

Task A4.36: Preparing Financial Statements

ROTHFORD PLC is a British car rental company. It is registered for VAT reduction. ROTHFORD PLC owns 25 cars Toyota Yaris Diesel for renting out. On 1.01.20X4, ROTHFORD PLC discloses the balance sheet as below:

Rothford PLC's STATEMENT of FINANCIAL POSITION as at 1.01.20X4			
A			C, L
<i>Non-current assets</i>	[GBP]	<i>Equity</i>	[GBP]
P, P, E	375,000.00	Share capital	50,000.00
Intangibles		Reserves	120,000.00
Financial assets		Retained earnings	70,000.00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	5,000.00	Long-term Liab. IBL	120,000.00
Accounts receivables	10,000.00	Short-term Liab. A/P	10,000.00
Prepaid expenses	2,000.00	Provisions	
Cash/Bank	8,000.00	Tax liabilities	30,000.00
Total assets	400,000.00	Total equity and liab.	400,000.00

Exhibit 1: Balance sheet

The cars have been written off to 75 % of their cost of acquisition. The prepaid expenses are for 3 months rent paid in advance (Rent is not subjected to VAT). Short-term liabilities are for pay-off of a bank loan which is due on 31.12.20X4. Pay-off in 20X5 is to the same extent. Disclose the bank loan at settlement values but disclose short-term and long-term liabilities separately. Interest is 3.5 %/a. ROTHFORD PLC still has to pay income tax liabilities. The appropriation of profits is a dividend of 0.40 GBP/s; the nominal value per share is 1.00 GBP/s. The remainder is added to earnings reserves. The dividend is paid on 30.06.20X4.

In 20X4, rent increases to 2,400.00 GBP/quarter. The new rent applies from 1.07.20X4 onwards.

Depreciation on the cars is amounting to 125,000.00 GBP.

In 20X4, ROTHFORD PLC orders 40 new cars BMW 520 at a purchase price of 55,000.00 EUR/u. The cars are delivered in 20X5. The currency exchange rate on the day the deal was closed is 0.90 EUR = 1.00 GBP. No interest portion is included in the purchase price - but the dealer requires a pre-delivery payment of 25 % based on the full price. ROTHFORD PLC records the pre-delivery payment as receivables until the cars are received.

During the Accounting period 20X4, ROTHFORD PLC rents out its cars for 280 days and charges 150,00 GPB/d (net amount). 17 % of the rentals are discounted by 15% as the customers were regulars.

Operational costs for administration and management are 200,000.00 GBP. 12 % of the operational costs are VATable. Most of the operational expenses are not subjected to VAT as they are labour costs.

For car maintenance and repair a subcontractor charges ROTHFORD PLC 12,000.00 GBP/m, payable one month after the service is rendered. Maintenance and repair is VATable.

Required: Prepare a full set of financial statements as at 31.12.20X4 which comprises a balance sheet, an income statement, a statement of cash flows (direct method) and a statement of changes in equity.

Solution:

(1) Payment of income tax liabilities.

(2) Prepaid rent consideration.

(3) Appropriation of profits. The dividend is amounting to $0.40 \times 50,000 = 20,000.00$ GBP.

DR Retained Earnings	70,000.00 GBP
CR Accounts Payables	20,000.00 GBP
CR Reserves	50,000.00 GBP

(4) Payment of dividends in June 20X4:

DR Accounts Payables	20,000.00 GBP
CR Cash/Bank	20,000.00 GBP

(5) Recording depreciation.

(6) Recording the car deal: $40 \times 55,000 \times 0.9 \times 120\% = 2,376,000.00$ GBP. The pre-delivery payment is amounting to: $2,376,000 \times 25\% = 594,000.00$ GBP.

DR Accounts Receivables	594,000.00 GBP
CR Cash/Bank	594,000.00 GBP

(7; 8) Rent. The rent payment is: $2,000 + 3 \times 2,400 = 9,200.00$ GBP. An amount of 2,400 GBP is added to prepaid expenses.

(9) Revenue recognition: $280 \times 150 \times 25 \times (1 - 17\% \times 15\%) = 1,023,225.00$ GBP.

DR Cash/Bank	1,227,870.00 GBP
CR VAT	204,645.00 GBP
CR Revenue	1,023,225.00 GBP

(10) Operational expenses:

DR Operational expenses	200,000.00 GBP
DR VAT	4,800.00 GBP
CR Cash/Bank	204,800.00 GBP

(11) Maintenance and repairs ($12 \times 12,500 \times 120\% = 180,000.00$ GBP):

DR Maintenance & Repair	144,000.00 GBP
DR VAT	28,800.00 GBP
CR Cash/Bank	158,400.00 GBP
CR Accounts payables	14,400.00 GBP

(12-14) Interest and pay-off of the bank loan. Interest is amounting to: $3.5\% \times 130,000 = 4,450.00$ GBP.

