25,040</u>	<u>38,460</u>
Current assets			
Inventories		49,371	
Accounts receivable		26,890	
Bank		3,643	
Cash		180	
		<u>80,084</u>	
Less Current Liabilities			
Accounts payable	12,310		
Accrued expenses (\$1,000 + \$700 + \$2,500)	4,200	(16,510)	
Net Current assets			<u>63,574</u>
			<u>102,034</u>
Financed by:			
Capital and reserves			
Ordinary share capital			50,000
Non-current assets replacement reserve (\$10,000 + \$1,000)			11,000
General reserve (\$6,000 + \$2,000)			8,000
Retained profits			5,534
Proposed dividend (\$50,000 x 15%)			7,500
			<u>82,034</u>
Non-current liabilities			
10% debentures			20,000
			<u>102,034</u>

15.4.2 Presentation method 2 (展示方法二)

According to HKAS, the statement of financial position can be simplified by grouping all tangible non-current assets under the item 'property, plant and equipment' and showing their net book value only.

Statement of Financial Position as at 31 March 2010		\$
ASSETS		
<i>Non-current assets</i>		
Property, plant and equipment		246,000
Long-term investments		<u>100,000</u>
		346,000
<i>Current assets</i>		
Inventories		58,770
Accounts receivable		38,470
Bank		<u>16,750</u>
		113,990
Total assets		459,990
EQUITY AND LIABILITIES		
Equity		
Share capital		200,000
Share premium		12,000
General reserve		60,000
Retained profits		47,040
Proposed dividend		<u>10,000</u>
		329,040
<i>Non-current liabilities</i>		
6% debentures		<u>80,000</u>
<i>Current liabilities</i>		
Trade payables		42,310
Accrued expenses		2,400
Tax payable		<u>6,240</u>
		50,950
Total liabilities		<u>130,950</u>
Total equity and liabilities		<u>459,990</u>

Both of the two presentation methods illustrated above are acceptable. However, method 2 (simplified version) has become increasingly common in both the business world and public examinations.

- 1 Equity (權益) refers to the **share capital (股本)** and **reserves (儲備)**.
- 2 **Reserves = Share premium + General reserve + Retained profits after appropriations + Proposed dividend.**
- 3 **Proposed dividend (擬派股息)** needs to be **approved (通過)** at the **annual general meeting (股東周年大會)**. According to HKAS (Revised), **dividends proposed after the reporting period (報告期後建議派發的股息)** should **not be recognized in the amount (不應在帳目中確認)** but should be disclosed in the notes to the financial statements.

A more complicated example

A trial balance was extracted from the books of Tiger Garment Ltd as at 31 December 2010:

Trial Balance as at 31 December 2010

	Dr \$	Cr \$
200,000 10% preference shares of \$1 each		200,000
500,000 ordinary shares of \$1 each		500,000
Office equipment at cost	830,000	
Delivery vans at cost	172,000	
Accumulated depreciation: Office equipment		224,000
Accumulated depreciation: Delivery vans		51,600
Investments (long-term)	735,000	
Inventories	226,900	
Sales		1,292,000
Purchases	539,100	
Returns outwards		12,300
Returns inwards	43,100	
Carriage inwards	16,200	
Carriage outwards	5,200	
Wages and salaries	92,400	
Directors' remuneration	63,000	
Rental income		98,900
Motor expenses	81,200	
Rent, rates and insurance	229,300	
Office expenses	26,600	
Debenture interest	15,000	
Accounts receivable	186,100	
Allowance for doubtful accounts		17,100
Accounts payable		113,700
Bank	62,900	
General reserve		50,000
Share premium		40,000
Interim preference dividend	10,000	
Interim ordinary dividend	35,000	
Retained profits		169,400
Share and debenture issue		600,000
	<u>3,369,000</u>	<u>3,369,000</u>

Additional information:

- (i) Inventory as at 31 December 2010 cost \$272,200, including damaged items costing \$30,000 that could not be sold.
- (ii) Depreciation was to be charged for the year as follows: Office equipment: 10% on cost
Delivery vans: 20% on net book value
- (iii) Accruals as at the end of year included: Insurance \$6,300, Auditor's fee \$20,000
- (iv) Some of the office premises had been subleased to others. Rent of \$24,000 was received in advance.
- (v) A delivery van costing \$50,000 was sold for \$8,600 cash during the year. Accumulated depreciation on this van as at 31 December 2009 amounted to \$46,000. No depreciation was to be charged in the year of disposal. Also, no entries had been made to record this transaction.
- (vi) Allowance for doubtful account was to be maintained at 10% of accounts receivable.
- (vii) The board of directors proposed a transfer of \$20,000 to the general reserve and a final dividend of \$0.1 per ordinary share.
- (viii) Profits tax for the year amounted to \$21,830.
- (ix) \$300,000 10% debentures were issued at par on 1 April 2010. The debentures were to be redeemed 10 years later. Excess application monies had been refunded to applicants while the remaining amount had been credited to the share and debenture issue account. Interest was to be paid half-yearly on 1 October and 1 April of each year.
- (x) In January 2010, 200,000 ordinary shares were offered to the public at \$1.5 per share. Excess application monies had been refunded to applicants while the remaining amount had been credited to the share and debenture issue account.

