

Solutions Manual

Frank Wood's Business Accounting 2

Fourteenth edition

Alan Sangster

PhD, MSc, BA, CertTESOL, CA

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ISBN: 978-1-292-20868-8

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PEARSON EDUCATION LIMITED

KAO Two
KAO Park
Harlow CM17 9NA
United Kingdom
Tel: +44 (0)1279 623623
Web: www.pearson.com/uk

Twelfth edition published 2012
Thirteenth edition published 2016
This edition published 2019

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ISBN 978-1-292-20868-8

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Preface

This solutions manual contains answers to all the questions not already answered in *Frank Wood's Business Accounting 2*. It can be seen that there are a considerable number of questions in both textbooks. About one-half of these have the answers at the back of the relevant textbook, while the remainder of the answers are contained in this manual.

The result of this is to give a high degree of flexibility in the use of the textbooks. To illustrate the contents of each chapter, the questions can be used which have answers in the textbook. Any students who are absent can be told what they have missed and can look up the answers themselves. Students who arrive late on the course can also be told what work to do and they can check their own progress against the answers as given. However, quite obviously work must be set, either in class or for homework, for which answers are not available to students. This manual can therefore be used to check such work.

Whilst every endeavour has been made to show workings quite fully, it must be appreciated that there are often different ways of getting to the same answer. This manual would be unduly lengthy and complicated if every version of arriving at the answer were to be shown. The methods chosen are therefore those judged to be the best from a teaching point of view.

Alan Sangster

Answers

Answer to Question 2.5A BA 2

(Dates omitted)

<i>(a)</i>		<i>Ordinary Share Capital</i>	
Forfeited shares (5,000 × £1)	5,000	Balance b/d	500,000
Balance c/d	<u>595,000</u>	Application and allotment	70,000
	<u>600,000</u>	First and final call	<u>30,000</u>
			<u>600,000</u>
Balance c/d	<u>600,000</u>	Balance b/d	595,000
	<u>600,000</u>	Amber	<u>5,000</u>
			<u>600,000</u>

<i>(b)</i>		<i>Share Premium</i>	
Balance c/d	<u>52,500</u>	Application and allotment	50,000
	<u>52,500</u>	Forfeited shares	<u>2,500</u>
			<u>52,500</u>

<i>(c)</i>		<i>Application and Allotment</i>	
Bank refunds (75,000 × 65p)	48,750	Bank (200,000 × 65p)	130,000
Bank refunds re: 3 for 4 allotment (25,000 × 65p)	16,250	Bank (100,000 × 55p)	55,000
Ordinary share capital	70,000		
Share premium	<u>50,000</u>		
	<u>185,000</u>		<u>185,000</u>

<i>(d)</i>		<i>First and Final Call</i>	
Ordinary share capital (100,000 × 30p)	<u>30,000</u>	Bank (95,000 × 30p)	28,500
	<u>30,000</u>	Forfeited shares (5,000 × 30p)	<u>1,500</u>
			<u>30,000</u>

<i>(e)</i>		<i>Forfeited Shares</i>	
First and final call	1,500	Ordinary share capital	5,000
Amber Ltd	1,000		
Share premium	<u>2,500</u>		
	<u>5,000</u>		<u>5,000</u>

<i>(f)</i>		<i>Amber Ltd</i>	
Ordinary share capital	5,000	Bank (5,000 × 80p)	4,000
	<u>5,000</u>	Forfeited shares*	<u>1,000</u>
			<u>5,000</u>

