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

1. Final Accounts including a Manufacturing Account

Young Ltd., a manufacturing firm, has an authorised capital of £900,000, divided into 600,000 Ordinary Shares at £1 each and 300,000 8% Preference Shares at £1 each. The following Trial Balance was extracted from its books on 31/12/1996.

	£	£
Land and Buildings (cost £420,000)	342,000	
Plant and Machinery (cost £160,000)	112,000	
Profit and Loss Balance 1/1/1996		55,500
Bank		9,400
Debtors and Creditors	92,500	64,200
Purchases of raw materials	385,900	
Sales		701,500
Sale of scrap materials		6,500
Direct factory wages	135,200	
General factory expenses (incorporating suspense)	38,500	
Selling and Distribution expenses	11,400	
Administration expenses	50,000	
9% Debentures (including £30,000 issued on 1/5/1996)		80,000
Stocks on hand at 1/1/1996:		
Finished Goods	77,000	
Raw Materials	44,000	
Work in Progress	21,000	
Interim dividends for 6 months	26,000	
Issued Share Capital — Ordinary Shares		300,000
Preference Shares		100,000
VAT		18,400
	1,335,500	1,335,500

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

(i) Stock on hand at 31/12/1996:

	£
Finished goods	79,000
Raw materials	47,000
Work in progress	24,000

(ii) Included in the figure for sale of scrap materials is £500 received for the sale of obsolete machinery. This machinery had cost £2,000 on 1/4/1992. The cheque had been entered in the bank account. These were the only entries made in the books.

(iii) During 1996, Young Ltd., built an extension to the warehouse. The work was carried out by the company's own employees. The cost of their labour £16,000 is included in factory wages. The materials, costing £24,000, were taken from stocks. No entry had been made in the books in respect of this extension.

(iv) It was discovered that goods, which cost the firm £5,000 to produce, were sent to a customer on a "sale or return basis". These goods were treated in the books as a credit sale at cost plus 20%.

(v) The suspense figure arises as a result of discount allowed £400 entered only in the discount account.

(vi) A <u>full</u> year's depreciation on fixed assets is to be provided as follows:
Plant and Machinery — 20% of cost
Buildings — 2% of cost (Cost of Land £60,000)

(vii) At the end of 1996 the company re-valued the Land and Buildings to £550,000.

(viii) The Directors are proposing that:
1. the preference dividend due be paid.
2. the total ordinary dividend for the year should be 10p per share.
3. provision should be made for debenture interest.
4. provision should be made for corporation tax of £10,000.

You are required to:

(*a*) Prepare manufacturing, trading and profit and loss accounts for the year ended 31/12/1996. (80)

(*b*) Prepare a balance sheet as at 31/12/1996. (40)

(120 marks)