

# Company Accounts

## AAT Level III FAR - Financial Reporting

**Sandeepa Jayasekera**

ACA, B.Sc. (Accounting) Sp. Hons., ACMA (SL), SAT, CIMA Passed Finalist,  
Reading for MBA (PIM), CA and CIMA Prize Winner



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# Company Accounts

**Sandeepa Jayasekera**

B.Sc. (Accounting) Sp. Hons., ACA, ACMA (SL), SAT, CIMA Passed Finalist, MBA PIM-USJP, Gold Medal Winner for the Most Outstanding Student in University of Sri Jayewardenepura Accounting Batch 2014. Chief Executive Officer and Lecturer of JMC

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## Introduction to Company Accounts

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## Companies Act Requirements on Financial Reporting



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### Need to keep records on Financial Position

Records shall be maintained on

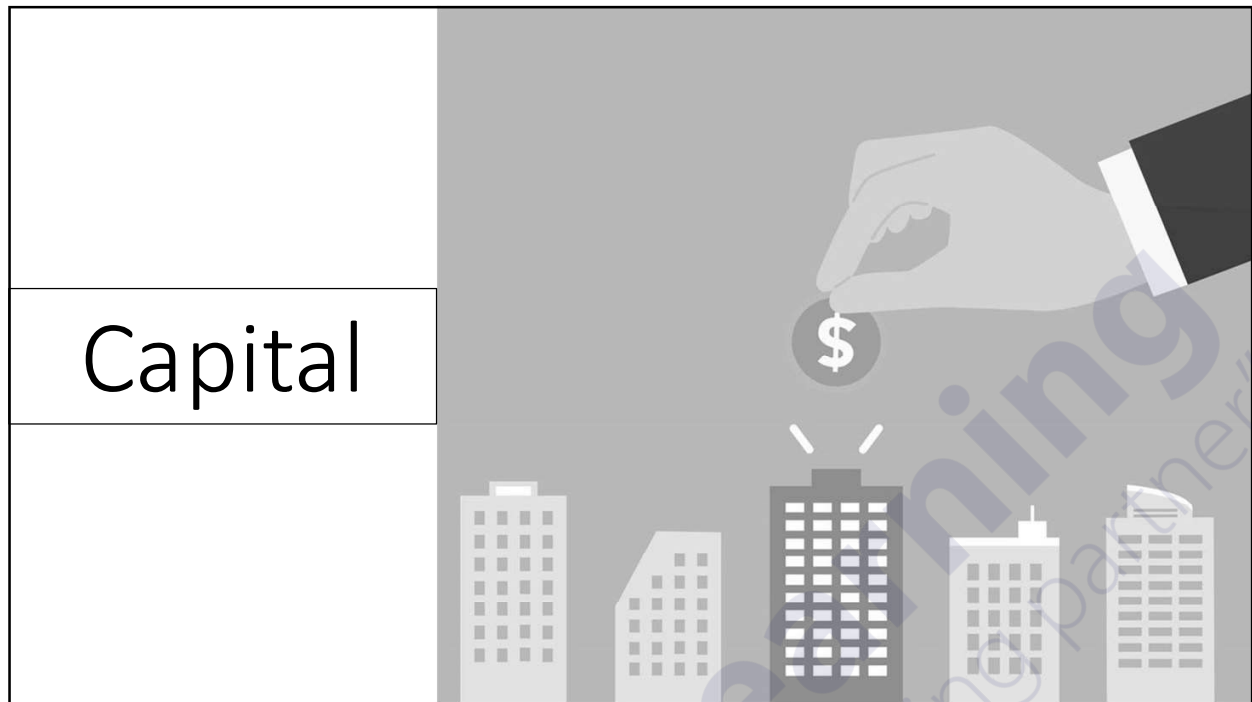
- Cash Receipts and Payments
- Assets and Liabilities
- Inventory
- Sales and Purchases

The Financial Statements shall represent the Financial Position and Profits in a True and Fair manner.




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Ordinary Share Capital	
<p>Companies are raising their equity capital through an ordinary share issue.</p> <p>The ordinary shareholders are the owners of the company.</p>	

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# Ordinary Share Capital

There's no nominal value for the shares. Shares are measured at their issue price. The issue price can be received at once or with different stages.



Different stages of obtaining the issue price of a share

- At Application (Once you apply to buy shares)
- At Allocation (Once shares are allocated among the applicants)
- At Invitation (Once shareholders are invited to pay the balance)

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## Question 01

Praveen Ltd. has issued 1,000,000 shares at Rs.20/- each. The issue price of Rs.20/- is received as Rs.10/- at application, Rs.5/- at allocation and Rs.5/- at invitation.

- 1,500,000 share applications were received by 01 January 20X9
- On 01<sup>st</sup> February 20X9 the excess share applications were rejected.
- On 15<sup>th</sup> February 20X9, shares were allocated.
- 15<sup>th</sup> of March 20X9, the cash on invitation was received.