* Discount on reissue

Answer to Question 2.7A BA 2

Grobigg Ltd			
<i>Application and Allotment</i>			
Cash: Return of unsuccessful application monies $8,000 \times 0.75$	6,000	Cash: $180,000 \times 0.75$	135,000
Share capital: Due on application and allotment $150,000 \times 0.80$	120,000	Cash: Balance due on allotment	13,500
Share premium $150,000 \times 0.15$	<u>22,500</u>		
	<u>148,500</u>		<u>148,500</u>
<i>Call</i>			
Share capital $150,000 \times 0.20$	30,000	Cash: $149,600 \times 0.20$	29,920
	<u>30,000</u>	Forfeited shares	80
			<u>30,000</u>
<i>Forfeited Shares</i>			
Call	80	Share capital	400
Share capital	400	Cash: 400×0.90	360
Share premium	<u>280</u>		
	<u>760</u>		<u>760</u>
<i>Share Premium</i>			
		Application and allotment	22,500
		Forfeited shares	280
<i>Share Capital</i>			
Forfeited shares	400	Application and allotment	120,000
Balance c/d	150,000	Forfeited shares	400
	<u>150,400</u>	Call	<u>30,000</u>
			<u>150,400</u>

Answer to Question 3.2A BA 2

	<i>Dr</i>	<i>Cr</i>
(a)		
(A1) Bank	7,000	
(A2) Preference share applicants		7,000
Cash received from applicants		
(B1) Preference share applicants	7,000	
(B2) Preference share capital		7,000
Preference shares allotted		
(C1) Retained profits	3,000	
(C2) Capital redemption reserve		3,000
Part of purchase price of shares not covered by new issue to comply with Companies Acts		
(D1) Ordinary share capital	10,000	
(D2) Ordinary share purchase		10,000
Shares being purchased		
(E1) Ordinary share purchase	10,000	
(E2) Bank		10,000
Payment made for share purchase		

	<i>Balances before</i>	<i>Dr</i>	<i>Effect</i>	<i>Cr</i>	<i>Balances after</i>
Net assets (except bank)	31,000				31,000
Bank	<u>16,000</u>	(A1)	7,000	(E2)	10,000
	<u>47,000</u>				<u>44,000</u>
Preference share capital	8,000			(B2)	7,000
Preference share applicants		(B1)	7,000	(A2)	7,000
Ordinary share capital	20,000	(D1)	10,000		10,000
Ordinary share purchase		(E1)	10,000	(D2)	10,000
Capital redemption reserve				(C2)	3,000
Share premium	<u>4,000</u>				<u>4,000</u>
	<u>32,000</u>				<u>32,000</u>
Retained profits	<u>15,000</u>	(C1)	3,000		<u>12,000</u>
	<u>47,000</u>				<u>44,000</u>

	<i>Dr</i>	<i>Cr</i>
(b)		
(A1) Ordinary share capital	12,000	
(A2) Ordinary share purchase		12,000
Shares being purchased		
(B1) Retained profits		2,400
(B2) Ordinary share purchase		2,400
Premium on purchase of shares not previously issued at premium		
(C1) Retained profits		12,000
(C2) Capital redemption reserve		12,000
Transfer because shares purchased out of distributable profits		
(D1) Ordinary share capital		14,400
(D2) Bank		14,400
Payment of redemption		

	<i>Balances before</i>	<i>Dr</i>	<i>Effect</i>	<i>Cr</i>	<i>Balances after</i>
Net assets (except bank)	31,000				31,000
Bank	<u>16,000</u>			(D2)	14,400
	<u>47,000</u>				<u>32,600</u>
Preference share capital	8,000				8,000
Ordinary share capital	20,000	(A1)	12,000		8,000
Ordinary share purchase		(D1)	14,400	(A2)	12,000
				(B2)	2,400
Capital redemption reserve				(C2)	12,000
Share premium	<u>4,000</u>				<u>4,000</u>
	<u>32,000</u>				<u>32,000</u>
Retained profits	<u>15,000</u>	(C1)	12,000		<u>600</u>
	<u>47,000</u>	(B1)	2,400		<u>32,600</u>

(c)		<i>Dr</i>	<i>Cr</i>
(A1) Preference share capital		8,000	
(A2) Preference share purchase			8,000
Shares to be purchased			
<hr/>			
(B1) Preference share purchase		8,000	
(B2) Bank			8,000
Cash paid on purchase			
<hr/>			
(C1) Retained profits		8,000	
(C2) Capital redemption reserve			8,000
Transfer per Companies Acts			
<hr/>			

