

(B) Company Final Accounts

McCormack Ltd, has an authorised capital of €2,500,000 divided into 1,500,000 ordinary shares at €1 each and 1,000,000 4% preference shares at €1 each. The following trial balance was extracted from the books on 31/12/2021:

	€	€
Land and buildings (Land at cost €1,000,000)	1,760,000	
Office equipment (Cost €460,000)	357,000	
Profit and loss balance 01/01/2021		127,000
Discount		17,500
Debenture interest paid	7,500	
4% Investments 01/04/2021	75,000	
Stock 01/01/2021	51,500	
Patents	64,000	
Purchases and sales	905,000	1,850,000
Bad debt provision		7,000
Debtors and creditors	249,800	81,500
Bank		68,300
Wages and salaries	196,700	
6% Debentures (including €60,000 issued on 01/06/2021)		360,000
Dividends paid	65,100	
Directors fees	91,000	
VAT	1,000	
PAYE, PRSI, USC		27,700
Sales commission	32,000	
Insurance	25,000	
Advertising	8,400	
Ordinary share capital		1,000,000
4% Preference share capital		350,000
	3,889,000	3,889,000

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

- (i) Stock at cost on 31/12/2021 was €82,800. It was discovered that goods had been received from a creditor on 31/12/2021 on a 'sale or return' basis. These goods had been entered in the books as a credit purchase. The retail value of the goods was €9,250 which included a mark-up on cost of 25%.
- (ii) Provide for depreciation on office equipment. A full year's depreciation is charged in the year of acquisition and none in the year of disposal. It is estimated that office equipment has a useful economic life of six years with a residual scrap value of 4% of original cost.
Note: On 30/04/2021 equipment which cost €65,000 on 01/10/2017 was traded in against new equipment costing €45,000. An allowance of €23,000 was made on the old equipment. The bank transfer for the net amount of this transaction was entered correctly in the bank account but was incorrectly treated as a purchase of trading stock. This was the only entry made in the books in respect of this transaction.
- (iii) During the year a warehouse which cost €120,000 was destroyed by fire. The insurance company has agreed to contribute €115,000 in compensation.
- (iv) Buildings are to be depreciated by 2% of cost per annum.
- (v) The figure for bank in the trial balance has been taken from the firm's own records. However, a bank statement dated 31/12/2021 has arrived showing an overdraft of €48,950. A comparison of the bank account and the bank statement has revealed the following discrepancies:
 1. A cheque for fees of €4,950 issued to a director had not been presented for payment by 31/12/2021.
 2. A cheque for €26,700 issued to a supplier had been entered in the books (cash book and ledger) as €27,600.
 3. A credit transfer for €4,500 had been received on 31/12/2021 in respect of a debtor who has recently been declared bankrupt. This represents a first and final payment of 30c for every €1 owed.
 4. A credit transfer for €9,000 had been received on 31/12/2021 from a debtor in respect of a debt previously written off as bad. This represents 75% of the original debt. The debtor has agreed to pay the remainder within two months. No entry was made in the books to record this transaction.
- (vi) Patents, which incorporate 4 months investment income, are being written off over a five-year period which commenced in 2020.
- (vii) The Directors recommend that:
 1. Provision should be made for both investment income due and debenture interest due.
 2. The managing director should be paid a bonus commission of 2% on all sales in excess of €1,500,000.
 3. Provision for bad debts to be adjusted to 3% of debtors.
 4. A transfer of €250,000 should be made from profit to the capital reserve.
 5. Provision for corporation tax of €60,000 is to be recorded.

Required:

- (a) Prepare a trading and profit and loss account for the year ended 31/12/2021. (75)
- (b) Prepare a balance sheet as at 31/12/2021. (45)

(120 marks)