# Ordinary Share Dividends

Dividends are a distribution of profits among the shareholders. It can be decided either as a per share value or as a percentage of the share value.

Example

- Per share dividend is Rs.2/-
- 5% dividend per share



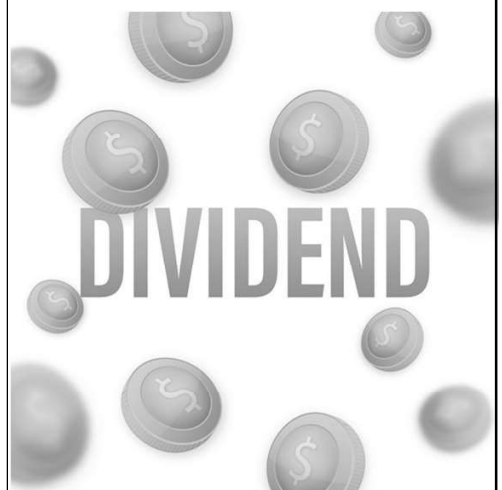
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# Ordinary Share Dividends

The ordinary shareholders are the owners of the company. They are bearing the risk of the business.

Depending on the profits made by the company the dividend amount is decided. Thereby the dividend payment can be higher or lower or may be no dividend as well.

The entire profit may not be shared as dividends, a part can be retained within the business.



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# Preference Share Capital

Preference shares is another type of shares. The preference shareholders receive special preferential rights.

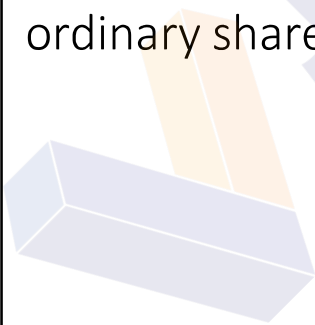
Preference shareholders are not the owners of the company. They don't have a voting power.



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## Question 02

What are the differences between preference shares and ordinary shares?



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## Question 03

Kalani Ltd. has issued 100,000, Rs.2/- ordinary shares. They have issued 50,000 Rs.1/- preference shares (Equity nature) as well. During the year ended 31 March 20X1, company has earned a profit after tax of Rs.100,000. Company has decided to pay a 50% of the profit attributable to ordinary shareholders as a dividend.

Required

- Total dividend
- Retained profit
- Extract of the Profit or Loss

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## Question 04

The stated capital of Neetha PLC is Rs.2,000,000/-. Of that the issued capital is Rs.1,500,000/-. Company has decided to pay an ordinary share dividend of 5%.

Calculate the amount of ordinary share dividend.

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## Market Price per Share

Once the shares are issued, if the company is a publicly listed company, the shares can be traded among the shareholders in a share exchange at different prices depending on demand and supply. Such trading prices are the market price of a share.

The issue price of a share and market price of a share may be different. However, such differences need not to be accounted, as those are not making any impact to the company.



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## Debentures and Corporate Bonds

**EVERY  
THING  
ABOUT  
DEBENTURES**



Companies can issue Debentures and Corporate bonds to raise long term debt capital.

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## Comparison of Debt Capital and Share Capital

Description	Share Capital	Debt Capital
Capital provided by	Shareholders, the owners	Debt providers (Public)
Return	Profit (Realized as Dividends)	Interest (Mostly Fixed)
IF return is not paid	Shareholders need to bear	Can take legal actions
Guarantees	No	Can have Assets as a Pledge
Risk	High	Low
Priority at Liquidation	Last	Before the Shareholders