	<i>Balances before</i>	<i>Dr</i>	<i>Effect</i>	<i>Cr</i>	<i>Balances after</i>
Net assets (except bank)	31,000				31,000
Bank	<u>16,000</u>		(B2)	8,000	<u>8,000</u>
	<u>47,000</u>				<u>39,000</u>
Preference share capital	8,000	(A1)	8,000		–
Preference share purchase		(B1)	8,000	(A2)	8,000
Ordinary share capital	20,000				20,000
Capital redemption reserve				(C2)	8,000
Share premium	<u>4,000</u>				<u>4,000</u>
	<u>32,000</u>				<u>32,000</u>
Retained profits	<u>15,000</u>	(C1)	8,000		<u>7,000</u>
	<u>47,000</u>				<u>39,000</u>

(d)		<i>Dr</i>	<i>Cr</i>
(A1) Bank		12,000	
(A2) Preference share applicants			12,000
Cash received from applicants			
<hr/>			
(B1) Preference share applicants		12,000	
(B2) Preference share applicants			12,000
Preference shares allotted			
<hr/>			
(C1) Ordinary share capital		12,000	
(C2) Ordinary share purchase			12,000
Shares to be purchased			
<hr/>			
(D1) Ordinary share purchase		12,000	
(D2) Bank			12,000
Payment made to purchase shares			
<hr/>			

	<i>Balances before</i>	<i>Dr</i>	<i>Effect</i>	<i>Cr</i>	<i>Balances after</i>
Net assets (except bank)	31,000				31,000
Bank	<u>16,000</u>	(A1)	12,000	(D2)	12,000
	<u>47,000</u>				<u>47,000</u>
Preference share capital	8,000			(B2)	12,000
Preference share applicants	–	(B1)	12,000	(A2)	12,000
Ordinary share capital	20,000	(C1)	12,000		8,000
Ordinary share purchase	–	(D1)	12,000	(C2)	12,000
Share premium	<u>4,000</u>				<u>4,000</u>
	<u>32,000</u>				<u>32,000</u>
Retained profits	<u>15,000</u>				<u>15,000</u>
	<u>47,000</u>				<u>47,000</u>

	<i>Dr</i>	<i>Cr</i>
(e)		
(A1) Bank	10,000	
(A2) Preference share applicants		10,000
Cash received from applicants		
(B1) Preference share applicants	10,000	
(B2) Preference share capital		10,000
Preference shares allotted		
(C1) Ordinary share capital	6,000	
(C2) Ordinary share purchase		6,000
Shares being purchased		
(D1) Share premium account	1,200	
(D2) Ordinary share purchase		1,200
Amount of share premium account used for redemption		
(E1) Retained profits	1,800	
(E2) Ordinary share purchase		1,800
Excess of premium payable over amount of share premium account usable for the purpose		
(F1) Ordinary share purchase	9,000	
(F2) Bank		9,000
Amount payable on purchase		

	<i>Balances before</i>		<i>Dr</i>	<i>Effect</i>	<i>Cr</i>	<i>Balances after</i>
Net assets (except bank)	31,000					31,000
Bank	<u>16,000</u>	(A1)	10,000	(F2)	9,000	<u>17,000</u>
	<u>47,000</u>					<u>48,000</u>
Preference share capital	8,000			(B2)	10,000	18,000
Preference share applicants	–	(B1)	10,000	(A2)	10,000	–
Ordinary share capital	20,000	(C1)	6,000			14,000
Ordinary share purchase	–	(F1)	9,000	(C2)	6,000	–
				(D2)	1,200	–
				(E2)	1,800	–
Share premium account	<u>4,000</u>	(D1)	1,200			<u>2,800</u>
	<u>32,000</u>					<u>34,800</u>
Retained profits	<u>15,000</u>	(E1)	1,800			<u>13,200</u>
	<u>47,000</u>					<u>48,000</u>

