

SECTION 1 (120 marks)
Answer **Question 1** OR any **TWO** other questions

1. Company Final Accounts

Linken Ltd, has an authorised capital of €1,200,000 divided into 700,000 ordinary shares at €1 each and 500,000 5% preference shares at €1 each. The following trial balance was extracted from its books at 31/12/2018:

	€	€
Land and buildings at cost	850,000	
Accumulated depreciation - land and buildings		55,000
Delivery vans (cost €155,000)	120,000	
Discount (net)		15,500
Profit and loss balance 01/01/2018		71,500
Stocks on hand 01/01/2018	64,500	
Debenture interest for the first three months	6,400	
3% Investments 01/04/2018	360,000	
Patents (incorporating 5 months investment income)	43,500	
Purchases and sales	1,045,000	1,590,000
Dividends paid	55,000	
Bad debts provision		4,000
Debtors and creditors	98,200	69,100
Bank		60,000
Salaries and general expenses (including suspense)	243,100	
7% Debentures (including €60,000 issued on 01/04/2018)		300,000
Issued share capital – ordinary shares		500,000
– 5% preference shares		200,000
VAT		6,800
Advertising	31,200	
Capital reserve	<u> </u>	<u>45,000</u>
	<u>2,916,900</u>	<u>2,916,900</u>

The following information and instructions are to be taken into account:

- (i) Stock at cost on 31/12/2018 was €75,400 – this figure includes damaged stock which cost €6,000 but which now has a net realisable value of 75% of cost.
- (ii) During the year, stock which had cost €7,000 was destroyed by fire. The insurance company agreed to pay compensation of €5,100.
- (iii) The cost of delivery vans is to be written off on a straight line basis over 5 years. A full year's depreciation is to be charged in the year of acquisition and none in the year of disposal. Delivery vans have a 5% scrap value of the original cost.

NOTE: During the year a delivery van which had cost €25,000 in 2016 was traded in for €14,000 against a new delivery van costing €40,000. The cheque for the net amount of this transaction was incorrectly treated as a purchase of trading stock but was entered correctly in the bank account. This was the only entry made in respect of this transaction.

- (iv) It was discovered that goods had been sent to a customer on 31/12/2018 on a 'sale or return' basis. These goods had been entered in the books as a credit sale of €7,500 which is a mark-up on cost of 20%.
- (v) Patents are to be written off over a 5 year period commencing in 2018.
- (vi) The suspense figure arises as a result of the incorrect figure for debenture interest (although the correct figure had been entered in the bank account) and discount received €460 entered only in the creditors account.
- (vii) The company revalued land and buildings at €975,000 on 01/01/2018. The land element of this new value is €150,000. The revaluation has yet to be included in the accounts. Buildings are to be depreciated at the rate of 2% of cost per annum.
- (viii) The figure for bank in the trial balance has been taken from the company's own records. However, a bank statement dated 31/12/2018 has arrived showing an overdraft of €62,280. A comparison of the bank account and the bank statement has revealed the following discrepancies:
 - 1. A cheque received from a debtor for €5,600 had been dishonoured by the bank. This debtor had been declared bankrupt and had made a credit transfer for a first and final payment of 30c for every €1 euro owed.
 - 2. A direct debit to a local refuse company for €860 had not been recorded in the company's books.
 - 3. A cheque for fees of €2,500 issued to a director had not been presented for payment by 31/12/2018.
- (ix) The Directors recommend that:
 - 1. Provision should be made for both investment income due and debenture interest due.
 - 2. Provision for bad debts to be adjusted to 4% of debtors.
 - 3. The managing director should be paid a bonus commission of 5% on all sales in excess of €1,200,000.
 - 4. A transfer of €10,000 should be made from profit to the capital reserve.

Required:

- (a) Prepare a trading and profit and loss account for the year ended 31/12/2018. (75)
- (b) Prepare a balance sheet as at 31/12/2018. (45)

(120 marks)