SECTION A

Answer BOTH Questions

1 Sofa So Good plc produces sofas at its factory. The sofas are then delivered to customers' shops. At 31 March 2021, the following balances and information were available.

	Debit	Credit
	£	£
Allowance for irrecoverable debts		13 000
Auditors fees	12 300	
Bank current account	65 000	
Bank current account interest		400
Cash	27 000	
Commission on sales	62 340	
8.5% Debenture December 2021		500 000
Debenture interest	21 250	
Delivery costs	119 000	
Direct materials	1 670 000	
Discount allowed	61 000	
Discount received		28 000
Factory buildings (carrying value)	2 950 000	
General reserve		25 000
Goodwill	40 000	
Head office expenses	320 000	
Inventory at 1 April 2020	451 000	
Irrecoverable debts	18 000	
Marketing	203 000	
Motor lorries at cost	228 000	
Motor lorries provision for depreciation		121 000
Motor lorries running expenses	27 500	

	Debit	Credit
	£	£
Ordinary shares of £1.00 each		2 100 000
Other payables		11 700
Production machinery (carrying value)	266 000	
Rent on warehouse	148 000	
Retained earnings	160 710	
Revenue		6 840 000
Share premium		420 000
Trade payables		126 000
Trade receivables	595 000	
Wages	2 740 000	
	10 185 100	10 185 100

Additional information at 31 March 2021

(1) Auditor's fees for £2 600 are outstanding.

(2) A Corporation Tax bill of £188 000 has been calculated, which is to be paid by 31 December 2021, and a provision needs to be made.

(3) The factory buildings are being depreciated over a 40-year life, using the straight-line method. Fifteen years depreciation has been calculated to date. Depreciation for the present year needs to be calculated and entered into the books.

(4) The motor lorries are to be depreciated using the straight-line method over a six-year life assuming a residual value of £18 000

(5) The production machinery is to be depreciated at 20% per year, using the reducing balance method.

(6) The interest payments on the debenture are made in two equal instalments at the end of March and the end of September. The payment for March 2021 is outstanding.

(7) Inventory £498 000

(8) Marketing paid in advance is £22 000

(9) The allowance for irrecoverable debts is to be 4% of trade receivables.

(10) Wages are to be apportioned on the following basis:
Factory 65%; Warehouse 10%; Transport 5%; Sales 15%; Head office 5%

Required

(a) Prepare for Sofa So Good plc, in accordance with International Accounting Standard 1 (Revised), a:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2021

(27)

(ii) Statement of Financial Position at 31 March 2021.

(16)

A meeting was recently held between the Board of Directors and the auditors. The auditors expressed concern in the following areas of corporate governance.

1) Leadership – the Chairman is also the Chief Executive Officer.

2) Effectiveness – length of intervals between election of Board members.

3) Accountability – checks that are made when taking over another company.

4) Remuneration – one director sits on the Remuneration Committee and was involved in setting his own pay level.

5) Relations with shareholders – notice being given concerning the date of the Annual General Meeting.

(b) Evaluate the role of the auditor in the corporate governance of a limited company. You must include in your answer how the auditors' concerns above should be addressed.

(12)

(Total for Question 1 = 55 marks)

1 Cyprieat plc employs chefs to produce ready-to-cook meals at its factory. The meals are then delivered to the company's shops, before being sold to customers.
At 30 September 2019, the following balances were in the books.

	Debit	Credit
	£	£
Advertising	59 000	
Bank	93 750	
Bank charges	11 000	
Bank loan		375 000
Bank loan interest	15 000	
Cash	127 000	
8% debenture 2024		1 500 000
Direct materials	3 090 000	
Discount received on direct materials		71 000
Electricity	180 000	
Equipment at cost	60 000	
Factory buildings at cost	2 100 000	
Factory buildings provision for depreciation		84 000
Fuel for motor vans	140 000	
Gas	24 000	
Goodwill	11 000	
Insurance	46 000	
Inventory of direct materials at 1 October 2018	244 500	
Land at cost	2 325 000	
Motor vans at cost	315 000	
Motor vans provision for depreciation		199 000
Motor vans maintenance costs	238 000	
Office expenses	138 000	
Ordinary shares of £1		1 558 000
Rent for shops	654 000	
Retained earnings		384 750
Revenue		7 489 000
Stationery	9 000	
Trade payables		48 000
Wages	1 828 500	
	11 708 750	11 708 750

Additional information at 30 September 2019

- Inventory of direct materials £281 500
- Advertising includes £12 000 paid in advance.
- No entry has yet been made in the books for the payment of interest on the debenture.
- Electricity is to be apportioned on the following basis:

Factory	Office	Shops
4	1	5

- Equipment consists of five new ovens, purchased at the start of the year, which are expected to last 10 years.
- Assuming a nil residual value and using the straight line method:
  - the factory building is to be depreciated over a 50-year life
  - the motor vans are to be depreciated over a four-year life.
- Gas is to be apportioned one third to each of the factory, the office and the shops.
- Insurance is to be apportioned on the following basis :

Factory	Motor vans	Office	Shops
7	10	1	5

- Interest owing on the bank loan is £6 000
- Wages were:

	£
Chefs	525 500
Office staff	117 000
Motor van drivers	302 000
Shop staff	884 000
	1 828 500

- A provision for corporation tax is to be made for £185 000, which is to be paid by 30 April 2020.

Required

(a) Prepare for Cyprieat plc, in accordance with International Accounting Standard (IAS) 1 (Revised), for the year ended 30 September 2019, a Statement of Profit or Loss and Other Comprehensive Income.

(43)

(b) Evaluate the use of information and communication technology (ICT) in accounting.

(12)

(Total for Question 1 = 55 marks)