The financial statements of Tiger Garment Ltd for the year ended 31 December 2010, for both internal and external uses, are presented in the following (assume there was no 'other comprehensive income' and ignore the presented of comparative information).

Presentation method 1

Tiger Garment Ltd Income Statement for the year ended 31 December 2010

	\$	\$	\$
Sales			1,292,000
Less Returns inwards			(43,100)
			1,248,900
Less Cost of goods sold:			
Opening inventories		226,900	
Add Purchases	539,100		
Carriage inwards	16,200		
	555,300		
Less Returns outwards	(12,300)	543,000	
		769,900	
Less Closing Inventories (\$272,200 – \$30,000)		(242,200)	(527,700)
Gross profit			721,200
Add Other revenues:			
Rental income (\$98,900 – \$24,000)		74,900	
Profit on disposal of motor vehicle (W1)		4,600	79,500
			800,700
Less Expenses:			
Carriage outwards		5,200	
Wages and salaries		92,400	
Motor expenses		81,200	
Rent, rates and insurance (\$229,300 + \$6,300)		235,600	
Office expenses		26,600	
Directors' remuneration		63,000	
Debenture interest (\$300,000 x 10% x 9/12)		22,500	
Increase in allowance for doubtful accounts (W2)		1,510	
Depreciation: Office equipment (\$830,000 x 10%)		83,000	
Depreciation: Delivery vans (W3)		23,280	
Auditor's fee		20,000	(654,290)
Net profit			146,410
Less Profit tax			(21,830)
Profit after tax			124,580
Add Retained profits brought forward			169,400
			293,980
Less Appropriations:			
Transfer to general reserve		20,000	
Preference share dividend (\$200,000 x 10%)		20,000	
Ordinary share dividend (W4)		105,000	(145,000)
Retained profits carried forward			148,980

W1: Profit on disposal of motor vehicle = (\$8,600 – (\$50,000 – \$46,000)) = \$4,600

W2: Increase in allowance for doubtful accounts = (\$186,100 x 10% – \$17,100) = \$1,510

W3: Depreciation: Delivery vans = [(\$172,000 – \$50,000) – (51,600 – 46,000)] x 20% = \$23,280

W4: Ordinary share dividend = \$35,000 + [(500,000 + 200,000) x \$0.1] = \$105,000

Presentation method 1

Tiger Garment Ltd

Balance Sheet as at 31 December 2010

	\$	\$	\$
		Accumulated	Net book
Non Current assets	Cost	depreciation	value
Office equipment (W5)	830,000	307,000	523,000
Delivery vans (W6)	122,000	28,880	93,120
	<u>952,000</u>	<u>335,880</u>	<u>616,120</u>
Investments			735,000
			<u>1,351,120</u>
Current assets			
Inventories		242,200	
Accounts receivable	186,100		
Less Allowance for doubtful accounts	(18,610)	167,490	
Bank (\$62,900 + \$8,600)		71,500	
		<u>481,190</u>	
Less Current Liabilities			
Accounts payable	113,700		
Unearned incomes	24,000		
Accrued expenses (W7)	33,800		
Tax payable	21,830	(193,330)	
Net Current assets			<u>287,860</u>
			<u>1,638,980</u>
Financed by:			
Capital and reserves			
Preference share capital			200,000
Ordinary share capital (\$500,000 + \$200,000)			700,000
Share premium [\$40,000 + (200,000 x \$0.5)]			140,000
General reserve (\$50,000 + \$20,000)			70,000
Retained profits			148,980
Proposed dividend (W8)			80,000
			<u>1,338,980</u>
Non-current liabilities			
10% Debentures			300,000
			<u>1,638,980</u>

W5: Accumulated depreciation for Office equipment = \$224,000 + \$83,000 = \$307,000

W6: Accumulated depreciation of Delivery vans = \$51,600 – \$46,000 + \$23,280 = \$28,880

W7: Accrued expenses = \$6,300 + \$20,000 + (\$300,000 x 10% x 3/12) = 33,800

W8: Proposed dividend = (\$200,000 x 10% – \$10,000) + (700,000 x \$0.1) = 80,000

Presentation method 2

Statement of Comprehensive income for the year ended 31 December 2010

	\$
--	----

Turnover	1,248,900
Cost of sales	(527,700)
Gross profit	721,200
Other revenues	79,500
Less Expenses:	
Administrative expenses (\$92,400 + \$235,600 + \$26,600 + \$63,000 + \$83,000 + \$20,000)	(520,600)
Selling and distribution expenses (\$5,200 + \$81,200 + \$23,280)	(109,680)
Other operating expenses	(1,510)
Finance expenses	(22,500)
Profit before tax	146,410
Taxation	(21,830)
Profit for the year	124,580

