

Limited Companies



Preparation of financial statements

Limited companies

Candidates should have an understanding of:

- the features and accounting treatment of ordinary shares, bonus issues, rights issues, debentures, dividends and reserves

Note: Questions will **not** be set on preference shares.
- the advantages and disadvantages to the company and to the shareholders of a company making a bonus issue of shares and a rights issue of shares
- the advantages and disadvantages to the company and to the shareholders of a company issuing shares and issuing debentures
- the distinction between capital reserves (share premium and revaluation reserve) and revenue reserves (retained earnings and general reserve)
- how to prepare ledger accounts to record:
 - an issue of ordinary shares at par or at a premium
 - a rights issue of shares at par or at a premium
 - a bonus issue of shares

Note: For the purpose of a bonus issue of shares, the revaluation reserve is **not** to be used.
- how to prepare a statement of profit or loss, statement of financial position and statement of changes in equity for a limited company. The business may be a trading or a service business
- sources of finance for specified purposes

Candidates are expected to use their understanding of financial accounts of sole traders, partnerships and limited companies to evaluate relevant information and make informed business decisions.

- 1 N Limited is a trading business. Sales are made on the credit basis only.

The following information was available at 31 December 2020.

	Debit \$000	Credit \$000
8% Debentures (2025)		250
Administrative expenses	171	
Cash and cash equivalents	14	
Cost of sales	466	
Debenture interest	8	
Distribution costs	63	
Dividends paid	80	
Inventory at 31 December 2020	33	
Issued capital:		
Ordinary shares of \$0.25 each at 31 December 2020		500
Non-current assets		
Cost	1140	
Provision for depreciation at 1 January 2020		140
Retained earnings at 1 January 2020		129
Revenue		923
Share premium at 31 December 2020		70
Trade payables		42
Trade receivables	79	
	<u>2054</u>	<u>2054</u>

The following information is also available at 31 December 2020.

- Administrative expenses included insurance of \$16 000 for four months ended 31 January 2021.
- Depreciation should be provided on non-current assets at 25% per annum using the reducing balance method. Depreciation charges should be allocated 20% to distribution costs and 80% to administrative expenses.
- The account of a credit customer, \$3000, should be written off to administrative expenses as an irrecoverable debt.
- Debenture interest was outstanding for the second half of the year. The directors had issued additional debentures of \$50 000 on 1 October 2020.

1 The following balances have been extracted from the books of P Limited at 31 August 2021.

	\$
5% Debentures (2022–2023)	36 000
Administrative expenses	35 180
Bank	4 770 Credit
Carriage inwards	390
Delivery vehicles	
Cost	89 420
Provision for depreciation at 1 September 2020	42 200
Distribution costs	44 320
Dividend paid	3 000
Freehold property at valuation at 31 August 2020	66 000
Interest paid	1 590
Inventory at 1 September 2020	22 880
Purchases	88 900
Revenue	216 600
Retained earnings	24 200
Returns outwards	260
Revaluation reserve	6 000
Share capital (ordinary shares of \$0.50 each)	60 000
Share premium	8 500
Trade payables	11 730
Trade receivables	32 480
Wages and salaries	26 100

The freehold property was revalued on 1 September 2020 at \$58 000. The revaluation has not yet been recorded in the books of account.

REQUIRED

(a) Prepare the journal entry to record the revaluation of the freehold property on 1 September 2020. A narrative is **not** required.

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Additional information

The following information is also available.

- 1 Revenue includes goods sent to a credit customer on 23 August 2021 on a sale or return basis. The directors were uncertain whether any of these goods would be returned. The selling price of the goods was \$6400, and they had been sold at a gross margin of 25%.
- 2 Inventory in P Limited's warehouse at 31 August 2021 was valued at cost, \$18 600.
- 3 Debenture interest had been paid to 30 June 2021.
- 4 Delivery vehicle licences of \$540 had been paid for the year ending 31 December 2021.
- 5 Wages and salaries of \$620 were outstanding at 31 August 2021.
- 6 Wages and salaries are to be charged as follows:

Administrative expenses	25%
Distribution costs	75%

- 7 On 31 August 2021, a delivery vehicle was sold for \$7000. The vehicle had been purchased on 1 September 2018 for \$13 000. No entries for the sale had been made in the books of account and the sale proceeds had not yet been received.
- 8 The freehold property is used only as a distribution warehouse. Its remaining useful life at 1 September 2020 was estimated to be 40 years.
- 9 Depreciation is to be charged as follows:

Non-current asset	Depreciation method
Freehold property	Written off over the remaining useful life
Delivery vehicles	20% per annum reducing balance

A full year's depreciation is charged in the year of purchase, but none in the year of disposal.

REQUIRED

- (b) Prepare the income statement for the year ended 31 August 2021. Use the space on the **next page** for your workings.

P Limited
Income statement for the year ended 31 August 2021

	\$
Revenue	
Cost of sales	
Gross profit	
Administrative expenses	
Distribution costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings

Revenue
Cost of sales
Depreciation
Administrative expenses
Distribution costs
Finance costs

[15]

(c) Prepare a statement to show the balance of retained earnings at 31 August 2021 after the preparation of the income statement.

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Additional information

The directors wish to reduce the level of trade receivables.

REQUIRED

(d) State **two** ways in which the level of trade receivables of a business could be reduced.

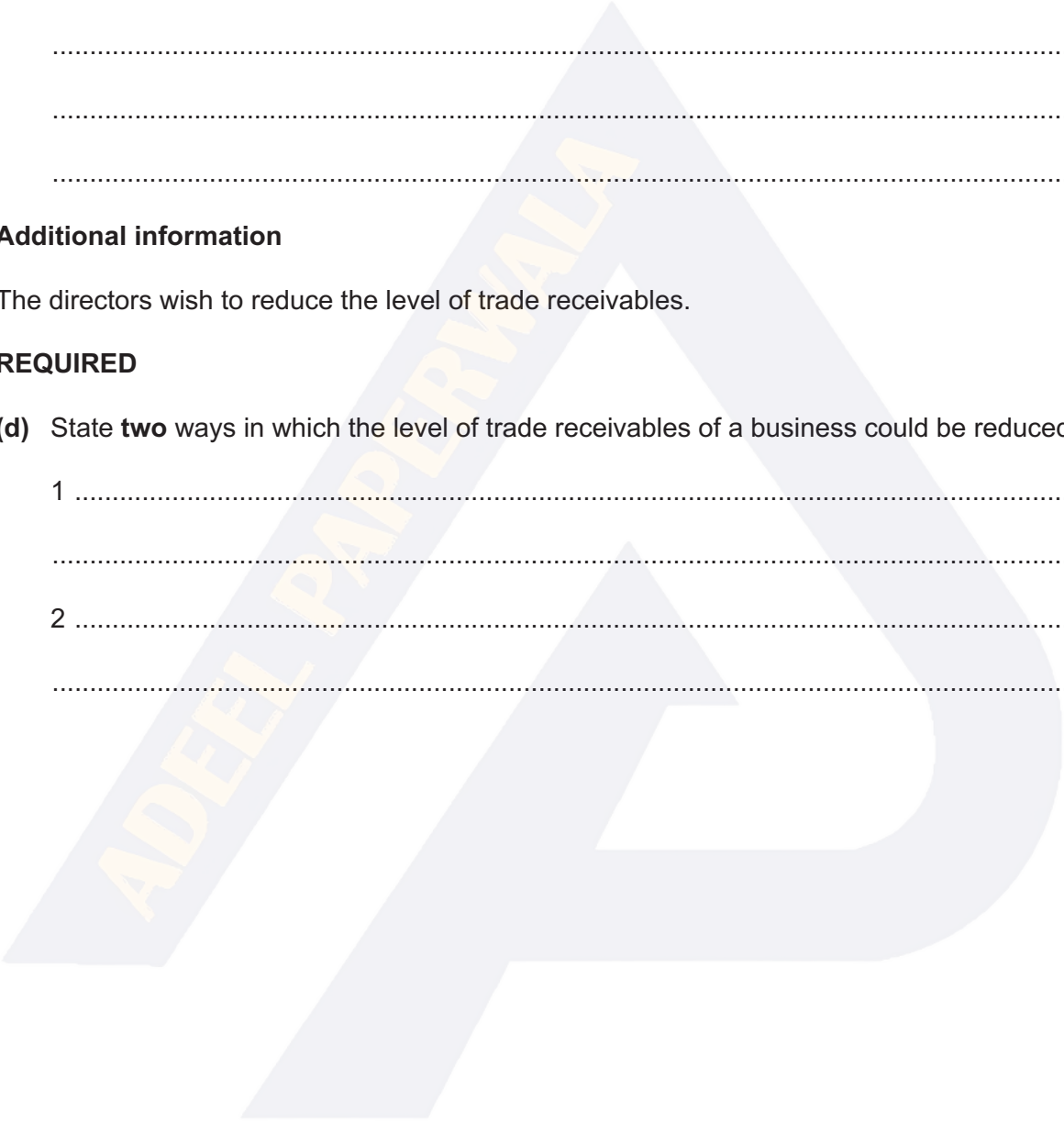
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1 The following information has been extracted from the accounting records of T Limited at 30 June 2021.

- 1 Inventory at 1 July 2020 was valued at \$46 800.
- 2 Inventory at 30 June 2021 was valued at \$54 200.
- 3 The rate of inventory turnover was 8.8 times.
- 4 The gross profit margin was 45%.

REQUIRED

(a) Calculate for the year ended 30 June 2021:

(i) cost of sales

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(ii) revenue.

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Additional information

The following balances were extracted from the books of account at 30 June 2021.

	\$
8% debentures (2026–2027)	96 000
Administrative expenses	55 900
Directors' remuneration	62 400
Distribution costs	59 200
Finance costs	6 350
Wages and salaries	88 300
Trade receivables	110 360
Provision for doubtful debts at 1 July 2020	1 235

The following information is also available.

