

Extended Trial Balance Example

This article, by Paul Heaney, CPA, uses a prior exam question at Professional 1 Level to illustrate the use of an extended trial balance template provided in an examination at this level.

As previously advised, an extended trial balance template may be available, where appropriate, to candidates in the Financial Accounting examinations at each level from Formation 2 to Professional 2 in 2006.

These will be **for optional use** and may be incorporated as part of the answers to the relevant questions. Use of an extended trial balance is **not** mandatory, they are being provided, where relevant, to further assist candidates' time management.

In previous years, time pressure has been cited as a key concern. Nonetheless, many candidates wasted valuable time by rewriting the trial balance given, preparing a rough Profit and Loss Account (P&L) and Balance Sheet, and then producing a final P&L and Balance Sheet. Use of the extended trial balance will reduce this unnecessary duplication of effort. Well prepared and disciplined candidates obtained most of their marks in their workings. Relatively few marks were awarded for the P&L and Balance Sheet as templates for them were already provided to candidates in the examination centres.

Question 2 of the April 2005 P1 Financial Accounting examination is being used as the basis for this article. This may be downloaded from our website: www.cpaireland.ie and should be used in conjunction with this article.

Example 1 on page 2 of this article shows the extended trial balance that would have been provided to students for this examination question.

Example 2 on page 3 shows the revenue accounts extended into the Income and Expenditure columns following any relevant adjustments and accruals etc. arising from the notes to the question. The net profit for the period has also been extended to the balance sheet columns. Apart from the profit for the period, the other capital accounts have not been extended to the balance sheet columns. This is because candidates were not required to produce a balance sheet.

References to the relevant workings and memorandum notes on page 4 are also shown in Example 2. Readers should refer to the previously published suggested solution, Question 2 of the April 2005 P1 Financial Accounting, to see the Income Statement and the analysis of the performance between Continuing and Discontinued Operations.

EXAMPLE 1

Q. 2 Extended Trial Balance (If used, you must ensure that it is enclosed with your answer book)

[illegible]

EXAMPLE 2

Q. 2 Extended Trial Balance (If used, you must ensure that it is enclosed with your answer book)

| Account | Workings & Notes | Ledger Balances | | Journals / Adjustments | | Income Statement | | Balance Sheet | |
|--|------------------|-----------------|---------|------------------------|--------|------------------|---------|---------------|--------|
| | | Dr | Cr | Dr | Cr | Dr | Cr | Dr | Cr |
| | | €000's | €000's | | | €000's | €000's | €000's | €000's |
| Land and buildings at valuation (31.1.2001) | | 139,000 | | | | | | | |
| Land and buildings: accumulated depreciation (1.3.2004) | W.1 | | 15,000 | | 3,800 | | | | |
| Plant and equipment at cost | | 104,000 | | | | | | | |
| Plant and equipment: accumulated depreciation (1.3.2004) | W.1 | | 23,000 | | 20,856 | | | | |
| Investment property at valuation (31.1.2001) | W. 6 | 5,000 | | | 400 | | | | |
| Stock (1.3.2004) | | 23,050 | | | | 23,050 | | | |
| Trade receivables | W. 3 | 29,420 | | | 225 | | | | |
| Cash and bank | | 2,500 | | | | | | | |
| Trade payables | | | 28,100 | | | | | | |
| Accruals | | | 4,000 | | | | | | |
| Ordinary share capital (€0.25 shares) | | | 40,000 | | | | | | |
| 8% Redeemable cumulative preference shares | | | 25,000 | | | | | | |
| Revaluation reserve (1.3.2004) | | | 15,600 | | | | | | |
| General reserve (1.3.2004) | | | 15,000 | | | | | | |
| Retained earnings (1.3.2004) | | | 26,460 | | | | | | |
| Revenue | | | 301,360 | | | | 301,360 | | |
| Purchases | | 142,300 | | | | 142,300 | | | |
| Returns | | 150 | 100 | | | 150 | 100 | | |
| Investment Income | | | 1,000 | | | | 1,000 | | |
| Administration expenses | W. 2, N. 4 | 20,500 | | | 50 | 20,500 | 50 | | |
| Distribution expenses | | 25,300 | | | | 25,300 | | | |
| Interim preference dividend | | 1,000 | | | | | | | |
| Interim ordinary dividend paid | | 2,400 | | | | | | | |
| Depreciation | N. 1, W. 1, N. 4 | | | 24,656 | | 24,656 | | | |
| Diminution in value of Investment Property | N. 2, W. 6 | | | 400 | | 400 | | | |
| Lease Interest | W. 2, N. 4 | | | 28 | | 28 | | | |
| Lease Creditor | W. 2, N. 4 | | | 22 | | | | | |
| Bad Debt (Trade receivables - write down) | W. 3, N. 4 | | | 225 | | 225 | | | |
| Provision for Termination Payments | W. 4, N. 4 | | | | 1,000 | | | | |
| Termination Payments | W. 4, N. 4 | | | 1,000 | | 1,000 | | | |
| Provision for Employee Claim | W. 5, N. 4 | | | | 20 | | | | |
| Employee Claim | W. 5, N. 4 | | | 20 | | 20 | | | |
| Closing Inventory - Income Statement | W. 7 | | | | 30,200 | | 30,200 | | |
| Closing Inventory - Balance Sheet | W. 7 | | | 30,200 | | | | | |
| Finance Cost - Income Statement | W. 8 | | | 2,000 | | 2,000 | | | |
| Debenture Interest Accrual | W. 8 | | | | 2,000 | | | | |
| Taxation - Income Statement | N. 3 | | | 11,500 | | 11,500 | | | |
| Taxation - Balance Sheet | | | | | 11,500 | | | | |
| Profit / Loss | | | | | | 81,581 | | | 81,581 |
| | | 494,620 | 494,620 | 70,051 | 70,051 | 332,710 | 332,710 | | |

