

Chapter 3

Level I

E3.9 *Time allowed – 45 minutes*

The assessment of bad and doubtful debts is an area that requires judgement.

Beasle Bub Ltd had customer debts outstanding at the end of its financial year 31 December 2000 of £2,349,000. Up until 31 December 1999 the company had no bad debt problem. However, the finance director assessed that £108,000 of the 31 December 2000 debts would not be recoverable and that another £162,000 were doubtful of being settled.

In the following year it transpired that the doubtful debts had been overestimated and that only £121,500 of these had proved to be bad, and there were no additional debts written off.

The debtors (prior to any bad debt write-offs) and the doubtful debts provision for 31 December 2001 were 10% up on 31 December 2000.

- (i) What may be the effect of the subjectivity regarding bad and doubtful debts on the profit of any company for its current and future accounting periods?**
- (ii) Prepare the relevant profit and loss and balance sheet accounts for Beasle Bub Ltd for both 2000 and 2001 for bad debts, debtors and the provision for doubtful debts.**

Level II

E3.10 *Time allowed – 60 minutes*

The following is an extract from Napier Ltd's balance sheet as at 31 March 2001.

Fixed assets	Cost	Cumulative depreciation	Net book value
	£	£	£
Land	1,500,000	-	1,500,000
Buildings	1,125,000	225,000	900,000
Plant and machinery	412,500	337,500	75,000
Motor vehicles	337,500	135,000	202,500
Fixtures and fittings	<u>150,000</u>	<u>101,750</u>	<u>48,250</u>
	<u>3,525,000</u>	<u>799,250</u>	<u>2,725,750</u>

Napier Ltd's depreciation policy is as follows:

- Plant and machinery is depreciated at an annual rate of 6% of cost each year after allowing for an estimated residual value of £37,500.
- Buildings are depreciated straight line at an annual rate of 1% of cost each year.
- Motor vehicles are depreciated on a reducing balance basis at an annual rate of 25% on the reducing balance. (Note that the company's fleet has been added to over the past couple of years).
- Fixtures and fittings are depreciated on a straight line basis at an annual rate of 15% of cost after allowing for an estimated residual value of £15,000.
- One year's full depreciation is charged in the year of acquisition.
- Depreciation is not charged on land.

During the year to 31 March 2002 new fixtures and fittings were planned to be purchased for the offices (long overdue). These were expected to cost £22,500 and to be depreciated on the same basis as the old fixtures and fittings; their estimated residual values were expected to total £2,250. There were no other planned additions or disposals of fixed assets during the year to 31 March 2002.

- You are required to calculate the expected depreciation charge for each of the fixed asset headings and the total depreciation charge for the year to 31 March 2002**
- You are also required to show how the fixed assets would appear in Napier Ltd's balance sheet as at 31 March 2002.**

E3.11 *Time allowed – 60 minutes*

The trial balance of Bronze Meadow Ltd at 31 March 2001 is shown below.

	£
Administrative expenses (including depreciation)	36,000
Rent paid	12,000
Motor vehicle expenses	21,000
Salaries	106,800
Insurance	12,000
Cost of stock sold	489,000
Sales	804,000
Motor vehicles net book value	84,000
Trade creditors	102,000
Trade debtors	122,700
Buildings at valuation	600,000
Cash at bank	42,000
Share capital	720,000
Closing stock 31 March 2001	90,000
Tax payable	60,000
Tax charge (profit and loss account)	60,000
Selling and distribution costs	40,500

- (i) Identify the expenses and assets (debit balances) and income, liabilities and equity (credit balances), and confirm that the trial balance is in balance.**
- (ii) Prepare a profit and loss account for Bronze Meadow Ltd for the year ended 31 March 2001.**
- (iii) Prepare a balance sheet for Bronze Meadow Ltd as at 31 March 2001.**