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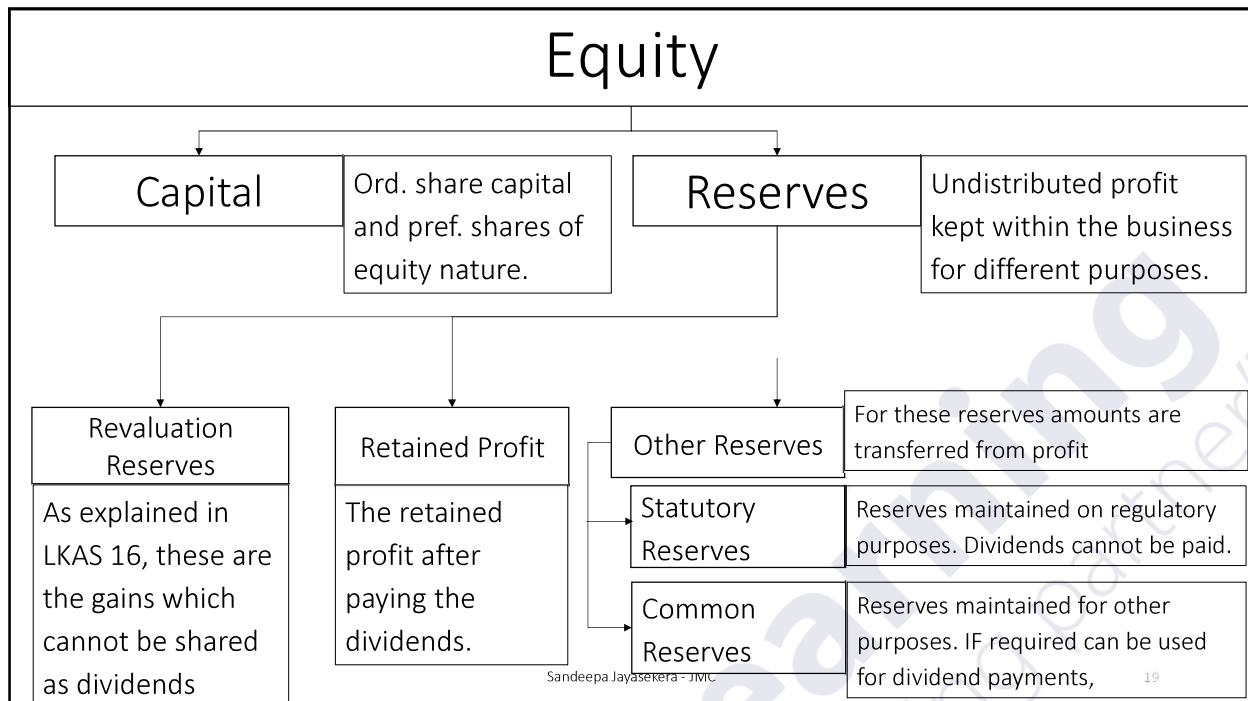
## Question 05

Thilini Ltd. has issued Rs.1,000,000, debentures at 15% interest rate. Interest are paid in 30<sup>th</sup> June and 31 of December every year. If the financial year ends on 31 March, how much is the interest expense and accrued interest?

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## Bonus Issue

### WHAT IS BONUS SHARES?



A company can issue bonus shares to increase the stated capital.

New shares will be issued to existing shareholders free of charge.

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## Bonus Issue

Shareholders can sell the freely received shares in share market and realize a gain. Therefore, mostly companies are issuing bonus shares instead of paying dividends.

The accounting for bonus shares will capitalize the reserves. The value of bonus issue will be transferred from reserves to stated capital.

Reduction of reserves will reduce future dividends as well. However, bonus issue will not bring additional cashflow to the company.



Double Entry

Dr Reserves

Cr Stated Capital

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## Question 06

Financial position of Highland Ltd. is as follows.

Stated Capital (Rs.1/-)      20,000

Revaluation Reserve      14,000

Retained Profit      16,000

A bonus issue was made of 1 share for every 4 shares.

**Required**

Value of bonus issue, the double entry and financial position after the bonus issue.

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## Rights Issue



New shares will be issued to the existing shareholders at a price lower than the existing market value. Shareholders can subscribe the rights as per their wish and either sell them in market or keep them.

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## Rights Issue

As a result of a Rights issue the stated capital and cash will increase in a company.

Double Entry

Dr Cash/Bank

Cr Stated Capital

## Right Issue



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## Question 07

The financial position of Roja Ltd. on 31 March 20X9 was as follows.

Stated Capital (Rs.1/-) 16,000

Revaluation Reserve 14,000

Retained Profit 20,000

A Rights Issue was made of 1 share for every 4 shares at Rs.1.20

### Required

Determine the double entry and provide the financial position after the rights issue.

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## Question 08

The financial position of Hilma Ltd. on 31 March 20X9 was as follows.

Ordinary Share Capital Rs.2/- 200,000

Revaluation Reserve 70,000

Retained Profit 230,000

Provide the financial position after each of scenarios

1. A Bonus issue of 1 share for every 2 shares
2. After the bonus issue, an issue of rights of 1 share for every 3 shares at Rs.2.5

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# Financial Statements of a Limited Company for Publishing

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## Structure of Statement of Profit or Loss and Other Comprehensive Income

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XXX PLC

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Statement of Profit or Loss and Other Comprehensive Income  
For the year ended 31<sup>st</sup> March 20X0

	Notes	Rs.
Sales		XXX
Cost of Sales		(XX)
<b>Gross Profit</b>		<b>XX</b>
Other Income	01	X
Administration Expenses		(XX)
Distribution Costs		(XX)
Other Expenses	02	(XX)
Finance Expenses	03	(XX)
<b>Profit Before Tax</b>	04	<b>XX</b>
Taxes		(X)
<b>Profit After Tax</b>		<b>XX</b>

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	Notes	Rs.
<b>Other Comprehensive Income</b>		
Revaluation Gain on Property, Plant and Equipment		X
Gains/Losses on remeasuring Fair Value of Available for Sale Financial Assets		X/(X)
Remeasurement Gains/Losses on Defined Retirement Benefit Plans		X/(X)
Gains/Losses arising from translating financial statements of foreign operations to local currency		X/(X)
<b>Total Comprehensive Income</b>		<b>XX</b>