Note: Candidates asked to prepare the Income Statement in part (a) of the question. The only balance in the above example extended to the balance sheet columns is the profit for the period.

Workings

| | €000's |
|--|---------------|
| 1. Depreciation - Non Current Assets | |
| a) Depreciation Land $(139,000 - 25,000) / 30 = 3,800$ | 3,800 |
| b) I) Plant and Equipment $104,000 * 20\% = 20,800$ | 20,800 |
| b) II) Leased Asset $280k * 20\% = 56k$ | 56 |
| (Charged to Cost of Sales as Per quest. note 2 in question) | <u>24,656</u> |
| 2. Lease Charge | |
| a) Leased asset interest $€280k * 10\% = €28k$ | 28 |
| b) Leased asset $€50k - €28k = €22k$ to lease creditor | 22 |
| (Any impact on Fixed Assets and depreciation charges for the year arising from the reclassification of this lease as a finance lease have been ignored for the purposes of this illustration.) | |
| 3. Bad Debts | |
| Per quest. note 5 - receivables likely to be reduced by $€250k * 90\% = €225k$ | 225 |
| 4. Termination Payments | |
| Per quest. note 6 - provide for termination payments of €1m | 1,000 |
| 5. Employee Claim | |
| Per quest. note 8. | |
| a) Medical Expenses - Probable. Accrue in Administration Expenses and disclose by way of note to accounts - €20k | 20 |
| b) Loss of Earnings - unlikely - no accrual, disclose by way of note. | 0 |
| 6. Investment Property | |
| Per quest. note 3 - reduction in fair value $€(5,000 - 4,600)k = €400k$ | 400 |
| 7. Closing Inventory | |
| Per quest. note 4 - $€31,400k - (€2,300k - €1,100k) = €30,200$ | 30,200 |
| 8. Finance Cost | |
| Per Trial Balance p.s.c. - $€25,000k @ 8\%$ | 2,000 |
| 9. Administration Expenses | |
| Per T. Bal. | 20,500 |
| Operating Lease | (50) |
| Lease Interest, per W. 2 (a) | 28 |
| Bad Debt per W. 3 | 225 |
| Termination Payments, see Note 6 in question | 1,000 |
| Employee claim, per W. 5(a) | 20 |
| | <u>21,723</u> |

Notes

1. Depreciation charged to Cost of Sales as per quest. note 2.
2. Diminution in value of Investment Property as per quest. note 3.
3. Corporation tax provision as per quest. note 11.
4. Grouped within Administration Expenses

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| <p>This question also requires an analysis of the performance for the year between Continuing and Discontinued Operations. Students may refer to the original solution for this analysis.</p> |
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