- 1 The 8% debentures (2026–2027) were taken out on 1 November 2020. Interest was paid every three months in arrears, starting on 1 February 2021.
- 2 Wages and salaries of \$3800 were owing at 30 June 2021.
- 3 At 30 June 2021, a bonus was due to be paid to the sales director of \$12000.
- 4 Expenses were to be allocated as follows:

	Administrative expenses	Distribution costs
Wages and salaries	30%	70%
Directors' remuneration	75%	25%

- 5 Depreciation is to be charged as follows:

Motor vehicles for office staff	\$26 400
Delivery vehicles	\$32 800

- 6 A credit customer owing \$2360 from 12 April 2021 has been declared bankrupt and the debt is to be written off to administrative expenses.
- 7 Aged analysis of net trade receivables at 30 June 2021:

	0–60 days	61–90 days	Over 90 days
Percentage of total net trade receivables	75%	15%	10%

- 8 The directors wish to make a provision for doubtful debts as follows:

Debts 61–90 days	2.5%
Debts over 90 days	10%

The movement in the provision is to be charged to administrative expenses.

REQUIRED

- (b) Calculate the balance of the provision for doubtful debts at 30 June 2021.

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..... [4]

- (c) Prepare the income statement for the year ended 30 June 2021. Use the space on the **next page** for your workings.

T Limited
Income Statement for the year ended 30 June 2021

	\$
Revenue	
Cost of sales	
Gross profit	
Administrative expenses	
Distribution costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings

Administrative expenses
Distribution costs
Finance costs
Other workings

[11]

- 1 The following information is available for S Limited for the year ended 31 December 2019.

Balances at 1 January 2019

	\$
Inventory	122 000
Administrative expenses accrued	3 875

Amounts paid during the year ended 31 December 2019

Distribution costs	84 475
Administrative expenses	298 875
Purchases	435 000

Amounts received during the year ended 31 December 2019

Revenue	998 400
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Balances at 31 December 2019

Inventory	134 200
Administrative expenses prepaid	7 500
6% debenture (2024)	100 000

The following information is also available.

- 1 Inventory at 31 December 2019 included some damaged goods which had cost \$5000. These goods can only be sold for \$3000 after repairs costing \$700 have been carried out.
- 2 The 6% debenture (2024) was issued on 1 September 2019.

- 1 The directors of K Limited are preparing the financial statements for the year ended 31 October 2019.

The following information is available.

- 1 Expense payments made during the year ended 31 October 2019.

	\$
Administrative expenses	8 490
Directors' fees	41 200
Distribution costs	16 500
Finance costs	800
Staff wages and salaries	140 790

- 2 Distribution costs include a payment of \$7200 for a six-month advertising campaign which will end on 31 March 2020.
- 3 Directors' fees are allocated between distribution costs and administrative expenses in the ratio 1 : 4.
- 4 Staff wages and salaries are allocated between distribution costs and administrative expenses in the ratio 3 : 2.
- 5 Non-current assets

	At 1 November 2018		Depreciation policy	Allocation
	Cost \$	Provision for depreciation \$		
Motor vehicles	160 000	32 600	20% per annum using reducing balance method	100% to distribution costs
Furniture and equipment	45 000	5 500	15% per annum using straight-line method	80% to administrative expenses 20% to distribution costs

- 6 In 2017 the company had issued 8% debentures (2025) for \$20 000. Half of these were repaid on 1 August 2019. Debenture interest was paid up to 30 April 2019.

REQUIRED

- (a) Complete the income statement for the year ended 31 October 2019. Use the space on the next page for your workings.

K Limited
Income statement for the year ended 31 October 2019

	\$
Revenue	542 370
Cost of sales	259 240
Gross profit	283 130
Administrative expenses	
Distribution costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings:

Administrative expenses

Distribution costs

Finance costs

[11]

- 1 The directors of G Limited have provided a trial balance at 30 September 2020.

	Debit	Credit
	\$	\$
Administrative expenses	117 528	
Bank		10 316
Distribution costs	60 263	
Inventory at 1 October 2019	86 228	
Ordinary share capital (\$1 shares)		200 000
Property plant and equipment		
Cost	300 000	
Provision for depreciation at 1 October 2019		82 500
Provision for doubtful debts at 1 October 2019		1 528
Purchases	237 851	
Retained earnings		34 572
Revenue		498 430
Share premium		20 000
Trade payables		26 124
Trade receivables	71 600	
	<u>873 470</u>	<u>873 470</u>

The following information is also available.

- 1 Property plant and equipment

	Cost \$	Accumulated depreciation \$	Depreciation method	Allocation of depreciation
Land	120 000	Nil	–	Nil
Other than land	180 000	82 500	15% per annum straight-line	2/3 administrative expenses 1/3 distribution costs
Total	300 000	82 500		

There were no acquisitions or disposals during the year.

- 2 Inventory at 30 September 2020 cost \$91 368 and had a net realisable value of \$126 435.
- 3 The directors wish to maintain a provision for doubtful debts at 3% of trade receivables. All expenses relating to doubtful debts are charged to administrative expenses.
- 4 At 30 September 2020

	\$
Administrative expenses accrued	3850
Bank interest accrued	250
Distribution costs prepaid	1460

Workings:

[7]

(c) State **two** differences between ordinary shares and preference shares.

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[2]

(d) (i) Define a 'capital reserve'.

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..... [1]

(ii) State **one** use of a capital reserve.

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..... [1]

- 1 The following balances were extracted from the books of K Limited at 30 September 2018.

	Debit \$000	Credit \$000
8% Debentures (2022-2024)		75
Administrative expenses	42	
Cash and cash equivalents		11
Cost of sales	587	
Debenture interest	3	
Distribution costs	46	
Dividends paid	60	
Equipment		
cost	90	
provision for depreciation at 1 October 2017		30
Land and buildings		
cost	980	
provision for depreciation at 1 October 2017		135
Inventory at 30 September 2018	19	
Issued share capital: ordinary shares of \$0.50 each		450
Retained earnings at 1 October 2017		106
Revenue		936
Share premium		90
Trade payables		35
Trade receivables	41	

The following information is also available.

- 1 Administrative expenses includes a payment, \$9000, for insurance for the three months ended 30 November 2018.
- 2 Carriage inwards of \$3000 had been included in distribution costs.
- 3 Land and buildings includes land at a cost of \$260 000.
- 4 The company's depreciation policy is as follows:

Equipment	20% per annum using the reducing balance method	Charged to distribution costs
Buildings	2½% per annum using the straight-line method	Charged to administrative expenses
Land	No depreciation	

- 1 D Limited is a retailer of sports equipment. The following balances have been extracted from the books of account at 31 December 2018.

	Debit \$000	Credit \$000
8% Debentures (2021–23)		250
10% Bank loan		60
Administrative expenses	608	
Bank overdraft		11
Carriage inwards	8	
Carriage outwards	22	
Distribution costs	937	
Dividends paid	35	
Land and buildings at 1 January 2018		
Cost	2 100	
Provision for depreciation		360
Fixtures and fittings at 1 January 2018		
Cost	840	
Provision for depreciation		320
Motor vehicles at 1 January 2018		
Cost	202	
Provision for depreciation		106
Interest paid	29	
Inventory at 1 January 2018	620	
Property costs	239	
Purchases	2 502	
Retained earnings		898
Returns outwards		12
Revenue		5 120
Share capital – ordinary shares of \$0.50 each		1 200
Share premium		60
Trade payables		385
Trade receivables	640	

The following information is also available.

- 1 Revenue included goods that had been sold to a customer on a sale or return basis on 28 December 2018. The selling price of the goods was \$40 000 and they were sold at a mark-up of 25%. The directors were unsure whether or not the goods would be returned.
- 2 Inventory on D Limited's premises at 31 December 2018 had been counted and valued at a cost of \$585 000.
- 3 Included in distribution costs is \$24 000 in respect of delivery van licenses for the year ended 31 March 2019.

- 4 The breakdown of land and buildings cost at 1 January 2018 was:

	\$
Land	1 200 000
Buildings	900 000
	2 100 000

The buildings were revalued on 2 January 2018 at \$1 050 000. This has not yet been recorded in the books of account.

- 5 At 31 December 2018, administration wages and salaries accrued totalled \$15 000.
- 6 The directors wish to create a provision for doubtful debts of 3%. This is to be included in administrative expenses.
- 7 Depreciation is to be charged as follows:

Asset	Annual rate	Method	Charge to
Fixtures and fittings	15%	Reducing balance	Administrative expenses
Buildings	2%	Straight-line	Property costs
Motor vehicles	25%	Reducing balance	75% Distribution costs 25% Administrative expenses

- 8 A full year's interest has been paid on debentures and bank loan.

REQUIRED

- (a) Prepare the income statement for the year ended 31 December 2018. Use the space on the next page for your workings.

D Limited
Income statement for the year ended 31 December 2018

	\$000
Revenue	
Cost of sales	
Gross profit	
Administrative expenses	
Distribution costs	
Property costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings

Revenue
Cost of sales
Administrative expenses
Distribution costs
Property costs
Depreciation

[13]

- 1 AB Limited is a wholesaler of household goods. The following information has been extracted from the books of account at 31 December 2018.

	\$
6% debenture (2023–25)	80 000
Administrative expenses	111 700
Buildings	
Cost	80 000
Provision for depreciation at 1 January 2018	28 800
Land at cost	65 000
Motor vehicles	
Cost	46 000
Provision for depreciation at 1 January 2018	9 200
Warehouse fixtures and fittings	
Cost	12 900
Provision for depreciation at 1 January 2018	8 900
Carriage inwards	1 200
Cash and cash equivalents (credit balance)	5 300
Distribution costs	184 800
Finance costs	2 200
Inventory at 1 January 2018	56 500
Ordinary share dividend paid	1 700
Purchases	310 600
Retained earnings	19 100
Returns inwards	8 300
Revenue	670 400
Share capital ordinary shares of \$1 each	80 000
Share premium	35 000
Trade and other payables	36 600
Trade and other receivables	92 400

Additional information

- 1 Inventory at 31 December 2018 was valued at \$62 000.
- 2 Trade and other receivables include prepaid insurance of \$2000.
- 3 An irrecoverable debt of \$400 should be written off to administrative expenses.
- 4 The directors wish to create a provision for doubtful debts of 5% of trade receivables. This should be charged to administrative expenses.
- 5 The debenture was issued on 1 March 2018. No interest has yet been paid.
- 6 The buildings owned by the company are used 75% as warehouse space and 25% as office space.
- 7 All of the company's motor vehicles are used only for deliveries.
- 8 The company's depreciation policy is as follows:

Buildings	2% per annum straight-line method
Motor vehicles	20% per annum straight-line method
Warehouse fixtures and fittings	10% per annum reducing balance method.

