

- 4 This table shows the Statement of Profit or Loss and Other Comprehensive Income and notes to the financial statements of Paola Products plc for the year ended 31 December 2017. The Statement of Profit or Loss and Other Comprehensive Income has been drawn up in accordance with International Accounting Standard (IAS) 1.

Statement of Profit or Loss and Other Comprehensive Income for Paola Products plc for year ended 31 December 2017		Notes	
	£	Cost of sales	
		Opening inventory	3 764
		Direct materials	160 480
Revenue	1 183 693	Less discount received	(4 012)
		Factory depreciation	29 500
Cost of sales	<u>(408 549)</u>	Machinery depreciation	24 000
		Factory power	14 270
Gross profit	775 144	Machinery maintenance	18 970
		Production staff	165 432
Other income	10 000	Less closing inventory	<u>(3 855)</u>
			<u>408 549</u>
Distribution costs	(449 716)		
		Distribution costs	
Administrative expenses	(132 928)	Commission on sales	52 750
		Fuel	17 783
Financial cost	<u>(34 500)</u>	Motor lorries depreciation	27 610
		Promotions and advertising	35 000
Profit on ordinary activities before tax	168 000	Rent on warehouse premises	147 888
		Running cost of lorries	13 750
Corporation tax	<u>(36 000)</u>	Shop staff wages	98 590
		Transport staff wages	<u>56 345</u>
Profit on ordinary activities after tax	<u>132 000</u>		<u>449 716</u>

		Administrative expenses	
		Bad debts written off	3 850
		Decrease in allowance for doubtful debts	(3 000)
		Discount allowed	23 541
		Office stationery	1 579
		Accountancy staff wages	34 568
		Office staff wages	<u>72 390</u>
			<u>132 928</u>
		Financial cost	
		Interest on debenture	<u>34 500</u>

Required

- (a) (i) Calculate the percentage of discount received on purchases of direct materials.

(2)

Machines are bought for £11 000 each and last for seven years before being sold for £500 each.

The machines are depreciated using straight line depreciation.

- (ii) Calculate the number of machines Paola Products plc owns.

(5)

- (iii) State **two** reasons that may explain the difference between the value of opening inventory and the value of closing inventory.

(2)

The cost of renting the warehouse is £26 per square metre per year.

- (iv) Calculate the size of the warehouse in square metres.

(1)

- (v) State **two** actions that may be taken in the future to decrease the amount of bad debts written off.

(2)

- (vi) State **two** reasons that may explain the change in the amount of the allowance for doubtful debts.

(2)

The interest rate on the debenture is 5.75% per year.

(vii) Calculate the value of the debenture.

(3)

The Other Income is a gain made by buying and selling shares in another company through the stock exchange. Paola Products plc bought £50 000 worth of shares at a price of £1.25 per share. All the shares were sold.

(viii) Calculate the price of each share at the time of sale by Paola Products plc.

(4)

No corporation tax is due on the first £24 000 of profit.

(ix) Calculate the rate of corporation tax charged on profit over £24 000 per year.

(3)

International Accounting Standard 1 (IAS1) recommends costs to be placed under the headings of cost of sales, distribution costs, administrative expenses and financial cost.

(b) Evaluate the IAS recommendation.

(6)

(Total for Question 4 = 30 marks)