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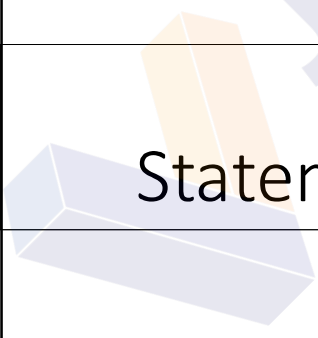


<h1>Structure of Statement of Financial Position</h1>	
<div> <div>Sandeepa Jayasekera - JMC</div> <div>31</div> </div>	

<div> <div>XXX PLC</div> <div>Statement of Financial Position</div> <div>As at 31<sup>st</sup> March 20X0</div> </div>		<div>Sandeepa Jayasekera - JMC</div>	
	Notes	Rs.	Rs.
<b>Assets</b>			
<b>Non-current Assets</b>			
Property, Plant and Equipment	05	XX	
Intangible Assets		XX	
Investments in Associates		XX	
Other Financial Assets		XX	XX
<b>Current Assets</b>			
Inventory	06	XX	
Trade Receivable	07	XX	
Other Current Assets		XX	
Cash and Cash Equivalents	08	XX	32 XX
<b>Total Assets</b>			XXX

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	Notes	Rs.	Rs.
<b>Equity</b>			
Stated Capital		XX	
Retained Earnings		XX	
Revaluation Reserves		XX	<b>XX</b>
<b>Non-current Liabilities</b>			
Other Financial Liabilities		XX	
Interest bearing Borrowings		XX	
Preference Shares		XX	<b>XX</b>
<b>Current Liabilities</b>			
Trade Payable		XX	
Accrued Expenses		XX	<sup>33</sup>
Current portion of Interest bearing Borrowings		XX	<b>XX</b>
<b>Total Equity and Liabilities</b>			<b>XXX</b>

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## Structure of Statement of Changes in Equity

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XXX PLC

Statement of Changes in Equity

For the year ended 31<sup>st</sup> March 20X0

	Stated Capital	Retained Earnings	Revaluation Reserve	Total
<b>Balance as at 01.04.20X9</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Share Issue	XX			XX
Net Profit for the Year		XX		XX
Revaluation Gains			XX	XX
Dividends		(X)		(X)
<b>Balance as at 31.03.20X0</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>

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## Accounting Notes

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<b>01. Other Income</b>	Rs.	<b>03. Finance Expenses</b>	Rs.
Profit on Sale of	XX	Dividend on Preference Shares	XX
Property, Plant & Equipment	XX	Interest on Bank Loans	XX
Fixed Deposit Interest	XX	Bank Overdraft Interest	XX
Dividend Income	XX		XX
	<u>XX</u>		<u>XX</u>
<b>02. Other Expenses</b>	Rs.	<b>04. Following expenses have been deducted from Profit Before Tax</b>	Rs.
Loss on Sale of	XX	Director Remuneration	XX
Property, Plant & Equipment	XX	Audit Fees	XX
Loss on Impairment of Assets	XX	Employee Salaries	XX
Inventory Provision	XX	Depreciation	XX
	<u>XX</u>	Impairment Losses	XX
	<u>XX</u>		

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Property, Plant & Equipment							Sandeepa Jayasekera - JMC
	Land	Building	Machinery	Motor Vehicles	Furniture	Total	
<b>Cost/ Revalued Amount</b>							
Balance as at 01.04.20X9	XX	XX	XX	XX	XX	XXX	
Additions		XX	XX			XXX	
Revaluation	XX					XXX	
Disposals				(X)		(X)	
<b>Balance as at 31.03.20X0</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XXX</b>	
<b>Depreciations</b>							
Balance as at 01.04.20X9	XX	XX	XX	XX	XX	XXX	
Depreciation charge for the year		XX	XX	XX	XX	XXX	
Revaluation							
Disposals				(X)		(X)	
<b>Balance as at 31.03.20X0</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XXX</b>	
<b>Carrying Amount</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XXX</b>	

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<b>06. Inventories</b>	Rs.	<b>08. Cash and Cash Equivalents</b>	Rs.
Raw Material	XX	Short-term Investments	XX
Work-in-progress	XX	Bank balance	XX
Finished Goods	XX	Cash in hand	XX
	<u>XX</u>		<u>XX</u>
<b>07. Trade Receivable</b>	Rs.		
Trade Debtors	XX		
(-) Provision for Debtor Impairment	XX		
	<u>XX</u>		