REQUIRED

(a) Prepare the income statement for the year ended 31 December 2018.

AB Limited
Income Statement for the year ended 31 December 2018

	\$
Revenue	
Cost of sales	
Gross profit for the year	
Administrative expenses	
Distribution costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings:

[10]

1 R Limited provided the following information at 30 June 2018.

An extract from the statement of financial position

	\$
10% Debenture	75 000
Inventory	45 000
Other receivables (insurance)	1 000
Other payables (electricity expenses)	500

An extract from the schedule of non-current assets

Details	Land and buildings \$	Fixtures and fittings \$	Motor vehicles \$
Cost	350 000	75 000	200 000
Revaluation	100 000	-	-
Accumulated depreciation 30 June 2018	-	(35 000)	(50 000)
Net book value 30 June 2018	<u>450 000</u>	<u>40 000</u>	<u>150 000</u>

The company lost all its accounting records as a result of a computer virus but was able to provide the following summary of its receipts and payments for the year ended 30 June 2019.

	\$		\$
Takings banked	286 000	Purchases	135 000
		Insurance	12 000
		Motor vehicle expenses	10 000
		Wages and salaries	45 000
		Electricity expenses	2 700
		Motor vehicles	50 000
		Debenture interest	3 750

All the receipts and payments were through the bank.
All sales and purchases were on cash basis.

The company's depreciation policy is as follows:

Fixtures and fittings	10% per annum reducing balance method	Charged to administrative expenses
Motor vehicles	20% per annum reducing balance method	Charged to distribution costs
Land and buildings	No depreciation	

The following information is available at 30 June 2019.

- 1 Inventory was valued at cost \$42 000 including damaged inventory costing \$5000. This could be repaired at a cost of \$450 and sold for \$5100.
- 2 Insurance of \$750 for the three months ended 31 July 2019 was outstanding.
- 3 Electricity expenses included \$600 for the three months ended 31 August 2019.
- 4 Expenses are split as follows:

Insurance	Charged to administrative expenses
Motor vehicle expenses	Charged to distribution costs
Wages and salaries	Split between distribution costs and administrative expenses in the ratio of 4 : 1
Electricity expenses	Charged to administrative expenses

REQUIRED

- (a) Prepare the income statement for the year ended 30 June 2019. Use the space on the **next page** to show your workings.

R Limited
Income statement for the year ended 30 June 2019

	\$
Revenue	
Cost of sales	
Gross profit	
Administrative expenses	
Distribution costs	
Profit from operations	
Finance cost	
Profit for the year	

Workings:

Cost of sales
Administrative expenses
Distribution costs
Finance cost

[17]

(b) State **two** differences between capital reserves and revenue reserves.

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Additional information

R Limited is planning to acquire a new building at a cost of \$500 000 to expand its business. The directors are considering two options to finance this acquisition.

- Option 1: issue of shares
- Option 2: issue of a further debenture

REQUIRED

(c) Advise the directors which option should be chosen to raise finance to acquire the building. Justify your answer.

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(d) State **one** advantage and **one** disadvantage to a business:

(i) of making all sales on a cash basis only

Advantage

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Disadvantage

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[2]

(ii) of making all purchases on a cash basis only.

Advantage

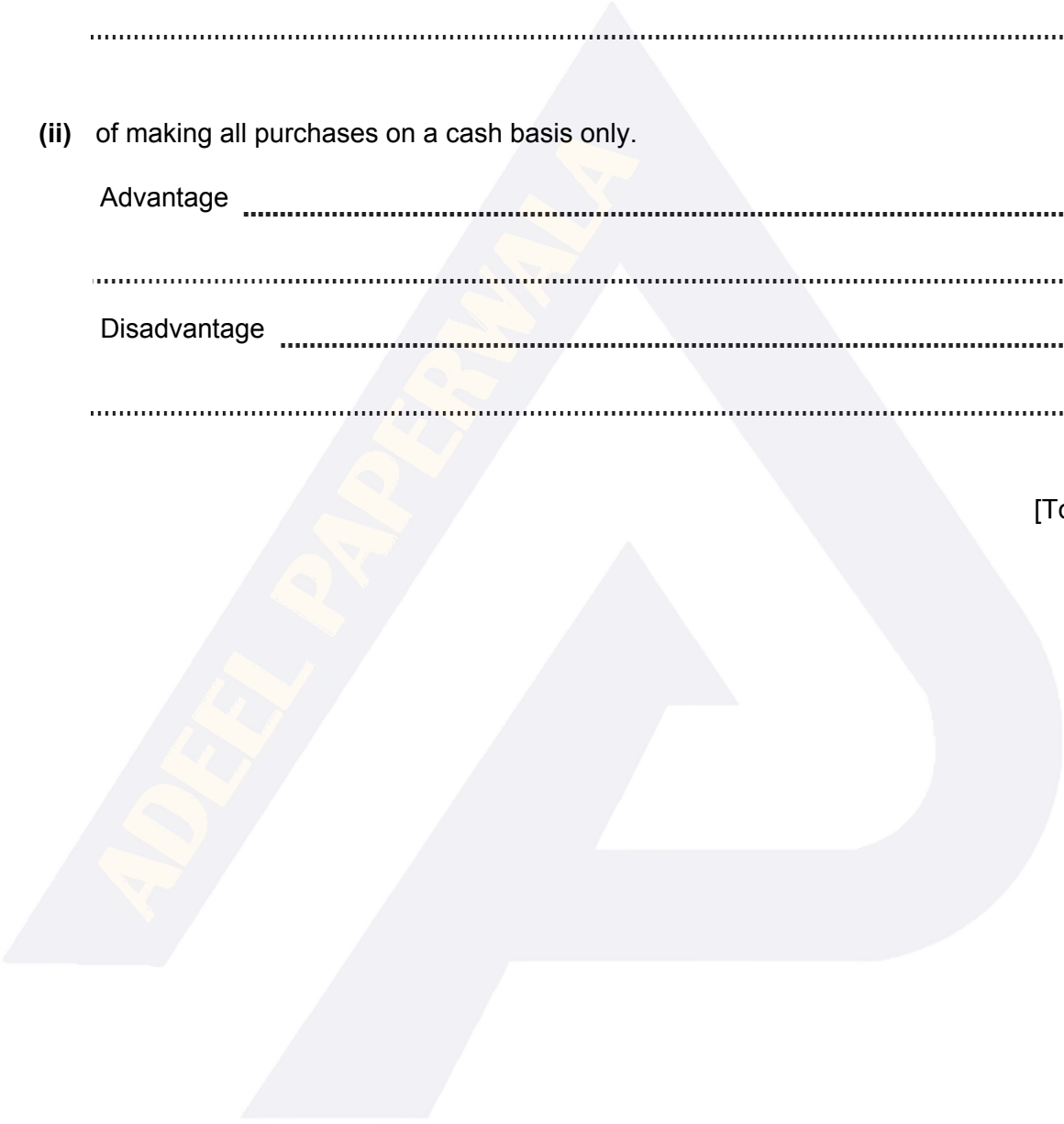
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Disadvantage

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[2]

[Total: 30]



- 1 S Limited is a private limited company. The directors have extracted the following information at 30 September 2019.

	\$	\$
6% debentures (2021 – 2022)		68 000
Accrued expenses		2 480
Administrative expenses	63 810	
Bank overdraft		12 770
Carriage inwards	3 600	
Distribution costs	49 330	
Interest paid	8 160	
Inventory at 1 October 2018	62 500	
Freehold property	220 000	
Motor vehicles		
Cost	84 600	
Provision for depreciation at 1 October 2018		38 760
Office equipment		
Cost	68 700	
Provision for depreciation at 1 October 2018		32 300
Prepaid expenses	4 400	
Purchases	392 340	
Retained earnings		69 700
Returns inwards	3 470	
Revenue		764 570
Share capital (ordinary shares of \$1 each)		50 000
Share premium		15 000
Trade payables		48 730
Trade receivables	86 500	
Wages and salaries	54 900	

The following information is also available:

- 1 The value of inventory at 30 September 2019 was \$73 100 at cost. The directors now wish to write off \$2000 in respect of damaged items.
- 2 Purchase of new office equipment of \$6000 had been posted to distribution costs in error.
- 3 Motor vehicles are to be depreciated at 20% per annum using the straight-line method. The estimated residual value of the motor vehicles is \$20 000. Depreciation is to be charged to distribution costs.
- 4 Office equipment is to be depreciated at 15% per annum using the reducing balance method. Depreciation is to be charged to administrative expenses.
- 5 At 30 September 2019 there was an additional accrual for wages and salaries of \$1700. Wages and salaries are to be charged as 70% to administrative expenses and 30% to distribution costs.
- 6 Interest paid included debenture interest paid to 30 June 2019.
- 7 At 30 September 2019 there was an additional prepayment of \$4800 for administrative expenses.
- 8 The directors wish to create a provision for doubtful debts equal to 2% of trade receivables at 30 September 2019 and include it in administrative expenses.

REQUIRED

- (a) Prepare the income statement for the year ended 30 September 2019. Use the space on the **next page** to show your workings.

S Limited
Income statement for the year ended 30 September 2019

	\$	\$
Revenue		
Cost of sales		
Gross profit		
Administrative expenses		
Distribution costs		
Profit from operations		
Finance costs		
Profit for the year		

Workings:

Cost of sales
Administrative expenses
Distribution costs
Finance costs

[12]

Workings:



[10]

(c) Explain the term '6% debentures (2021 – 2022)', which appears in S Limited's financial statements.

