SECTION 1 (120 marks)

Answer **Question 1** OR **TWO** other questions.

1. **Company Final Accounts**

Tynan Ltd. has an Authorised Capital of £850,000 divided into 550,000 Ordinary Shares £1 each and 300,000 6% Preference Shares at £1 each. The following Trial Balance was extracted from its books on 31/12/1997.

	£	£
Land and buildings at cost	700,000	
Accumulated depreciation - Land and buildings		36,000
Delivery vans at cost	180,000	
Accumulated depreciation - Delivery vans		80,000
Patents (incorporating 4 months investment income received)	47,000	
9% Investments	100,000	
Stocks 1/1/1997	45,000	
Purchases and Sales	480,000	770.000
Director's fees	50,000	
Salaries and general expenses	136,000	
Debenture interest paid (1st Jan - 31st March)	3,000	
Debtors and Creditors	69,000	44,000
Provision for bad debts		2,100
Interim dividends for first 3 months	15,000	
Profit and loss balance 1/1/1997		22,000
8% Debentures		
(including £100,000 8% debentures issued at par on 31/3/1997)		250,000
VAT		14,000
Bank		6,900
Issued capital		
400,000 Ordinary shares at £1 each		400,000
200,000 6% Preference shares of £1 each		200,000
	1,825,000	1,825,000

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

(i) Stock at 31/12/1997 at cost was £40,000 - this figure includes old stock which cost £8,000 but has a net realisable value of 60% of cost.

(ii) Patents, which incorporated 4 months investment income, are to be written off over a 4 year period commencing in 1997.

(iii) The figure for bank in the trial balance has been taken from the firm's bank account. However, a bank statement dated 31/12/1997 has arrived showing an overdraft of £1,980. A comparison of the bank account and the bank statement has revealed the following discrepancies:

1. Investment income £3,750 had been paid direct to the firm's bank account.
2. A direct debit to ESB of £900 had not been recorded in the firm's books.
3. A cheque for £750, issued to a supplier, had been entered in the books (cash book and ledger) as £570.
4. A credit transfer of £250 had been paid direct to the firm's bank account on behalf of a bankrupt debtor. This represents a first and final payment of 10p in the £1.
5. A cheque issued for £2,000 to a director had not yet been presented for payment.

(iv) Provide for depreciation on delivery vans at the annual rate of 20% of cost from the date of purchase to the date of sale.

NOTE: On 31/5/1997 a delivery van, which had cost £45,000 on 1/6/1995, was traded against a new van which cost £57,000. An allowance of £20,000 was made on the old van. The cheque for the net amount of this transaction was incorrectly treated as a purchase of trading stock. This was the only entry made in the books in respect of this transaction.

(v) Buildings are to be depreciated at the rate of 2% of cost per annum (land at cost was £150,000). At the end of 1997 the company re-valued the land and buildings at £850,000.

(vi) Provision be made for both investment income and debenture interest due.

(vii) Provision for bad debts be adjusted to 6% of debtors.

(viii) The directors recommend that:

1. The preference dividend due be paid.
2. A final dividend on ordinary shares be provided bringing the total dividend up to 8%.

You are required to prepare a:

(*a*) Trading, Profit and Loss Account for the year ending 31/12/1997. (75)

(*b*) Balance Sheet as at 31/12/1997. (45)

(120 marks)