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<b>Question 01</b>		
The following trial balance was extracted from the books of <b>Diana Ltd.</b> as at 31 <sup>st</sup> March 2020.		
(Rs. '000)	Dr.	Cr.
Stated Capital (5,000,000 ordinary shares)		50,000
Retained Earnings as at 01 <sup>st</sup> April 2019		17,000
<b>Property, Plant and Equipment as Cost:</b>		
Land & Buildings (cost of land is Rs. 20 million)	32,000	
Motor Vehicles	7,300	
Computer Software	12,000	
Capital Work-in-Progress	8,200	
<b>Accumulated Depreciation as at 01<sup>st</sup> April 2019:</b>		
Buildings		4,800
Motor Vehicles		3,200
Computer Software		3,000
Inventory as at 31 <sup>st</sup> March 2020	39,400	

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(Rs. '000)	Dr.	Cr.
Trade Receivables / Trade Payables	28,100	29,100
Cash in Hand and Cash at Bank	10,700	
Allowance for Trade Receivables as at 01 <sup>st</sup> April 2019		3,400
Income Tax Paid	1,300	
Interim Dividend Paid – Ordinary Shares	5,000	
Cost of Sales / Sales	198,500	281,900
Other Income		3,000
12% Bank Loan		4,000
Income Tax Payable as at 01 <sup>st</sup> April 2019		750
Administration Expenses	30,350	
Distribution Expenses	23,400	
Finance Expenses	8,400	
Employee Benefits (Provision for gratuity)		4,500
	<b>404,650</b>	<b>404,650</b>

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The following additional information is also provided:

- (1) Part of the inventory costing Rs. 800,000/- held as at 31<sup>st</sup> March 2020, was found to be obsolete and this was sold on 30<sup>th</sup> April 2020 for Rs. 400,000/- by increasing an additional transport cost of Rs. 100,000/-.
- (2) On 01<sup>st</sup> October 2019, the company acquired a new computer software for Rs. 7,000,000/- and this was recorded under computer software account. On the same day, the company had to incur a further cost of Rs. 2,000,000/- to develop it to make it suitable for their business. This development cost of the computer software has been charged to administration expenses.
- (3) On 31<sup>st</sup> March 2020, the land was revalued to Rs. 23,700,000/- and this has not been recorded in the books of accounts.

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(4) Depreciation is calculated on the straight line basis at cost. The useful life of Property, Plant and Equipment is as follows:

Buildings	: 50 years
Motor Vehicles	: 04 years
Computer Software	: 05 years

(5) During the year, the company has recovered Rs. 1,500,000/- from a debtor who had been written-off as a bad debt in the previous years and this amount was credited to trade receivables account. Further, a general provision of 10% has to be made from the trade receivables balance as at 31<sup>st</sup> March 2020.

(6) Insurance payment of Rs. 1,200,000/- which was paid for the entire calendar year of 2020, was recorded under administration expenses.

(7) The following expenses are required to be accrued as at 31<sup>st</sup> March 2020:

	Rs.
Electricity	300,000
Water	150,000

(8) The Income Tax Liability of the company for the year of assessment 2019/20 is estimated to be Rs. 2,300,000/-.

(9) The financial statements were authorized for issue by the Board of Directors on 05<sup>th</sup> June 2020.

Considering the above information,

**You are required to:**

**Prepare** the following, for **Diana Ltd.** in a form suitable for publication.

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31<sup>st</sup> March 2020. (10 marks)
  - (b) Statement of Financial Position as at 31<sup>st</sup> March 2020. (08 marks)
  - (c) Statement of Changes in Equity for the year ended 31<sup>st</sup> March 2020. (03 marks)
  - (d) Statement showing movement of Property, Plant and Equipment for the year ended 31<sup>st</sup> March 2020. (04 marks)
- (Total 25 marks)

## Question 02

The following trial balance was extracted from the books of **Diamond PLC** as at 31<sup>st</sup> March 2020:

(Rs. '000)	Dr.	Cr.
Stated Capital (6,000,000 ordinary shares)		60,000
Retained Earnings as at 01 <sup>st</sup> April 2019		19,300
<b>Property, Plant and Equipment at Cost:</b>		
Land & Buildings (Cost of land is Rs. 38 million)	45,000	
Plant and Machinery	10,250	
Office Equipment	6,300	
<b>Accumulated Depreciation as at 01<sup>st</sup> April 2019:</b>		
Buildings		4,500
Plant & Machinery		3,700
Office Equipment		2,100
Inventory as at 31 <sup>st</sup> March 2020	35,300	
Trade Receivables / Trade Payables	18,100	17,100



(Rs. '000)	Dr.	Cr.
Cash in Hand and Cash at Bank	8,350	
Allowance for Trade Receivables as at 01 <sup>st</sup> April 2019		3,000
Pre-payments	6,000	
Income Tax Paid	4,200	
Interim Dividend Paid – Ordinary Shares	6,500	
Cost of Sales / Sales	205,000	281,000
Other Income		6,000
Income Tax Payable as at 01 <sup>st</sup> April 2019		2,750
Administration Expenses	34,550	
Distribution Expenses	24,400	
Finance Expenses	2,400	
Bank Loan		2,500
Employee Benefits (Provision for Retirement)		4,400
	<b>406,350</b>	<b>406,350</b>