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[3]

1 From time to time M Limited issues shares.

Additional information

The directors of M Limited have a policy of not paying interim dividends. The statement of changes in equity of the company for the year ended 31 December 2016 was as follows.

M Limited
Statement of changes in equity for the year ended 31 December 2016

		Ordinary share capital	Share premium	General reserve	Retained earnings	Total
		\$	\$	\$	\$	\$
2016						
Jan 1	Balance	400 000	150 000	–	120 000	670 000
Feb 10	?	100 000	(100 000)			–
Jun 25	Dividend				(60 000)	(60 000)
Dec 31	Transfer			50 000	(50 000)	–
Dec 31	Profit for the year				90 000	90 000
Dec 31	Balance	<u>500 000</u>	<u>50 000</u>	<u>50 000</u>	<u>100 000</u>	<u>700 000</u>

REQUIRED

(b) (i) State which event was recorded by the entry on 10 February 2016.

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(ii) Explain why the entry made on 10 February 2016 was made to the share premium account rather than the retained earnings account.

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(iii) State which dividend was recorded by the entry on 25 June 2016.

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(iv) State why the directors decided to create a general reserve.

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(v) Explain why a long-term bank loan received by the company on 1 July 2016 was **not** recorded in the statement of changes in equity.

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 [2]

Additional information

1 Balances at 1 January 2017 included the following.

	\$
Buildings	
cost	400 000
provision for depreciation	38 000
Equipment	
cost	256 000
provision for depreciation	61 000
Motor vehicles	
cost	188 000
provision for depreciation	81 000

2 During the year ended 31 December 2017 the following took place:

new equipment costing \$37 000 was bought

a motor vehicle with an original cost of \$10 000, bought during 2016, was sold.

3 The company's depreciation policy is as follows:

buildings at a rate of 2% per annum using the straight-line method

equipment at a rate of 10% per annum using the straight-line method

motor vehicles at a rate of 20% per annum using the reducing balance method.

A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

4 On 31 December 2017 the buildings were revalued at \$650 000.

Additional information

The financial statements of AB Limited for the year ended 30 April 2017 showed a draft profit for the year of \$71 000. A review of the books of account revealed the following errors:

- 1 A sales invoice for \$234 had been recorded as \$324.
- 2 Returns outwards account had been overcast by \$100.
- 3 Inventory of \$1200 had been omitted from closing inventory.

REQUIRED

(f) Calculate the revised profit for the year ended 30 April 2017.

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(g) Explain the difference between a capital reserve and a revenue reserve.

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[Total: 30]

- 1 B Limited is a private limited company trading as a wholesaler of garden equipment. The draft trial balance at 30 June 2016 has been extracted from the books of account and is shown below.

	Debit \$	Credit \$
Bank loan		26 400
Bank		14 040
Cash	650	
Directors' remuneration	53 200	
Fixtures and fittings		
Cost	18 110	
Provision for depreciation at 1 July 2015		5 310
Land and buildings		
Cost	135 000	
Provision for depreciation at 1 July 2015		21 840
Motor vehicles		
Cost	41 600	
Provision for depreciation at 1 July 2015		19 200
Interest paid	5 920	
Inventory at 1 July 2015	62 400	
Office costs	18 330	
Property costs	21 940	
Purchases	268 200	
Retained earnings		30 570
Revenue		563 800
Selling and distribution costs	36 120	
Share capital (ordinary shares of \$1 each)		60 000
Trade payables		39 810
Trade receivables	71 000	
Wages and salaries	48 500	
	<u>780 970</u>	<u>780 970</u>

Additional information

- The value of inventory at 30 June 2016 was \$70 300 at cost.
- Land and buildings at 30 June 2016 were as follows:

	\$
Land	70 000
Buildings	65 000

- Depreciation is to be provided as follows:

Asset	Annual Rate	Method	Charge to
Fixtures and fittings	15%	Reducing balance	Office costs
Buildings	2%	Straight-line	Property costs
Motor vehicles	25%	Reducing balance	Selling and distribution costs

4 Wages and salaries are to be charged as follows:

Selling and distribution costs	60%
Office costs	40%

5 B Limited took out a 5% debenture (repayable between 2021 and 2025) for \$50 000 on 30 June 2016 and repaid the bank loan in full. Neither of these transactions has yet been recorded in the books of account.

6 A prepayment of \$1240 is to be accounted for on property costs at 30 June 2016.

7 An accrual of \$2680 is to be accounted for on selling and distribution costs at 30 June 2016.

8 The directors require a provision for doubtful debts to be created representing 2% of trade receivables at 30 June 2016, to be charged to office costs.

REQUIRED

(a) Prepare the income statement for the year ended 30 June 2016. Use the space on the next page for your workings.

B Limited
Income Statement for the year ended 30 June 2016

	\$	\$
Revenue		
Cost of sales		
Opening inventory		
Purchases		
Closing inventory		
Gross profit		
Deduct: expenses		
Directors' remuneration		
Office costs		
Property costs		
Selling and distribution costs		
Profit from operations		
Finance costs		
Profit for the year		

2 T Limited's statement of financial position at 28 February 2021 included the following:

	\$
Equity	
Issued capital: ordinary shares of \$0.50 each	450 000
Share premium	122 000
Retained earnings	<u>342 000</u>
	<u>914 000</u>

On 31 August 2021 the directors paid an interim dividend of \$0.05 per share.

REQUIRED

(a) Calculate the amount paid as an interim dividend.

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[1]

(b) Identify **two** factors which directors should take into account when deciding the amount of a dividend payment to shareholders.

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[2]

Additional information

On 1 December 2021, the directors made a bonus issue on the basis of two ordinary shares for every three ordinary shares currently held. The directors wished to leave the reserves in their most flexible form.

On 28 February 2022, the directors paid a final dividend of \$0.07 per share on all ordinary shares issued at this date.

The company's profit for the year ended 28 February 2022 was \$114 000.

REQUIRED

(d) Calculate the closing balance of the company's retained earnings account at 28 February 2022.

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[6]

(e) State **three** reasons why a company sometimes makes a **rights issue** of shares rather than a general issue of shares.

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[3]

- 1 N Limited is a trading business. Sales are made on the credit basis only.

The following information was available at 31 December 2020.

	Debit \$000	Credit \$000
8% Debentures (2025)		250
Administrative expenses	171	
Cash and cash equivalents	14	
Cost of sales	466	
Debenture interest	8	
Distribution costs	63	
Dividends paid	80	
Inventory at 31 December 2020	33	
Issued capital:		
Ordinary shares of \$0.25 each at 31 December 2020		500
Non-current assets		
Cost	1140	
Provision for depreciation at 1 January 2020		140
Retained earnings at 1 January 2020		129
Revenue		923
Share premium at 31 December 2020		70
Trade payables		42
Trade receivables	79	
	<u>2054</u>	<u>2054</u>

The following information is also available at 31 December 2020.

- Administrative expenses included insurance of \$16 000 for four months ended 31 January 2021.
- Depreciation should be provided on non-current assets at 25% per annum using the reducing balance method. Depreciation charges should be allocated 20% to distribution costs and 80% to administrative expenses.
- The account of a credit customer, \$3000, should be written off to administrative expenses as an irrecoverable debt.
- Debenture interest was outstanding for the second half of the year. The directors had issued additional debentures of \$50 000 on 1 October 2020.

Additional information

On 1 July 2020 the directors had decided to make a rights issue of two ordinary shares for every three shares held at a price of \$0.30 per share. The rights issue was fully subscribed.

REQUIRED

(b) Explain **two** reasons why a company may make a rights issue of shares rather than an issue of debentures.

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[4]

(c) Calculate the amount raised by the rights issue.

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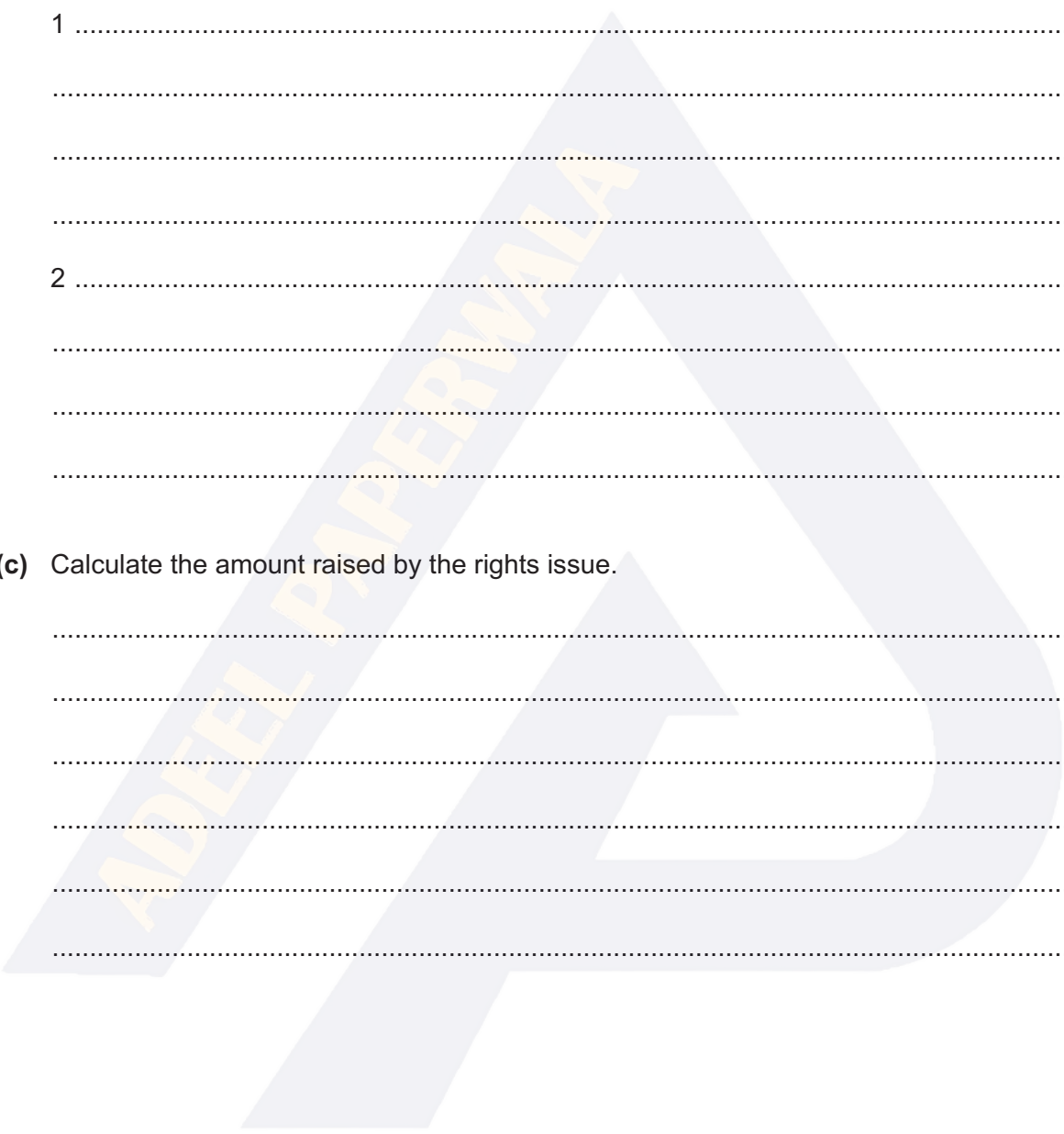
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[4]