Answer to Question 3.4A BA 2

		<i>Loan Note Redemption Reserve</i>	
		2020	
		Dec 31	Retained profits* 10,971.43
		2021	
2021		Dec 31	Bank: Interest 658.29
Dec 31	Balance c/d	Dec 31	Retained profits <u>10,971.43</u>
	<u>22,601.15</u>		<u>22,601.15</u>
		2022	
2022		Jan 1	Balance b/d 22,601.15
Dec 31	Balance c/d	Dec 31	Bank: Interest 1356.07
	<u>34,928.65</u>	Dec 31	Retained profits <u>10,971.43</u>
	<u>34,928.65</u>		<u>34,928.65</u>
		2023	
2023		Jan 1	Balance b/d 34,928.65
Dec 31	Retained profits: Loan notes now redeemed	Dec 31	Bank: Interest 2,095.72
	<u>48,000.00</u>	Dec 31	Retained profits <u>10,975.63</u>
	<u>48,000.00</u>		<u>48,000.00</u>
			(10,971.43 + 4.2**)

* $0.22857142 \times 48,000 = 10,971.43$

**Balancing figure

<i>(b) Loan Note Sinking Fund Investment</i>			
2020			
Dec 31	Bank	10,971.43	
2021			
Dec 31	Bank	11,629.72	
2022			
Dec 31	Bank	12,327.50	
2023			
Dec 31	Bank	<u>13,071.35</u>	2023 Dec 31 Bank
		<u>48,000.00</u>	<u>48,000.00</u>

<i>(c) Loan Notes</i>			
2023			2020
Dec 31	Bank (redemption)	<u>48,000.00</u>	Jan 1 Bank
			<u>48,000.00</u>

<i>(d) Retained Profits (extracts) for the years ended 31 December</i>			
2020	Loan note		Redemption Reserve
			10,971.43
2021	Loan note		Redemption Reserve
			10,971.43
2022	Loan note		Redemption Reserve
			10,971.43
2023	Loan note		Redemption Reserve
			10,975.63

Answer to Question 3.6A BA 2

(Dates omitted)		<i>Dr</i>	<i>Cr</i>
(a)	Bank	1,320,000	
	Application and allotment		1,320,000
	Application monies received		
(b)	Bank	1,032,000	
	Application and allotment		1,032,000
	Oversubscriptions refunded		
(c)	Bank	340,000	
	Application and allotment		
	Ordinary share capital		140,000
	Share premium (treated as paid in full on application – see Section 5.4)		200,000
	Amount due on allotment ordinary shares		
(d)	Bank (see workings W1)	51,975	
	Application and allotment		51,975
(e)	Call	60,000	
	Ordinary share capital		60,000
	First and final call made		
(f)	Bank	59,910	
	Call		59,910
	Amount paid on call		
(g)	Ordinary share capital	300	
	Forfeited shares		300
	Shares forfeited		
(h)	Forfeited shares	115	
	Application and allotment		25
	Call		90
	Amounts not received cancelled		
(i)	Forfeited shares	300	
	Ordinary share capital		300
	Forfeited shares now reissued		
(j)	Bank	500	
	Forfeited shares		500
	Cash received on reissue		
(k)	Forfeited shares	385	
	Share premium		385
	Profit on reissue transferred		