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The following additional information is also provided:

- (1) The net realizable value of the inventory as at 31<sup>st</sup> March 2020 was Rs. 34,875,000/-.
- (2) One of its customers who owed Rs. 500,000/- to the business was declared bankrupt on 20<sup>th</sup> May 2020, thus the amount in due became irrecoverable. No provision has been made in the books of accounts in this regard. Further, it was decided to maintain the allowance for receivables at 10% of the remaining balance as at 31<sup>st</sup> March 2020.
- (3) Audit fee of Rs. 400,000/- related to the financial year 2019/20 has not been accounted and pre-payment account represents insurance payment made for entire calendar year 2020.
- (4) On 31<sup>st</sup> March 2020, the company disposed a machinery for Rs. 350,000/- which was purchased on 01<sup>st</sup> April 2018 at Rs. 500,000/-. Cash received on disposal has been debited to cash book and credited to machinery account. Other than that no entries were made in respect of the disposal of machinery.

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(5) Property, Plant and Equipment are to be depreciated on the straight-line basis at cost. The useful life of the assets is as follows:

Buildings : 50 years  
Plant and Machinery : 04 years  
Office Equipments : 05 years

(6) The company carried out an impairment test on 31<sup>st</sup> March 2020 and it was revealed that fair value less cost of disposal of office equipment was Rs. 2,540,000/-. Value in use of the office equipment was Rs. 2,800,000/-. There were no adjustments made in the books of account regarding the impairment.

(7) As at 31<sup>st</sup> March 2020, the company revalued its land for Rs. 40,000,000/- and it is not recorded in the books of accounts.

(8)  $\frac{1}{2}$  of the bank loan balance as at 31<sup>st</sup> March 2020 should be settled in the year 2020/21.

(9) The total income tax liability for the year 2018/19 was Rs. 2,750,000/- which was paid during the year ended 31<sup>st</sup> March 2020 and the amount paid has been charged to the income tax paid account. The total income tax liability for the year 2019/20 is estimated as Rs. 3,300,000/-.

(10) The directors of the company approved the financial statements for issue on 30<sup>th</sup> June 2020.

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**You are required to:**

**Prepare** the following, for **Diamond PLC** in a form suitable for publication:

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31<sup>st</sup> March 2020. (10 marks)
- (b) Statement of Financial Position as at 31<sup>st</sup> March 2020. (08 marks)
- (c) Statement of Changes in Equity for the year ended 31<sup>st</sup> March 2020. (03 marks)
- (d) Statement showing movement of Property, Plant and Equipment for the year ended 31<sup>st</sup> March 2020. (04 marks)

(Total 25 marks)

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### Question 03

The following trial balance was extracted from the books of Nazeen Ltd. as at 31st March 2021

(Rs. '000)	Dr.	Cr.
<b>Property, Plant and Equipment at Cost:</b>		
Land & Buildings (Cost of land is Rs. 25 million)	37,500	
Plant and Machinery	6,250	
Motor Vehicle	9,600	
<b>Accumulated Depreciation as at 01<sup>st</sup> April 2020:</b>		
Buildings		7,500
Plant & Machinery		3,750
Motor Vehicle		5,000
Inventory as at 31 <sup>st</sup> March 2021	8,920	
Trade Receivables	14,180	
Advance Account	2,806	
Pre-payments	1,200	

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(Rs. '000)	Dr.	Cr.
Cash in Hand and at Bank	805	
Bank Loan		3,600
Provision for Gratuity		1,250
Trade Payables		6,800
Income Tax Payables as at 01 <sup>st</sup> April 2020		720
Allowance for Trade Receivables		3,000
Cash Received on Disposal of Motor Vehicles		4,500
Cost of Sales/Sales	67,760	100,400
Director's Fees	1,200	
Audit Fees	270	
Other Administration Expenses	10,240	
Distribution Expenses	7,210	
Interest Expenses	718	
Income Tax Paid	2,000	

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(Rs. '000)	Dr.	Cr.
Interim Dividend Paid	1,000	
Stated Capital (700,000 Ordinary Shares)		7,000
Retained Earnings as at 01 <sup>st</sup> of April 2020		28,139
	<b>171,659</b>	<b>171,659</b>

The following additional information is also provided:

(1) Property, Plant and Equipment are to be depreciated on the straight-line basis at cost. The

useful life of the assets is as follows:

Buildings : 50 years

Plant and Machinery : 05 years

Motor vehicles : 05 years

(2) Motor vehicle recorded in the ledger for Rs.9.6 million at cost had been disposed for Rs.4.5 million on 31<sup>st</sup> December 2020, but it is not updated in the ledger accounts yet except the entry on cash received on disposal. The sale proceeds of this vehicle is recorded in the cash received on disposal of motor vehicle account.