(d) Prepare a statement of changes in equity for the year ended 31 December 2020.

N Limited
Statement of changes in equity
for the year ended 31 December 2020

	Ordinary share capital \$000	Share premium \$000	Retained earnings \$000	Total \$000
Balance at 1 January 2020				

[5]

Additional information

The directors are concerned about the company's credit control and wish to improve the company's liquidity position. They are considering a proposal to offer a 5% cash discount to customers for settlement within 30 days on all invoices of more than \$2000.

REQUIRED

(e) Identify **two** ratios which can be used to assess the liquidity of a business.

1

2

[2]

- 2 The following balances have been extracted from the books of account of G Limited at 1 October 2020.

Account	\$
6% debentures (2022–23)	50 000
Retained earnings	34 500
Revaluation reserve	28 000

During the year ended 30 September 2021 the following took place.

Date	Transaction
1 November 2020	Made a rights issue of one ordinary share of \$1 each for every ten shares held at a premium of 20%. The issue was fully subscribed.
1 March 2021	Paid a dividend of \$0.05 per share on all shares in issue at that date.
1 May 2021	Made a bonus issue of one ordinary share of \$1 each for every four shares held. The directors decided to leave the reserves in the most flexible form.
30 September 2021	Revalued property downwards by \$35 000.

The profit for the year ended 30 September 2021 was \$96 000.

REQUIRED

- (a) Prepare the statement of changes in equity for the year ended 30 September 2021.

G Limited
Statement of changes in equity for the year ended 30 September 2021

	Share capital \$	Share premium \$	Revaluation reserve \$	Retained earnings \$	Total \$
At 1 October 2020			28 000	34 500	
At 30 September 2021	440 000	4 600			

Additional information

The finance director has suggested that the company could issue further debentures.

REQUIRED

(c) State **two** characteristics of a debenture.

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[2]

[Total: 15]



1 The following information has been extracted from the accounting records of T Limited at 30 June 2021.

- 1 Inventory at 1 July 2020 was valued at \$46 800.
- 2 Inventory at 30 June 2021 was valued at \$54 200.
- 3 The rate of inventory turnover was 8.8 times.
- 4 The gross profit margin was 45%.

REQUIRED

(a) Calculate for the year ended 30 June 2021:

(i) cost of sales

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(ii) revenue.

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Additional information

The following balances were extracted from the books of account at 30 June 2021.

	\$
8% debentures (2026–2027)	96 000
Administrative expenses	55 900
Directors' remuneration	62 400
Distribution costs	59 200
Finance costs	6 350
Wages and salaries	88 300
Trade receivables	110 360
Provision for doubtful debts at 1 July 2020	1 235

The following information is also available.

- 1 The 8% debentures (2026–2027) were taken out on 1 November 2020. Interest was paid every three months in arrears, starting on 1 February 2021.
- 2 Wages and salaries of \$3800 were owing at 30 June 2021.
- 3 At 30 June 2021, a bonus was due to be paid to the sales director of \$12000.
- 4 Expenses were to be allocated as follows:

	Administrative expenses	Distribution costs
Wages and salaries	30%	70%
Directors' remuneration	75%	25%

- 5 Depreciation is to be charged as follows:

Motor vehicles for office staff	\$26 400
Delivery vehicles	\$32 800

- 6 A credit customer owing \$2360 from 12 April 2021 has been declared bankrupt and the debt is to be written off to administrative expenses.
- 7 Aged analysis of net trade receivables at 30 June 2021:

	0–60 days	61–90 days	Over 90 days
Percentage of total net trade receivables	75%	15%	10%

- 8 The directors wish to make a provision for doubtful debts as follows:

Debts 61–90 days	2.5%
Debts over 90 days	10%

The movement in the provision is to be charged to administrative expenses.

REQUIRED

(b) Calculate the balance of the provision for doubtful debts at 30 June 2021.

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..... [4]

(c) Prepare the income statement for the year ended 30 June 2021. Use the space on the **next page** for your workings.

T Limited
Income Statement for the year ended 30 June 2021

	\$
Revenue	
Cost of sales	
Gross profit	
Administrative expenses	
Distribution costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings

Administrative expenses
Distribution costs
Finance costs
Other workings

[11]

Additional information

The following transactions had also taken place during the year ended 30 June 2021.

Date	Transaction
1 July 2020	Freehold property was revalued downwards by \$10 000.
1 July 2020	Made a rights issue of one ordinary share of \$2 each for every two shares held. This was offered at a premium of \$0.75. The issue was fully subscribed.
1 March 2021	Made a bonus issue of one ordinary share of \$2 each for every ten shares held. Reserves were left in the most flexible form.
31 March 2021	Paid a dividend of \$0.05 per share on all shares in issue at that date.

REQUIRED

(d) Prepare the statement of changes in equity for the year ended 30 June 2021.

T Limited
Statement of Changes in Equity for the year ended 30 June 2021

	Ordinary share capital \$	Share premium \$	Revaluation reserve \$	Retained earnings \$	Total \$
At 1 July 2020	440 000	–	7 500	86 320	533 820
At 30 June 2021					

[6]

- 1 The following information is available for S Limited for the year ended 31 December 2019.

Balances at 1 January 2019

	\$
Inventory	122 000
Administrative expenses accrued	3 875

Amounts paid during the year ended 31 December 2019

Distribution costs	84 475
Administrative expenses	298 875
Purchases	435 000

Amounts received during the year ended 31 December 2019

Revenue	998 400
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Balances at 31 December 2019

Inventory	134 200
Administrative expenses prepaid	7 500
6% debenture (2024)	100 000

The following information is also available.

- 1 Inventory at 31 December 2019 included some damaged goods which had cost \$5000. These goods can only be sold for \$3000 after repairs costing \$700 have been carried out.
- 2 The 6% debenture (2024) was issued on 1 September 2019.

Additional information

The following additional balances were also available at 1 January 2019.

	\$
Ordinary shares of \$1 each	100 000
Share premium	20 000
Retained earnings	126 230

- 1 An interim dividend of \$0.08 per share was paid on 30 June 2019.
- 2 A bonus issue of one ordinary share for every four shares held was made on 31 October 2019. Reserves were maintained in their most flexible form.
- 3 A final dividend of \$0.09 per ordinary share was proposed on 31 December 2019.

REQUIRED

(b) Explain what is meant by 'Reserves were maintained in their most flexible form'.

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[2]

(c) Prepare the ordinary share capital account for the year ended 31 December 2019.

Ordinary share capital account

	\$		\$

[4]

(d) Prepare the statement of changes in equity for the year ended 31 December 2019.

S Limited
Statement of changes in equity for the year ended 31 December 2019

	Share capital \$	Share premium \$	Retained earnings \$	Total \$

[5]

- 1 The directors of K Limited are preparing the financial statements for the year ended 31 October 2019.

The following information is available.

- 1 Expense payments made during the year ended 31 October 2019.

	\$
Administrative expenses	8 490
Directors' fees	41 200
Distribution costs	16 500
Finance costs	800
Staff wages and salaries	140 790

- 2 Distribution costs include a payment of \$7200 for a six-month advertising campaign which will end on 31 March 2020.
- 3 Directors' fees are allocated between distribution costs and administrative expenses in the ratio 1 : 4.
- 4 Staff wages and salaries are allocated between distribution costs and administrative expenses in the ratio 3 : 2.
- 5 Non-current assets

	At 1 November 2018		Depreciation policy	Allocation
	Cost \$	Provision for depreciation \$		
Motor vehicles	160 000	32 600	20% per annum using reducing balance method	100% to distribution costs
Furniture and equipment	45 000	5 500	15% per annum using straight-line method	80% to administrative expenses 20% to distribution costs

- 6 In 2017 the company had issued 8% debentures (2025) for \$20 000. Half of these were repaid on 1 August 2019. Debenture interest was paid up to 30 April 2019.

REQUIRED

- (a) Complete the income statement for the year ended 31 October 2019. Use the space on the next page for your workings.

K Limited
Income statement for the year ended 31 October 2019

	\$
Revenue	542 370
Cost of sales	259 240
Gross profit	283 130
Administrative expenses	
Distribution costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings:

Administrative expenses

Distribution costs

Finance costs

[11]

Additional information

At 1 November 2018 the equity section of the company's statement of financial position was as follows.

	\$
Ordinary shares of \$0.50 each	90 000
Share premium	36 000
Retained earnings	65 600

On 30 June 2019 the company paid a dividend of \$0.10 per ordinary share.