	<i>Dr</i>	<i>Cr</i>
(l) Bank	800,000	
Application and allotment – redeemable shares		800,000
Monies received on issue		
(m) Application and allotment – redeemable shares	800,000	
Share premium		300,000
Redeemable shares		500,000
Redeemable shares allotted		
(n) (Old) redeemable preference shares	500,000	
Share premium	200,000	
Redemption of shares		700,000
Shares to be redeemed at premium 40p		
(o) Redemption of shares	700,000	
Bank		700,000
Monies paid on redemption		
(p) Investments	100,000	
Ordinary share capital		100,000
400,000 March Hares shares of 25p purchased, payment being 200,000 50p ordinary shares		
(q) 8% Loan notes	400,000	
Share premium	40,000	
Loan note redemption		440,000
Amount due on loan notes to be redeemed		
(r) Loan note redemption	440,000	
Bank		440,000
Redeemed loan notes paid for		
(s) Bank	475,000	
Share premium	25,000	
7% Loan notes		500,000
Issue of 7% loan notes at 5% discount		
<i>Workings (W1):</i>		
Due on application and allotment		340,000
Received on application	1,320,000	
Less Returned	<u>1,032,000</u>	<u>288,000</u>
		52,000
Less Unpaid 100 × 25p		25
		<u><u>51,975</u></u>

Answer to Question 3.8A BA 2

(All in £000)

		<i>Ordinary Share Capital</i>	
<hr/>			
		Balance b/d	500
		Ordinary share application	150
		Ordinary share allotment	150
		Ordinary share first call	100
		Ordinary share final call	<u>100</u>
Balance c/d	<u>1,000</u>		<u>1,000</u>
	<u>1,000</u>		
<hr/>			
		<i>Ordinary Share Application and Allotment</i>	
<hr/>			
Bank (10,000 × 3)	30	Bank (85,000 × 3)	255
Ordinary share capital	300	Bank (50,000 × 8) – 75,000	325
Share premium	<u>250</u>		
	<u>580</u>		<u>580</u>
			<u>580</u>
<hr/>			
		<i>Share Premium</i>	
<hr/>			
		Ordinary share allotment	250
		Investments (own shares)	<u>55</u>
Balance c/d	<u>305</u>		<u>305</u>
	<u>305</u>		<u>305</u>

<i>(e) Ordinary Share: First Call</i>			
Ordinary share capital	<u>100</u>	Bank	<u>100</u>
<i>(f) Ordinary Share: Final Call</i>			
Ordinary share capital	100	Bank	90
		Investments (own shares)	<u>10</u>
	<u>100</u>		<u>100</u>
<i>(g) Investments: Own Shares</i>			
Ordinary share capital: Final call	10	Bank	65
Share premium	<u>55</u>		
	<u>65</u>		<u>65</u>

Answer to Question 4.9A BA 2

<i>(a) Hubble Ltd: Journal</i>			
	<i>Dr</i>		<i>Cr</i>
Cash	75,000		
Freehold premises			55,000
Gain on sale of non-current asset			20,000
Sale of freehold premises			
Freehold premises	80,000		
Revaluation reserve			80,000
Surplus on revaluation of premises (400,000 – (375,000 – 55,000))			
Freehold premises	100,000		
Plant and machinery	10,000		
Inventory	55,000		
Vendor: A Bubble			165,000
Assets taken over as per purchase agreement			
Vendor: A Bubble	165,000		
Ordinary share capital			120,000
Share premium			20,000
Cash			25,000
Discharge of purchase consideration by issue of 120,000 ordinary shares £1 each and a cash payment of £25,000			
<i>(b) Hubble Ltd: Balance Sheet as at 31 May 2020</i>			
<i>Non-current assets</i>			
Freehold premises at cost or valuation			500,000
Plant and machinery at cost	160,000		
Less Depreciation	<u>48,765</u>		111,235
Motor vehicles at cost	8,470		
Less Depreciation	<u>1,695</u>		<u>6,775</u>
			618,010
<i>Current assets</i>			
Inventory	157,550		
Accounts receivable	96,340		
Bank	11,825		
Cash	<u>105</u>		<u>265,820</u>
			883,830
<i>Current liabilities</i>			
Trade accounts payable			63,200
Financed by:			<u>820,630</u>
<i>Share capital</i>			
Authorised: 650,000 ordinary shares			<u>650,000</u>
Issued: 520,000 ordinary shares			520,000