(3) A new motor vehicle was purchased during the year under a finance lease on 01<sup>st</sup> April 2020. Fair value of the leased motor vehicle was Rs. 5 million and the lease term is 5 years. Annual lease Installment of Rs.806,000/- should be settled on 31<sup>st</sup> March each year. Implicit interest rate is 11% per annum. The ownership of the Motor vehicle is transferred to Nazeen Ltd. at the end of lease term. Down payment made on the motor vehicle of Rs.2 million and 01<sup>st</sup> installment of Rs.806,000/- have been recorded in the advance account. Other than that no entries were made in the books of account in this regard.

(4) Pre-payment account consists of the rent paid in advance for the calendar year 2021. Monthly rent is Rs.100,000/-.

(5) The following expenses have not been accrued / provided as at 31<sup>st</sup> March 2021 in the books of accounts:

- Internet and telephone bills for the month of March 2021 - Rs.55,000/-
- Gratuity Provision for the year of Rs.500,000/-

(6)  $\frac{1}{2}$  of the loan balance as at 31<sup>st</sup> March 2021 should be settled in the year 21/22.

(7) As at 31<sup>st</sup> March 2021, there was a customer who had an outstanding balance of Rs.2.5 million was overdue for more than 360 days. This amount was already provided in the accounts. However, an amount of Rs.2.2 million was settled by the customer in April 2021 and the balance was decided to write-off as bad debts during the year ended 31<sup>st</sup> March 2021.

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(8) Tax liability for the year of assessment 2020/21 was estimated as Rs.1.5 million.

(9) The board of directors of the company approved the financial statements for issue on 30<sup>th</sup> May 2021.

**You are required to:**

Prepare the following, for Nazeen Ltd. in a form suitable for publication:

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31<sup>st</sup> March 2021. (10 marks)
  - (b) Statement of Financial Position as at 31<sup>st</sup> March 2021. (09 marks)
  - (c) Statement of Changes in Equity for the year ended 31<sup>st</sup> March 2021. (02 marks)
  - (d) Statement showing movement of Property, Plant and Equipment for the year ended 31<sup>st</sup> March 2021. (04 marks)
- (Total 25 marks)

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### Question 04 (AAT03 Jan 22)

The following trial balance was extracted from the books of Richi PLC as at 31st March 2021:

Rs.000	Dr.	Cr.
Stated Capital (10,000,000 Ordinary Shares)		100,000
Revaluation Reserve		3,000
Retained Earnings as at 01st April 2020		22,000
Property, Plant and Equipment at Cost/Revalued Amount:		
Land & Building (Land at revalued value - Rs.44 million)	62,000	
Machinery	14,000	
Computer Software	3,000	

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	Dr.	Cr.
Accumulated Depreciation as at 01st April 2020:		
Building		12,000
Machinery		6,000
Computer Software		1,200
Capital Work-In-Progress	18,000	
Inventory as at 31st March 2021	28,000	
Trade Receivables/Trade Payables	21,700	15,600
Allowance for Trade Receivables as at 01st April 2022		3,000
Pre-payments	12,000	
Cash in Hand and at Banks	25,100	
Cost of Sales/Sales	81,000	150,000
Other Income		2,100
Income Tax Payable as at 01st April 2020		3,500
Income Tax Paid	7,200	

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	Dr.	Cr.
Administration Expenses	34,200	
Distribution Expenses	21,000	
Finance Expenses	6,200	
Bank Loan		15,000
	333,400	333,400

The following additional information is also provided:

- (1) During the year, one of the customers has filed a court case against the company to claim Rs. 1 million compensation for selling bad quality products. On 20th May 2021, the court has ordered the company to pay Rs.750,000/- to the customer as the compensation. No adjustments were made in the books of accounts in this regard.
- (2) Audit fee of Rs.600,000/- for the financial year 2020/2021 has not been accounted. Pre-payment account represents rent payment made for entire calendar year of 2021

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- 3) On 30th April 2020, the company obtained a bank loan of Rs. 15 million at an interest rate of 10% per annum to construct a factory building. Construction of the building was started on 01st May 2020 and it was in progress as at 31st March 2021. Cost incurred during the year on construction was recorded under the Capital Work-in-Progress account and interest on loan for the year was charged to Finance Expenses Account. The bank has given one year grace period to settle the capital repayments and  $\frac{1}{4}$  of the loan should be paid in next year.
- 4) It was brought to the notice of the company that a customer who owed Rs.500,000/- to the company was declared bankrupt on 31st March 2021 and a full provision was made in the previous year regarding his dues. Further, it was decided to provide the allowance for receivable at 10% on the remaining trade receivables balance as at 31st March 2021.
- 5) The total income tax liability for the year of assessment 2019/20 was Rs.3,500,000/- which was paid during the year ended 31st March 2021 and the amount paid has been charged to the income tax paid account. The total income tax liability for the year of assessment 2020/21 was estimated as Rs.5,300,000/-.
- 6) Property, Plant and Equipment are to be depreciated on the straight-line basis at cost. The useful life of the assets is as follows:

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Building : 20 years  
Machinery : 04 years  
Computer : Software 04 years

- 7) The company carried out an impairment test for machinery on 31st March 2021 and it was revealed that the fair value less cost of disposal of machinery was Rs.3,000,000/- and value in use of the machinery was Rs.3,400,000/-. No adjustment was made in the books of accounts regarding the impairment.
- 8) Revaluation reserve represents the surplus on land revaluation made 2 years ago.
- 9) The board of directors of the company approved the financial statements for issue on 30th June 2021.

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**You are required to:**

**Prepare** the following, for **Richi PLC** in a form suitable for publication:

- (a) Statement of Profit or Loss and Other Comprehensive Income  
(Comprehensive Income Statement) for the year ended 31st March 2021.
- (b) Statement of Financial Position as at 31st March 2021.
- (c) Statement of Changes in Equity for the year ended 31st March 2021.
- (d) Note to the Financial Statements showing movement of Property, Plant and Equipment for the year ended 31st March 2021.

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### Question 05 (AAT03 July 22)

The following trial balance was extracted from the books of Jackson PLC as at 31st March 2022

Rs.000	Dr.	Cr.
Stated Capital (10,000,000 Ordinary Shares)		100,000
Retained Earnings as at 01st April 2021		14,500
Property, Plant and Equipment at Cost:		
Land & Building (Land value - Rs.20 million)	38,000	
Machinery	14,000	
Accumulated Depreciation as at 01st April 2021:		
Building		9,000
Machinery		8,000
Inventory as at 31st March 2022 at Cost	41,000	
Trade Receivables / Trade Payables	37,000	17,900

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Cash in Hand and at Bank	7,200	
Fixed Deposits - Matured in 6 months	20,000	
Allowance for Trade Receivables as at 31st March 2022		6,200
Pre-payments	12,000	
Income Tax Paid	6,100	
Cost of Sales / Sales	102,800	168,000
Interest Income Received		2,800
Advance Lease Payment	1,988	
Income Tax Payable as at 01st April 2021		4,300
Administration Expenses	17,700	
Distribution Expenses	29,912	
Finance Expenses	3,000	
	330,700	330,700

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The following additional information is also provided:

- (1) Net Realizable Value (NRV) of the inventory as at 31st March 2022 was Rs.39,400,000/-.
- (2) As at 31st March 2022, the company has revalued its land to Rs.25,000,000/- and it was not recorded in the books of accounts.
- (3) A new motor vehicle was purchased under a finance lease on 01st April 2021. Fair value of the leased motor vehicle was Rs. 4 million and the lease term was 4 years. Annual lease Installment of Rs.988,000/- should be settled on 31st March of each year. Implicit interest rate is 12% per annum. The ownership of the motor vehicle is transferred to Jackson PLC at the end of the lease term. Down payment made on the motor vehicle of Rs.1 million and 01st installment of Rs.988,000/- have been recorded under the Advance Lease Payment Account. Other than that no entries were made in the books of accounts in this regard.

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- 4) Property, Plant and Equipment are to be depreciated on the straight-line basis at cost. The useful life of the assets is as follows:

Building : 50 years  
Machinery : 05 years  
Motor Vehicle : 04 years

- 5) Audit fee of Rs.400,000/- related to the financial year ended 31st March 2022 has not been accounted and Pre-payments account represents insurance payment made for entire calendar year of 2022.
- 6) The total income tax liability for the year of assessment 2020/21 was Rs.4,300,000/- which was paid during the year of assessment 2021/22 and the amount paid has been charged to the income tax paid account. The total income tax liability for the year of assessment 2021/22 is estimated to be Rs.7,300,000/-.

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- 7) A customer of the company has filed a case against the company during the year 2021/22. As per the judgment on 25th April 2022, the company has to pay Rs.375,000/- as a compensation.
- 8) Interest income of Rs.250,000/- for the month of March 2022 on fixed deposits was received on 02nd April 2022.
- 9) The board of directors of the company approved the financial statements for issue on 31st May 2022.

**You are required to:**

Prepare the following, for Jackson PLC in a form suitable for publication:

- (a) Statement of Profit or Loss and Other Comprehensive Income (Comprehensive Income Statement) for the year ended 31st March 2022.
- (b) Statement of Financial Position as at 31st March 2022.
- (c) Statement of Changes in Equity for the year ended 31st March 2022.
- (d) Note to the Financial Statements showing movement of Property, Plant and Equipment for the year ended 31st March 2022.