At 31 October 2019 the company made a bonus issue of two ordinary shares for every three ordinary shares held. Reserves were maintained in their most flexible form.

REQUIRED

(b) Prepare the statement of changes in equity for the year ended 31 October 2019.

K Limited
Statement of changes in equity for the year ended 31 October 2019

	Share capital \$	Share premium \$	Retained earnings \$	Total \$

Workings:

Additional information

K Limited was formed several years ago by the partners in a business.

REQUIRED

(c) State **three** advantages to the shareholders of trading as a limited company.

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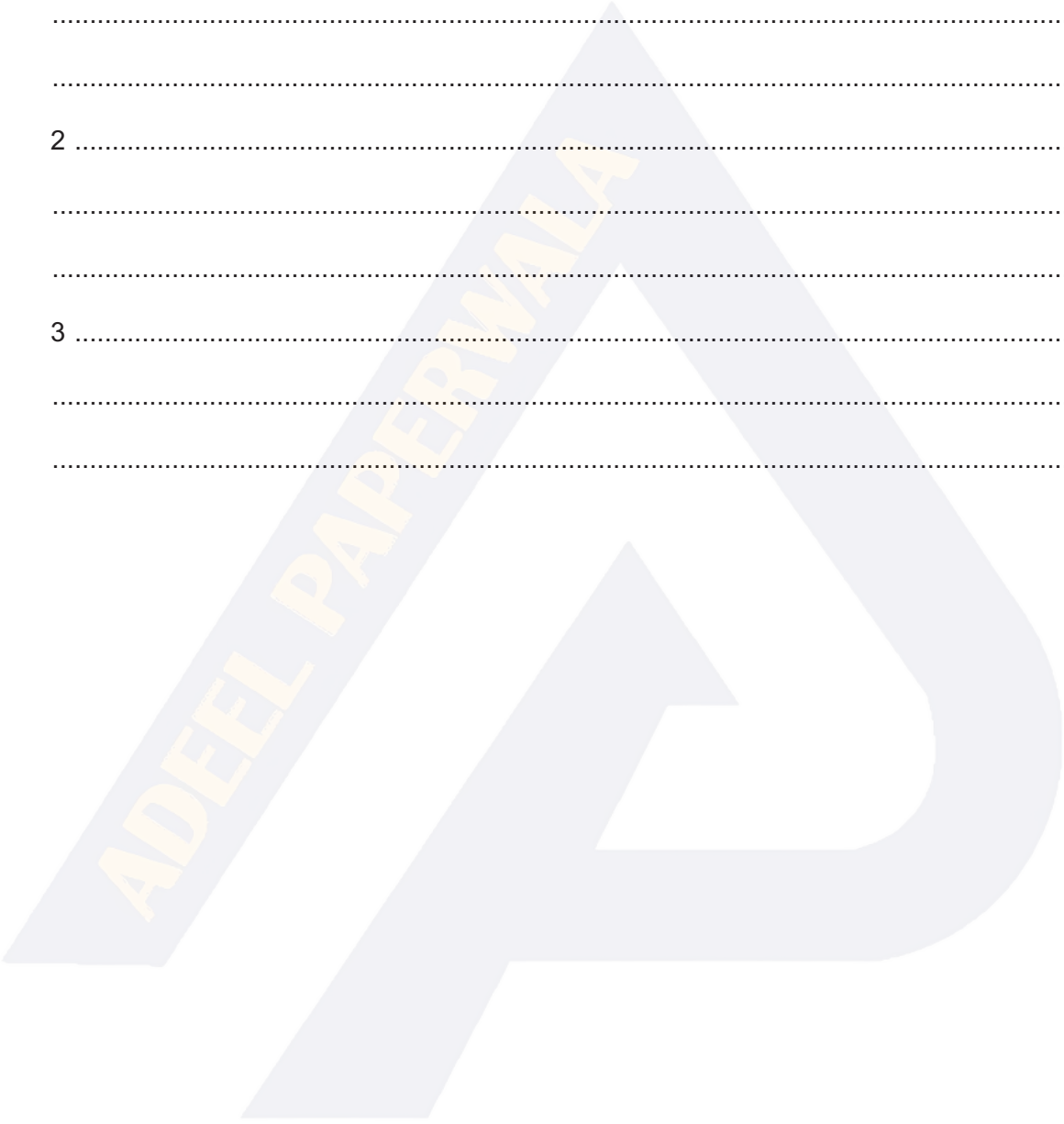
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[3]



3 M Limited was formed five years ago.

On 1 January 2019 the company's statement of financial position included the following details.

Equity	\$000
Share capital – ordinary shares of \$0.25 each	1200
Share premium	480
Retained earnings	<u>295</u>
	<u>1975</u>

On 1 July 2019 shareholders were paid a dividend of \$0.05 per share.

REQUIRED

(a) Calculate the total dividend paid.

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..... [2]

Additional information

On 1 September 2019 the directors made a rights issue of two ordinary shares for every three shares held at a price of \$0.40 per share. The issue was fully subscribed.

REQUIRED

(b) Describe **one** way in which a shareholder can benefit from taking up a rights issue.

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..... [2]

(c) Calculate the amount raised by the rights issue.

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..... [2]

Additional information

The company made a profit for the year ended 31 December 2019 of \$324 000.

REQUIRED

(d) Prepare the statement of changes in equity for the year ended 31 December 2019.

M Limited
Statement of changes in equity for the year ended 31 December 2019

	Share capital \$000	Share premium \$000	Retained earnings \$000	Total \$000

[5]

(e) Describe **two** factors directors should take into account when deciding on a dividend to be paid to the shareholders.

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[4]

[Total: 15]

- 1 The following balances were extracted from the books of K Limited at 30 September 2018.

	Debit \$000	Credit \$000
8% Debentures (2022-2024)		75
Administrative expenses	42	
Cash and cash equivalents		11
Cost of sales	587	
Debenture interest	3	
Distribution costs	46	
Dividends paid	60	
Equipment		
cost	90	
provision for depreciation at 1 October 2017		30
Land and buildings		
cost	980	
provision for depreciation at 1 October 2017		135
Inventory at 30 September 2018	19	
Issued share capital: ordinary shares of \$0.50 each		450
Retained earnings at 1 October 2017		106
Revenue		936
Share premium		90
Trade payables		35
Trade receivables	41	

The following information is also available.

- Administrative expenses includes a payment, \$9000, for insurance for the three months ended 30 November 2018.
- Carriage inwards of \$3000 had been included in distribution costs.
- Land and buildings includes land at a cost of \$260 000.
- The company's depreciation policy is as follows:

Equipment	20% per annum using the reducing balance method	Charged to distribution costs
Buildings	2½% per annum using the straight-line method	Charged to administrative expenses
Land	No depreciation	

Additional information

During the year ended 30 September 2018 the directors had made a rights issue of 1 ordinary share for every 2 shares held at a price of \$0.70 per share. The issue was fully subscribed and had been recorded in the books of account.

REQUIRED

(b) Prepare the statement of changes in equity for the year ended 30 September 2018.

	Share capital \$000	Share premium \$000	Retained earnings \$000	Total \$000

Workings:

[6]

- 3 K Limited prepares annual accounts to 30 September. For the year ended 30 September 2018, the directors have calculated profit from operations of \$44 500. On 31 January 2018 they redeemed a 6% debenture of \$100 000 together with accrued interest to that date.

REQUIRED

- (a) Calculate the profit for the year ended 30 September 2018.

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..... [2]

Additional information

The directors have provided the following extract from the statement of financial position at 1 October 2017.

Equity	\$
Ordinary shares of \$0.25 each	500 000
Share premium	175 000
Retained earnings	<u>540 000</u>
	<u>1 215 000</u>

The following information is also available:

- 1 On 31 December 2017, a rights issue of ordinary shares was made at a premium of \$0.15 per share on the basis of 2 ordinary shares for every 5 held on that date. The issue was fully subscribed.
- 2 On 31 March 2018, a bonus issue was made on the basis of 3 ordinary shares for every 5 held on that date. Reserves were maintained in the most flexible form.
- 3 On 30 June 2018, an interim dividend of \$0.05 per share was paid on all shares in issue on that date.
- 4 On 30 September 2018, buildings were revalued at \$1 200 000. The original cost of the buildings was \$1 000 000 and had been depreciated by \$150 000.

REQUIRED

(b) Prepare the statement of changes in equity for the year ended 30 September 2018.

	Ordinary shares \$	Share premium \$	Revaluation reserve \$	Retained earnings \$
At 1 October 2017	500 000	175 000	–	540 000

Workings:

[11]

(c) State **one** difference between a capital reserve and a revenue reserve.

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..... [2]

[Total: 15]

Additional information

On 1 October 2018 X Limited paid a dividend of \$25 000 on the basis of \$0.08 per ordinary share of \$1 each.

On 1 February 2019 X Limited made a rights issue of 1 ordinary share for every 5 held at a premium of \$0.50. This was the first time that X Limited had issued new shares. The rights issue was fully subscribed.

REQUIRED

(d) Calculate the proceeds received by X Limited from the rights issue.

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..... [3]

[Total: 15]

(c) State **three** uses of a share premium account.

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[3]

(d) State **three** reasons why a company may make a bonus issue of shares.

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[3]

[Total: 15]

(b) State **two** reasons why capital reserves may be used before revenue reserves to fund a bonus issue of shares for a limited company.

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(c) (i) State **two** benefits to a limited company of making a rights issue.

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..... [2]

(ii) State **one** limitation to a limited company of making a rights issue.

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..... [1]

Additional information

Directors of M Limited are considering obtaining a long-term bank loan to raise additional capital.

REQUIRED

(d) Explain **two** advantages to the company of this course of action.

