

3.4D: Final Accounts: Activity



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3.4 FINAL ACCOUNTS: ACTIVITY D

Read the case study information below and answer the questions that follow.

FESTA LTD



Ashleigh Yi started a new business in January 2012. She set the firm up as a private limited company, *Festa Ltd*. Ashleigh took a majority 80 per cent shareholding in the business and appointed herself as Chief Executive Officer. Her accountant, Courtney Yule, joined Ashleigh buying the remaining shares.

To finance the launch, Ashleigh estimated a figure of \$300,000. She produced a business plan and forecast financial information as part of the process of obtaining most of the required finance (see table below). Ashleigh presented this financial information to Courtney Yule.

Courtney examined the figures and pointed out that Ashleigh had omitted a provision for depreciation of the firm's fixed assets, which were valued at \$200,000 on start-up. She suggested that Ashleigh worked on the basis of a four-year life for the assets and estimated a residual value of \$40,000.

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Forecast financial information for Festa Ltd for the years 2014 and 2015		
	2014 (\$000)	2015 (\$000)
Turnover	485	870
Cost of sales	245	450
Expenses	91	138
Non-operating income	11	13
Interest	20	55
Tax	35	60
Dividends	60	75

Source: www.BusinessManagementIB.com

Non-operating income

(income unrelated to sales; e.g. interest received, dividends from shares held in other companies, subsidies from govt.) is added in here.

Gross profit	****
Expenses	****
Net profit before interest and tax	****

QUESTIONS: 24 MARKS, 50 MINUTES

1. Define residual value. **[2 marks]**

2. Differentiate between straight line and the reducing balance methods of depreciation. **[4 marks]**

3. If the company decides to use an annual depreciation rate of 30 per cent, use the reducing balance method of depreciation to calculate the book value of Festa Ltd.'s assets after three years. **[4 marks]**

4. Using straight-line depreciation, calculate the annual provision for depreciation that George had omitted. *(Show all of your working)* **[4 marks]**

5. Using the financial information provided for 2014 **and** 2015, prepare profit and loss accounts for the two years, adjusting the figures in the table above to include the provision for (straight line) depreciation and re-calculating the tax payment to equal 25 per cent of net profit before tax. **[10 marks]**