

A7 Accounting for Limited Companies

Chapter 17 Financial Statements for Limited Companies

Income Statement for the year ended 31 March 2010

	\$	\$
Sales	420,890	
Less Returns inwards	10,000	410,890
Less Cost of goods sold:		
Opening inventories	64,320	
Add Purchases	120,000	
Carriage inwards	8,500	
Less Returns outwards	(10,000)	
	182,820	
Less Closing Inventories	(58,770)	(124,050)
Gross profit		286,840
Add Other revenues:		
Bank interest received		2,800
		289,640
Less Expenses:		
Wages and salaries	76,530	
Rent and rates	83,580	
Sales commissions	35,670	
Debenture interest (\$80,000 x 6%)	4,800	
Bad debts	3,780	
Depreciation: Office equipment	54,000	(258,360)
Profit before tax/Net profit		31,280
Less Profit tax		(6,240)
Profit after tax		25,040
Add Retained profits brought forward		42,000
		67,040
Less Appropriations:		
Transfer to general reserve	10,000	
Ordinary share dividend	4,000	
Preference share dividend	6,000	(20,000)
Retained profits carried forward		47,040

Statement of Financial Position as at 31 March 2010

	\$	\$	\$
Non-current assets			
Equipment		386,000	
Less Accumulated depreciation		40,000	346,000
Current assets			
Inventories		58,000	
Accounts receivable	40,000		
Less Allowance for doubtful debts	2,000	38,000	
Prepaid expenses		1,000	
Accrued revenues		990	
Bank		16,000	
		113,990	
Less Current liabilities			
Trade payables		42,310	
Accrued expenses		2,000	
Unearned revenues		400	
Tax payable		6,240	
		50,950	
Net Current assets			63,040
Less Non-current liabilities			
6% debentures			80,000
			329,040
Financed by:			
Capital and reserves			
Ordinary share capital			200,000
Preference share capital			12,000
General reserve			60,000
Retained profits			47,040
Proposed dividend			10,000
			329,040

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HKDSE (2021, 7)

(Accounting for Limited)

7. The trial balance of Holly Limited as at 31 December 2020 is shown below:

	\$	\$
Purchases and Sales	2 736 000	4 080 000
Debenture interest	18 000	
Rent and rates	360 000	
Salaries	190 000	
Office equipment	1 970 000	
Accumulated depreciation - office equipment, 1 January 2020		962 000
Motor vans	980 000	
Accumulated depreciation - motor vans, 1 January 2020		528 000
Inventory, 1 January 2020	119 000	
Bank	424 000	
Trade receivables and Trade payables	1 577 000	598 000
2019 Final dividend	220 000	
2019 Final dividend	150 000	
Retained profits, 1 January 2020		546 000
General reserves		150 000
8% Debentures (maturity date: 30 September 2021)		300 000
Application monies for ordinary shares		180 000
Ordinary share capital		1 400 000
	<u>8 744 000</u>	<u>8 744 000</u>

Additional information:

- Based on the physical inventory count, the value of the inventory as at 31 December 2020 was \$135 000. It was discovered that some goods costing \$32 000 had been damaged and could be sold for \$26 200 only after having them repaired at \$2 200 in January 2021.
- In December 2020, goods invoiced at \$45 000 were sent to a customer on a sale-or-return basis. These goods had been marked up at 50% and recorded as credit sales. On 31 December 2020, the customer confirmed to accept 70% of these goods and return the rest in January 2021, but no adjustments had been made in the books for this.
- 100 samples were received free of charge from a supplier for promoting a new product. The samples had been recorded as a credit purchase and included in the closing inventory at the supplier's list price of \$70 each.
- With reference to the bank statement of December 2020, it was found that a credit transfer of \$36 500 from a customer to settle his account had not yet been recorded.
- Depreciation on office equipment and motor vans is to be charged as follows:
 - Office equipment: 20% per annum using the reducing-balance method. Scrap value was estimated at \$125,000.
 - Motor vans: 25% per annum using the straight-line method on a monthly basis.

On 1 September 2020, a motor van had been totally scrapped in a car accident. However, no entries were made in the books. This motor van was purchased on 1 July 2017 for \$180 000.
A motor van which was purchased for \$160 000 on 1 April 2016 was still in use at the end of 2020.
- The debenture interest is payable on 31 March and 30 September every year.
- On 15 December 2020, application monies of 120 000 shares for the issue of 100 000 ordinary shares at \$1.50 each were received. The shares had been allotted on 31 December 2020 but no entries were made for this. The excess application monies were refunded on 6 January 2021.
- On 31 December 2020, the board of directors resolved to transfer \$100 000 to the general reserve.

REQUIRED:

- Prepare for Holly Limited:
 - an income statement for the year ended 31 December 2020.
 - a statement to calculate the retained profits as at 31 December 2020.
 - a statement of financial position as at 31 December 2020.
- In January 2021, Holly Limited declared a final ordinary dividend for 2020. Explain whether the company should record the final dividend as a liability of 2020.

(a)(1)

Holly Limited
Income statement for the year ended 31 December 2020

[illegible]

(a)(2)

Holly Limited
Statement to calculate the retained profits as at 31 December 2020

[illegible]

(a)(3)

Holly Limited
Statement of financial position as at 31 December 2020

[illegible]