Source A for Question 1

TG plc had been in business for several years. It produces a variety of products. Selected ledger accounts for the year ended 31 December 2024 were as follows:

Research and development (summarised)

2024		$	2024		$
Dec 31	Bank	96 200	Dec 31	Statement of profit or loss	57 100
				Balance c/d	39 100
		96 200			96 200

Retained earnings

2024		$	2024		$
June 30	Ordinary share capital	50 000	Jan 1	Balance b/d	104 500
Dec 31	Statement of profit or loss	12 200			
	Balance c/d	42 300			
		104 500			104 500

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1 Read Source A in the insert.

(a) Explain the reason for the treatment of the following entries in the research and development account:

(i) statement of profit or loss

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..... [2]

(ii) balance c/d.

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(b) State the reason for the following entries in the retained earnings account:

(i) ordinary share capital

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..... [1]

(ii) statement of profit or loss.

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Additional information

Other information for the year ended 31 December 2024 was as follows:

	$
Revenue	802 600
Decrease in inventory of finished goods	6 300
Increase in allowance for irrecoverable debts	2 400
Rent of warehouse	5 000
Rent of offices	11 000
Amortisation (depreciation) of intangible assets	500
Wages of administrative staff	31 800
Wages of delivery drivers	11 200
Finance costs	4 500
Cost of production	541 300
Depreciation of office equipment	21 100
Other administrative expenses	71 600
Other distribution costs	32 000

(d) Prepare the statement of profit or loss for the year ended 31 December 2024 in accordance with IAS 1.

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Workings:

[8]

Additional information

One of the directors has suggested that in the coming year the company should pay a dividend.

(e) Advise the directors whether or not the company should pay a dividend. Justify your answer.

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[Total: 25]

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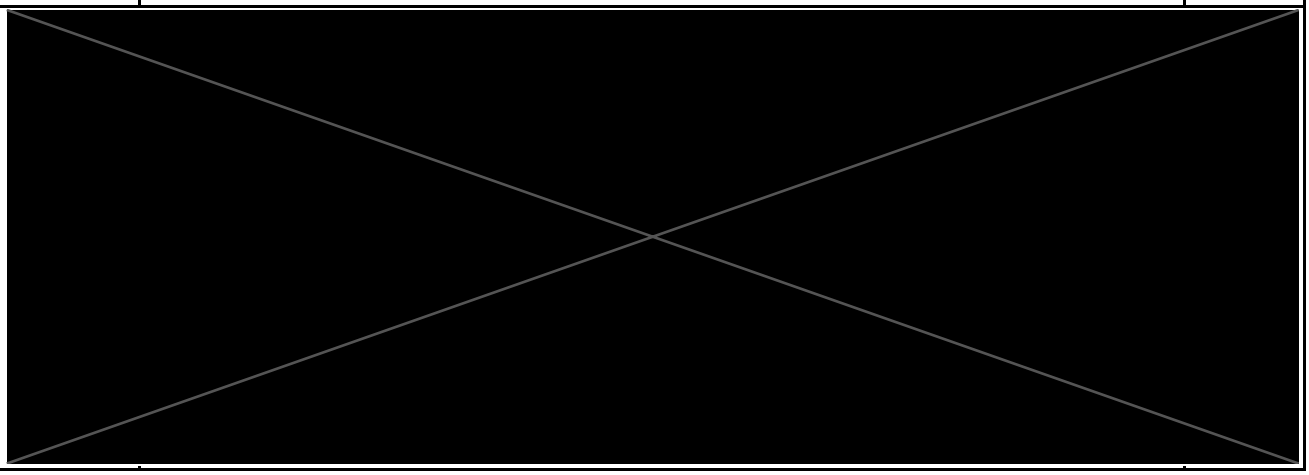
Question	Answer	Marks
1(a)(i)	**Explain the reason for the treatment of the following entries in the research and development account:** **statement of profit or loss** This is the amount treated as revenue expenditure/written off as an expense **(1)** plus reason such as: because it is pure research/costs for an item which cannot be shown to be capable of being sold / gives no future benefit **(1).**	**2**
1(a)(ii)	**Explain the reason for the treatment of the following entries in the research and development account:** **balance c/d.** This is the amount treated as capital expenditure **(1)** plus reason such as: because it could be demonstrated to improve the company's product / gives future benefit **(1).**	**2**
1(b)(i)	**State the reason for the following entries in the retained earnings account:** **ordinary share capital** funding all or part of a bonus issue of shares **(1)**	**1**
1(b)(ii)	**State the reason for the following entries in the retained earnings account:** **statement of profit or loss.** transfer to retained earnings of the loss for the year **(1)**	**1**
		

Question	Answer	Marks
1(d)	**Prepare the statement of profit or loss for the year ended 31 December 2024 in accordance with IAS1.**	**8**

Statement of profit or loss for the year ended 31 December 2024

	$	
Revenue	802 600	
Cost of sales **W1**	547 600	**(1)**
Gross profit	255 000	
Distribution costs **W2**	67 200	**(2)**
Administrative expenses **W3**	195 500	**(3)**
Loss from operations	7700	**(1)**
Finance costs	4 500	
Loss for the year	12 200	**(1)**

W1 6 300 + 541 300 = 547 600

W2

	$	
Rent of warehouse	5 000	
Wages of delivery drivers	11 200	
Other distribution costs	32 000	
Depreciation	16 100	**}**
Impairment loss	2 900	**} (1) OF**
	67 200	**(1) OF**

W3

	$	
Increase in allowance for irrecoverable debts	2 400	**(1)**
Rent of offices	11 000	
Amortisation (depreciation) of intangible assets	500	
Wages of administrative staff	31 800	
Depreciation of office equipment	21 100	
Other administrative expenses	71 600	
Research and development	57 100	**(1)**
	195 500	**(1) OF**

Question	Answer	Marks
1(e)	**Advise the directors whether or not the company should pay a dividend. Justify your answer.** **For (Max 2)** Would please shareholders **(1)** Bonus issue of shares may not have satisfied shareholders **(1)** Would improve reputation of and confidence in the company **(1)** If the research and development was a 'one off' the company may well return to profitability in the coming year **(1)** **Against (Max 2)** Cash may not be available to pay the dividend **(1)** If company continues to makes losses there might soon be no distributable reserves **(1)** and will not be able to invest in growth **(1)** Shareholders have already received a bonus issue **(1)** **Decision supported with a comment (1)** **Accept other valid responses.**	**5**

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