Presentation method 2

Statement of Financial Position as at 31 December 2010

	\$
ASSETS	
<i>Non-current assets</i>	
Property, plant and equipment	616,120
Investments	735,000
	1,351,120
<i>Current assets</i>	
Inventory	242,200
Accounts receivable	167,490
Bank	71,500
	481,190
Total assets	1,832,310
EQUITY AND LIABILITIES	
<i>Capital and reserves</i>	
Share capital	900,000
Reserves (\$140,000 + \$70,000 + \$148,980 + \$80,000)	438,980
Total equity	1,338,980
<i>Non-current liabilities</i>	
10% debentures	300,000
<i>Current liabilities</i>	
Accounts payable	113,700
Unearned incomes	24,000
Accrued expenses	33,800
Tax payable	21,830
	193,330
Total liabilities	493,330
Total equity and liabilities	1,832,310

Classwork 4

2. The following trial balance was extracted from the books of Silver Queen Co Ltd as at 31 December 2009:

Dr

Cr

	\$	\$
1,080,000 ordinary shares of \$0.5 each		540,000
520,000 5% preference shares of \$0.5 each		260,000
Revaluation reserve		208,000
Inventory	137,800	
10% debentures (repayable in 2011)		650,000
Debentures interest	32,500	
Freehold land, at cost	1,131,000	
Office equipment, at cost	468,000	
Office equipment: Accumulated depreciation		117,000
Short-term investments (listed shares), at cost	780,000	
Purchases and Sales	682,500	1,486,000
Salaries	101,400	
Administrative expenses	109,200	
Preference dividend	13,000	
Retained profits		142,300
Discounts allowed and received	5,915	2,665
Carriage inwards	16,900	
Carriage outwards	10,400	
Accounts receivable and payable	136,500	31,200
Bank overdraft		5,950
Suspense account		182,000
	<u>3,625,115</u>	<u>3,625,115</u>

Additional information:

- Inventory as at 31 December 2009 was valued at \$195,000.
 - A total of 260,000 ordinary shares of \$0.5 each were issued at \$0.7 per share on 5 December 2009. However, only one entry in the bank account had been made.
 - A final ordinary dividend of \$0.1 per share was proposed on all issued shares as at 31 December 2009.
 - Depreciation charge for office equipment for the year was \$93,600.
 - Half-year debenture interest was owing at the end of 2009.
 - Estimated profits tax payable on current year's profits was \$64,580.
- (a) Prepare an income statement for the year ended 31 December 2009 and a balance sheet (using Format 1) as at the same date for external use.

Silver Queen Co Ltd
Statement of Comprehensive Income for the year ended 31 December 2009

	\$	\$
Sales		1,486,000
Less: Cost of sales (137,800 + 682,500 + 16,900 – 195,000)		(642,200)
Gross profit		843,800
Add Other revenues		2,665
		846,465
Less: Expenses		
Administrative expenses (101,400 + 109,200 + 93,600)	304,200	
Selling and distribution expenses (\$5,915 + \$10,400)	16,315	
Finance expenses (\$650,000 × 10%)	65,000	385,515
Profit before tax		460,950
Taxation		(64,580)
Profit after tax		396,370
Add Retained profits brought forward		142,300
		538,670
Less Appropriations:		
Preference share dividend (\$260,000 × 5%)	13,000	
Ordinary share dividend [(1,080,000 + 260,000) × \$0.1]	134,000	147,000
Retained profits carried forward		391,670

Silver Queen Co Ltd
Statement of Financial Position as at 31 April 2009

	\$
--	----

ASSETS	
<i>Non-current assets</i>	
Property, plant and equipment $(1,131,000 + 468,000 - 210,600)$	1,388,400
<i>Current assets</i>	
Short-term investments	780,000
Inventory	195,000
Accounts receivable	136,500
	1,111,500
Total assets	2,499,900
EQUITY AND LIABILITIES	
<i>Capital and reserves</i>	
Share capital $[(\$540,000 + \$130,000) + \$260,000]$	930,000
Share premium $(260,000 \times \$0.2)$	52,000
Revaluation reserve	208,000
Retained profits	391,670
Proposed dividend $[(1,080,000 + 260,000) \times \$0.1]$	134,000
Total equity	1,715,670
<i>Non-current liabilities</i>	
10% debentures	650,000
<i>Current liabilities</i>	
Accounts payable	31,200
Accrued expenses $[(\$650,000 \times 10\% \times 0.5)]$	32,500
Tax payable	64,580
Bank overdraft	5,950
	134,230
Total liabilities	784,230
Total equity and liabilities	2,499,900