

STATEMENT OF FINANCIAL POSITION

Assets

Non-current assets

Intangible assets

Property, plant and equipment

Current assets

Inventories

Trade and other receivables

Cash and cash equivalents

Total assets

Equity and Liabilities

Equity

Share capital

Share premium

Other reserves

Retained earnings

Total equity

Non-current liabilities

Bank loans

Long term provisions

Current liabilities

Trade and other payables

Tax liabilities

Bank overdrafts

Total liabilities

Total Equity and Liabilities

In the AAT level 4 FSTM exam you are given a trial balance within a mini case study.

Fill in the workings boxes using the drop down menus. You will get some of these workings

Property, plant and equipment		£000
Land and buildings - value	▼	91000
Accumulated depreciation - land and buildings	▼	-16000
Plant and equipment - cost	▼	24000
Accumulated depreciation - plant and equipment	▼	-12000
		87000

Trade and other receivables		£000
Trade and other receivables	▼	9886
Bad debts	▼	-24
		9862

Retained earnings		£000
Retained earnings at 1 April 20X0	▼	7945
Total profit for the year	▼	4594
Dividends paid	▼	-1600
		10939

Revaluation reserve		£000
Revaluation reserve at 1 April 20X0	▼	12000
Other comprehensive income for the year	▼	9222
		21222

Trade and other payables		£000
Trade and other payables	▼	5342
Accruals - Trial balance	▼	517
Additional distribution costs accrued	▼	160
		6019

Property, Plant and Equipment

- Cost
- Less accumulated depreciation
- Less disposals
- Adjust for revaluation

Retained Earnings.

- Retained Earnings from Trial Balance
- Profit From Continuing Operations (Statement of Comprehensive Income)
- Less Dividends paid

Revaluation reserve.

- Revaluation reserve from Trial Balance
- Gain from Other Comprehensive Income

1. Non-Current Assets.

Intangible assets are things that cannot be touched, includes goodwill.

Property Plant and Equipment must be obtained from the workings.

2. Current assets.

Current assets are those that are for trading, will be realised in the normal operating cycle.

The order is that of how quickly the assets can be realised.

Trade and other receivables is normally a working. It includes bad debts, doubtful debts, prepayments.

Make sure you subtotal this amount.

3. Equity.

The capital in a company consists of share capital. Each share has a nominal (par) value, this is the value shown on the balance sheet. This has no relationship to the market value at which a share is quoted on the stock exchange.

3.1. Disclose

- Number of authorised shares.
- Number of issued shares (fully paid)
- Par value (nominal value) per share
- Description of each reserve
- Reconciliation of shares at beginning and end of the reporting period.

The types of shares most often encountered are

3.2. Ordinary shares

Known as equity shares.

These are the basic shares issued by a company.

The rights of ordinary shareholders are to vote at company meetings and to receive dividends from profits. There is no upper limit to the amount of dividends they may receive.

3.3. Preference shares

The term preference shares refers to a class of shares with a wide variety of characteristics. The rights and advantages of the shares will be stated in the article of association.

They get a fixed % of the nominal value before ordinary shareholders receive anything.

They do not carry a vote.

The two main types of preference share are:

Non cumulative Any shortage is lost; it is not carried forward to future years.

Cumulative Any shortage of dividend paid is carried forward to future years. These arrears have to be paid before ordinary shareholders receive anything. These are NOT EQUITY, they are NON CURRENT LIABILITIES.

	Ordinary shares	Preference shares
Voting power	Carry a vote	Do not carry a vote
Distribution of profits (dividends)	A dividend given after the preference shareholders have received their dividend. May vary from one year to the next.	A fixed dividend (% of nominal value)
Liquidation of the company	Entitled to surplus assets after liabilities and preference shareholders have been repaid.	Priority of repayment but not generally entitled to any surplus assets.
Statement of Financial position	Equity	Non current Liabilities (maybe equity)

Dividends are paid twice yearly, interim and final.

3.4. Issuing shares

Companies can issue shares on open issue to the market,

Dr Bank

Cr Share Capital

Shares can be issued at a premium.

Dr Bank

Cr Share Capital

Cr Share Premium

That means that the shareholder pays more than the face value for shares. Companies Act requires that share premium is transferred to a Share premium account which is a non distributable reserve. This protects investors.

Companies can use bonus issues or rights issues.

Bonus

Shares are given free to existing shareholders in ratio to their original holding.

Eg 1 for 4 bonus issue.

The share premium account can be used to fund this

Dr Share Premium

Cr Share Capital

Rights

Shares are offered to existing shareholders for cash in ratio to their original holding.

Eg 1 for 10 rights issue.

Dr Bank

Cr Share Capital

4. Reserves

Reserves represent profits that have been ploughed back into the business from the Statement of Comprehensive Income, or amounts which have been placed in reserve in accordance with the Companies Act. All reserves are part of equity and belong to the shareholders.

There are 2 different types of reserves , revenue reserves and capital reserves.

4.1. Revenue (Distributable) reserves

- Retained Earnings Reserve.

Retained earnings reserve is the main revenue reserve. These are profits which are retained in the company, ie profit after tax and dividends.

They are distributable as dividends. NB dividends are not shown on the statement of comprehensive income so you must adjust for dividends.

Retained Earnings Workings

Retained earnings as at opening date

Total Profit for the year

Dividends Paid

Retained Earnings as closing date

- General Reserve.

The directors may set up a general reserve or a specific reserve may be set up e.g. Property, Plant and Equipment reserve.

If at some future date the reserve is found to be unnecessary or too great they can be credited back to retained earnings account and be made available for payment of dividends.

4.2. Capital Reserves.

These are Non distributable. The Companies Act prohibits the transfer of capital reserves to the retained earnings account, and they may not therefore be used to pay cash dividends to shareholders.

- Share premium reserve.

A share premium account arises when a company issues shares at a price which is greater than the nominal value of the shares. Eg 100 £1 shares issued at £1.20

Dr	Bank	£120
Cr	Share capital	£100
Cr	Share premium	£20

A share premium account may be used to issue bonus shares.

- Revaluation reserve.

A revaluation reserve is created when an asset is revalued to reflect an increase in value.

Dr	Asset account
Dr	Provision for depreciation account
Cr	Asset revaluation reserve

5. Non-Current Liabilities

A debenture is a written acknowledgement of a loan to company which carries a fixed rate of interest. Debenture stock may be held by a large number of individuals, the conditions and regulations are set out in a debenture trust deed.

Debentures are not part of a company's share capital – they are liabilities.

The debenture interest must be paid whether or not the company makes a profit, we need to accrue for it. It is an expense.

Debenture holders cannot vote.