Observe the accounts below for the profit calculation:

D		P, P, E		C	
OV	500,000.00	c/d	500,000.00		
b/d	500,000.00				

D		Acc depr		C	
c/d	250,000.00	OV	125,000.00		
	250,000.00	(5)	125,000.00		
			250,000.00		
		b/d	250,000.00		

D		Inventory INV		C	
OV	5,000.00	c/d	5,000.00		
b/d	5,000.00				

D		Accounts receivables A/R		C	
OV	10,000.00	c/d	604,000.00		
(6)	594,000.00		604,000.00		
	604,000.00				
b/d	604,000.00				

Exhibit 2: Accounts

D		Prepaid expenses PRE		C	
OV	2,000.00	(2)	2,000.00		
(8)	2,400.00	c/d	2,400.00		
	<u>4,400.00</u>		<u>4,400.00</u>		
b/d	2,400.00				

D		Cash/Bank C/B		C	
OV	8,000.00	(1)	30,000.00		
(9)	1,227,870.00	(4)	20,000.00		
		(6)	594,000.00		
		(7)	9,200.00		
		(10)	204,800.00		
		(11)	158,400.00		
		(12)	4,550.00		
		(13)	10,000.00		
		c/d	204,920.00		
	<u>1,235,870.00</u>		<u>1,235,870.00</u>		
b/d	204,920.00				

D		Issued capital ISS		C	
c/d	50,000.00	OV	50,000.00		
		b/d	50,000.00		

D		Reserves RES		C	
c/d	170,000.00	OV	120,000.00		
		(3)	50,000.00		
	<u>170,000.00</u>		<u>170,000.00</u>		
		b/d	170,000.00		

D		Retained earnings R/E		C	
(3)	70,000.00	OV	70,000.00		
c/d	378,612.50	R/E	378,612.50		
	<u>448,612.50</u>		<u>448,612.50</u>		
		b/d	378,612.50		

D		Long-term liabilities IBL		C	
(14)	10,000.00	OV	120,000.00		
c/d	110,000.00				
	<u>120,000.00</u>		<u>120,000.00</u>		
		b/d	110,000.00		

D		VAT		C	
(11)	28,800.00	(9)	204,645.00		
(10)	4,800.00				
c/d	171,045.00				
	<u>204,645.00</u>		<u>204,645.00</u>		
		b/d	171,045.00		

D		Short-term liabilities A/P		C	
(13)	10,000.00	OV	10,000.00		
(4)	20,000.00	(3)	20,000.00		
		(11)	14,400.00		
c/d	24,400.00	(14)	10,000.00		
	<u>54,400.00</u>		<u>54,400.00</u>		
		b/d	24,400.00		

Exhibit 2: Accounts (continued)

D Depreciation-20X4 DPR C		D Revenue-20X4 REV C	
(5)	<u>125,000.00</u>	P&L	<u>125,000.00</u>
D Operational expenses-20X4 OEX C		D Maintenance&Repair-20X4 M&R C	
(10)	<u>200,000.00</u>	P&L	<u>200,000.00</u>
D Interest-20X4 INT C		D Profit and Loss-20X4 P&L C	
(12)	<u>4,550.00</u>	P&L	<u>4,550.00</u>
		DPR	125,000.00
		RNT	8,800.00
		OEX	200,000.00
		M&R	144,000.00
		INT	4,550.00
		EBT	540,875.00
		<u>1,023,225.00</u>	<u>1,023,225.00</u>
		ITL	162,262.50
		R/E	378,612.50
		b/d	<u>540,875.00</u>

Exhibit 2: Accounts (continued)

Find below the financial statements as at 31.12.20X4:

Rothford PLC's STATEMENT of FINANCIAL POSITION as at 31.12.20X4			
A			C, L
<i>Non-current assets</i>	[GBP]	<i>Equity</i>	[GBP]
P, P, E	250,000.00	Share capital	50,000.00
Intangibles		Reserves	170,000.00
Financial assets		Retained earnings	378,612.50
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	5,000.00	Long-term Liab. IBL	110,000.00
Accounts receivables	604,000.00	Short-term Liab. A/P	195,445.00
Prepaid expenses	2,400.00	Provisions	
Cash/Bank	204,920.00	Tax liabilities	162,262.50
Total assets	1,066,320.00	Total equity and liab.	1,066,320.00

Exhibit 3: Balance sheet

**Rothford PLC's
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X4**

	[GBP]
Revenue	1,023,225.00
Other income	
	1,023,225.00
Materials	
Labour	
Depreciation	(125,000.00)
Other expenses	(352,800.00)
Earnings before int. & taxes (EBIT)	545,425.00
Interest	(4,550.00)
Earnings before taxes (EBT)	540,875.00
Income tax expenses	(162,262.50)
Deferred taxes	
Earnings after taxes (EAT)	378,612.50

Exhibit 4: Income statement

**Rothford PLC's
STATEMENT of CASH FLOWS
for the period ended 31.12.20X4**

	[GBP]	[GBP]
<i>Cash flow from operating activities</i>		
Proceeds	1,227,870.00	
Operational expenses	(204,800.00)	
Income tax liabilities paid	(30,000.00)	
Pre-delivery payment	(594,000.00)	
Rent	(9,200.00)	
Maintenance & Repair	(158,400.00)	
		231,470.00
<i>Cash flow from investing activities</i>		
Investments		
		0.00
<i>Cash flow from financing activities</i>		
Dividend paid	(20,000.00)	
Interest	(4,550.00)	
Pay-off of bank loan	(10,000.00)	
		(34,550.00)
Total cash flow		196,920.00

Exhibit 5: Statement of cash flows

**Rothford PLC's
STATEMENT of CHANGES in EQUITY
as at 31.12.20X4**

	Share capital	Reserves	Retained earnings	total
	[GBP]	[GBP]	[GBP]	[GBP]
as at 1.01.20X4	50,000.00	120,000.00	70,000.00	240,000.00
Dividend for 20X3			(20,000.00)	(20,000.00)
Addition to reserves		50,000.00	(50,000.00)	0.00
Profit 20X4			378,612.50	378,612.50
as at 31.12.20X4	50,000.00	170,000.00	378,612.50	598,612.50

Exhibit 6: Statement of changes in equity