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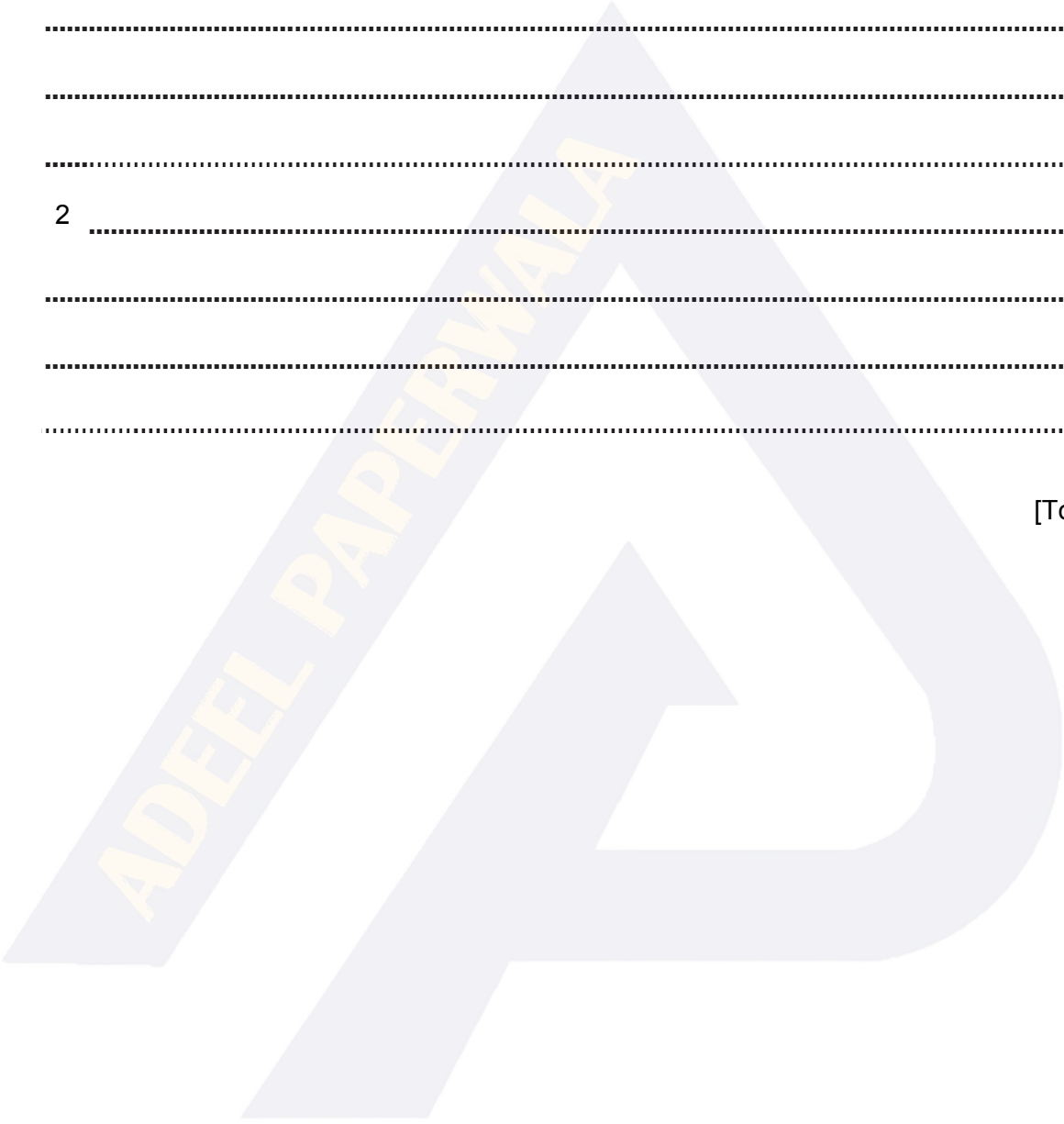
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..... [4]

[Total: 15]



3 Part of the equity of a limited company consists of ordinary shares.

REQUIRED

(a) (i) Explain **two** reasons why a company may make a bonus share issue.

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[4]

(ii) State **three** uses of the share premium account, other than the issue of bonus shares.

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[3]

Additional information

On 1 January 2017 the issued share capital of S Limited consists of ordinary shares of \$0.40 each.

The following information is available for the year ended 31 December 2017:

- 1 On 1 April 2017 the company issued a 6% debenture of \$300 000.
- 2 On 1 May 2017 the company paid a final dividend of \$0.04 per ordinary share.
- 3 On 1 October 2017 the company made a rights issue of 1 ordinary share for every 4 held. The shares were offered at a 20% discount on the market price of \$1.45. The rights issue was fully subscribed.
- 4 On 15 October 2017 the company paid an interim dividend of \$0.015 per share to the shareholders who were on the share register at 1 August 2017.
- 5 The company's profit from operations for the year was \$268 500.

REQUIRED

- (b) Prepare the statement of changes in equity for the year ended 31 December 2017.

S Limited
Statement of changes in equity
for the year ended 31 December 2017

	Ordinary share capital \$	Share premium \$	General reserve \$	Retained earnings \$	Total \$
Brought forward at 1 January 2017	1 250 000	–	130 000	65 000	1 445 000

Workings:

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..... [6]

(c) State the journal entry required to record a revaluation increase in the value of a non-current asset.

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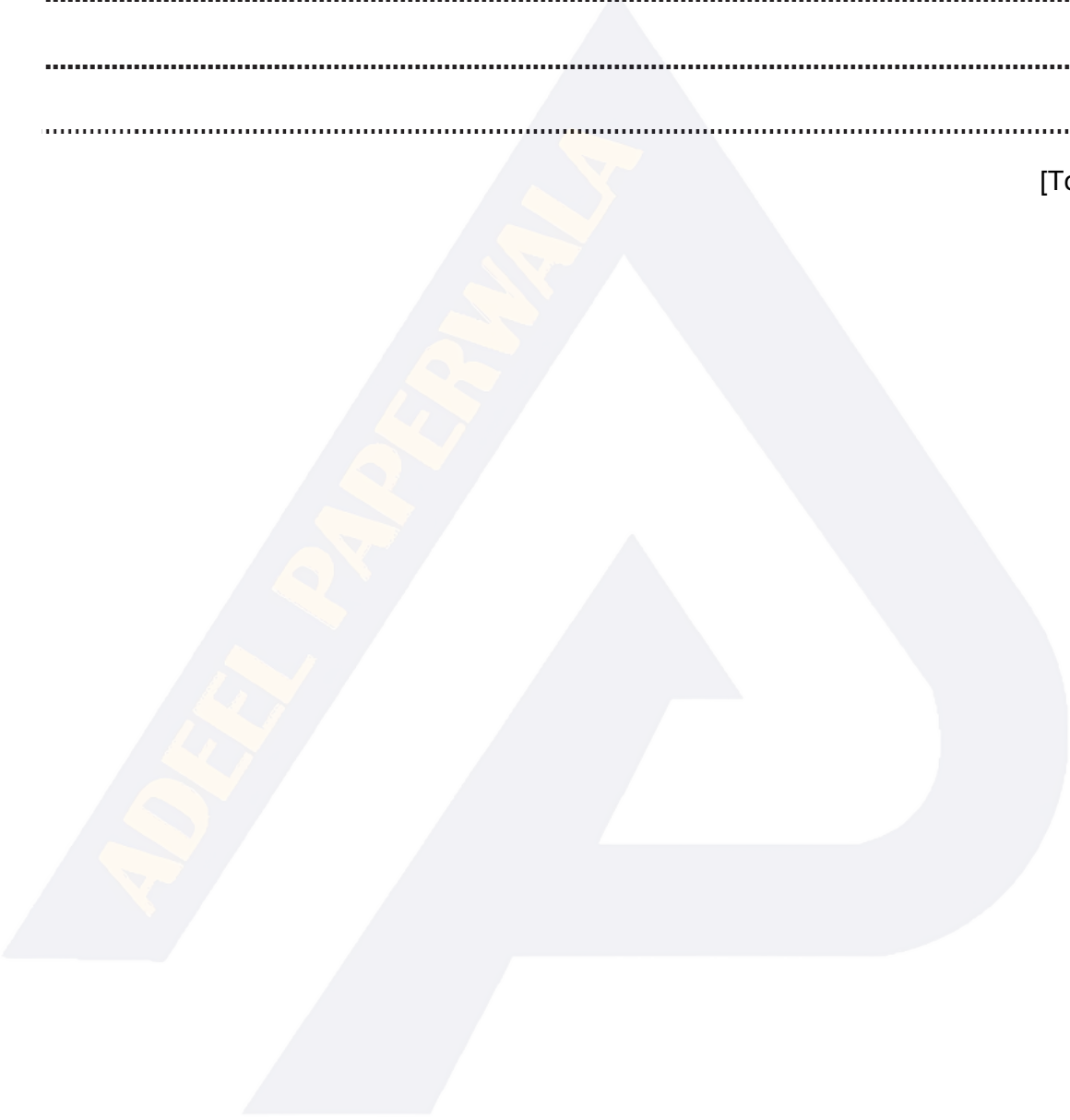
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[Total: 15]



1 From time to time M Limited issues shares.

The directors of M Limited have a policy of not paying interim dividends. The statement of changes in equity of the company for the year ended 31 December 2016 was as follows.

M Limited
Statement of changes in equity for the year ended 31 December 2016

		Ordinary share capital	Share premium	General reserve	Retained earnings	Total
		\$	\$	\$	\$	\$
2016						
Jan 1	Balance	400 000	150 000	–	120 000	670 000
Feb 10	?	100 000	(100 000)			–
Jun 25	Dividend				(60 000)	(60 000)
Dec 31	Transfer			50 000	(50 000)	–
Dec 31	Profit for the year				90 000	90 000
Dec 31	Balance	<u>500 000</u>	<u>50 000</u>	<u>50 000</u>	<u>100 000</u>	<u>700 000</u>

REQUIRED

(b) (i) State which event was recorded by the entry on 10 February 2016.

..... [1]

(ii) Explain why the entry made on 10 February 2016 was made to the share premium account rather than the retained earnings account.

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 [2]

(iii) State which dividend was recorded by the entry on 25 June 2016.

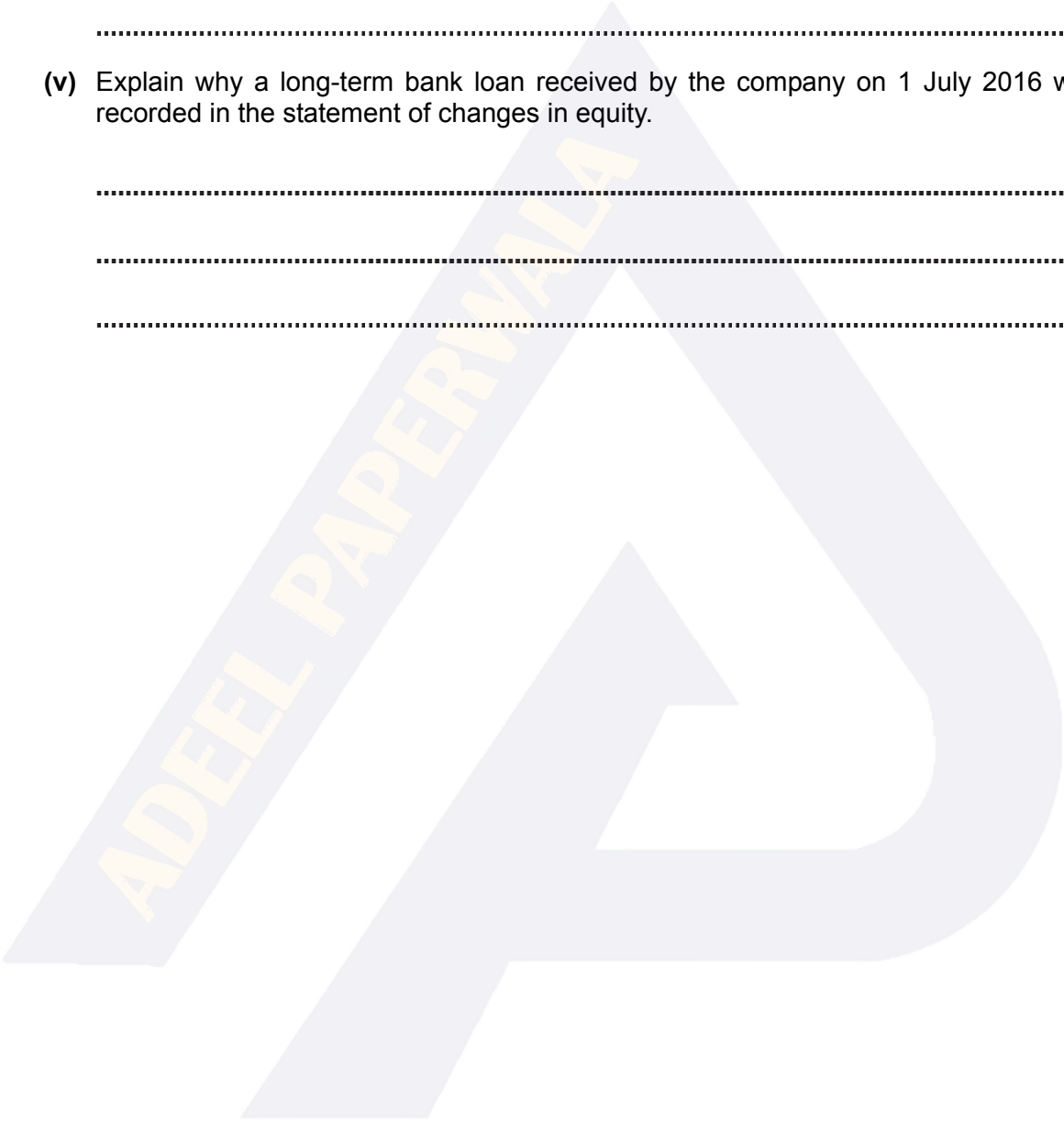
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(iv) State why the directors decided to create a general reserve.

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..... [1]

(v) Explain why a long-term bank loan received by the company on 1 July 2016 was **not** recorded in the statement of changes in equity.

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..... [2]



Use this space for your workings.

[11]

(b) State **three** advantages and **one** disadvantage to a limited company of making a bonus issue of shares.

Advantages

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Disadvantage

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[4]

[Total: 15]

[Turn over

- 1 F Limited is a large retail company. On 1 February 2016, the company invited applications for 50 000 ordinary shares of \$1 each at an issue price of \$1.20. The following terms applied:

Payable on application	\$0.50
Payable on allotment	\$0.70

Applications were received for 65 000 shares.

Additional information

F Limited's year end is 30 June. The following balances have been extracted from the books of account at **30 June 2016**:

	\$
Ordinary share capital (\$1 each)	400 000
Share premium account	40 000
8% debentures (2020–2022)	280 000
Bank loan (repayable 2021)	100 000

The following information is also available:

- 1 The balance of retained earnings at 1 July 2015 was \$210 000.
- 2 On 30 November 2015 a final ordinary share dividend of 2% was paid on all shares in issue at that date.
- 3 On 31 May 2016 an interim ordinary share dividend of 3% was paid on all shares in issue at that date.
- 4 The profit for the year ended 30 June 2016 was \$65 000.
- 5 On 30 June 2016 the directors revalued land and buildings from \$820 000 to \$850 000.

REQUIRED

(c) Explain **one** difference between debentures and ordinary shares.

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..... [2]

(d) Advise the directors which method of raising the finance you would recommend. Give reasons for your answer.

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..... [4]

3 The directors of AB plc have decided to make a rights issue and a bonus issue of ordinary shares.

(a) Identify **two** advantages to the company of:

(i) a rights issue of ordinary shares

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- 2
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- [2]

(ii) a bonus issue of ordinary shares.

- 1
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- 2
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- [2]

Additional information

The following information is available for AB plc at 1 January 2020.

Equity	\$
Ordinary share capital (\$0.50 shares)	120 000
Share premium	25 000
Retained earnings	43 000

AB plc has adopted the revaluation model for measuring the value of its non-current assets.

During the year ended 31 December 2020 the following took place:

- 1 July The directors made a rights issue of one ordinary share for every 6 held at a premium of \$0.05 per share. The issue was fully subscribed.
- 1 August The directors made a bonus issue of 1 ordinary share for every 5 held on that date. They wished to keep the reserves in their most flexible form.
- 30 September The directors paid an interim dividend of \$0.08 per share on all shares in issue at that date.
- 31 December Land which had cost \$120 000 is now only worth \$100 000. This has not been adjusted in the books of account.

The company made a profit for the year ended 31 December 2020 of \$18 000.

(b) Prepare the ledger accounts to record these transactions.

Ordinary share capital account

		\$			\$

Share premium account

		\$			\$

Retained earnings account

		\$			\$

[11]

[Total: 15]

2 T Limited's statement of financial position at 28 February 2021 included the following:

	\$
Equity	
Issued capital: ordinary shares of \$0.50 each	450 000
Share premium	122 000
Retained earnings	<u>342 000</u>
	<u>914 000</u>

Additional information

On 1 December 2021, the directors made a bonus issue on the basis of two ordinary shares for every three ordinary shares currently held. The directors wished to leave the reserves in their most flexible form.

REQUIRED

(c) Prepare the journal entry to record the bonus issue of shares. A narrative is **not** required.

Journal		
	Dr	Cr
	\$	\$

3 C Limited's statement of financial position at 31 December 2020 is shown with comparative figures at 31 December 2019.

	At 31 December	
	2020	2019
	\$000	\$000
Assets		
Non-current assets	2621	2217
Current assets		
Inventory	61	47
Trade and other receivables	29	38
Cash and cash equivalents	2	31
	<u>92</u>	<u>116</u>
Total assets	<u>2713</u>	<u>2333</u>
Equity and liabilities		
Equity		
Ordinary shares	1800	1200
Share premium	-	220
Retained earnings	401	624
Revaluation reserve	300	-
Total equity	<u>2501</u>	<u>2044</u>
Non-current liabilities		
8% Debentures (2025)	160	250
Current liabilities		
Trade and other payables	52	39
Total equity and liabilities	<u>2713</u>	<u>2333</u>

The following information is also available.

- 1 The company's issued capital consists of ordinary shares of \$0.25 each.
- 2 On 1 January 2020 the directors revalued the property upwards by \$300 000.
- 3 There were no purchases or disposals of non-current assets during the year.
- 4 On 1 July 2020 the directors made a bonus issue of ordinary shares.
- 5 There were no other changes in share capital during the year.

REQUIRED

(a) Explain **two** reasons for making a bonus issue of shares.

1

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2

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[4]

(b) Calculate the number of bonus shares issued on 1 July 2020.

.....

.....

.....

..... [2]

(c) Prepare the journal entry recording the bonus issue on 1 July 2020. A narrative **is** required.

Journal

	Dr	Cr
	\$000	\$000

[4]

(d) Identify **three** factors that directors of a company should consider when deciding on the amount of a proposed dividend.

1

2

3

[3]

Additional information

The directors of C Limited wish to propose a dividend of \$0.01 per share on all shares in issue at 31 December 2020.

REQUIRED

(e) Calculate the amount of the proposed dividend.

.....

.....

.....

..... [2]

[Total: 15]

[Turn over

- 3 The following information has been extracted from the financial statements of D Limited at 30 June 2020.

	\$
Share capital (ordinary shares of \$0.50 each)	150 000
Share premium	25 000
Retained earnings	28 700

Transactions during the year ended 30 June 2021.

1 August 2020	Made a rights issue of one ordinary share for every five shares held at \$0.70 per share. The issue was fully subscribed.
1 December 2020	Paid a dividend of \$0.02 per share on all shares in issue at that date.
1 March 2021	Made a bonus issue of two ordinary shares for every nine shares held. Reserves were left in the most flexible form.
30 June 2021	Proposed a final dividend of 2%.

The profit for the year ended 30 June 2021 was \$76 520.

REQUIRED

- (a) Prepare the following ledger accounts.

Ordinary share capital

Date	Details	\$	Date	Details	\$

Share premium

Date	Details	\$	Date	Details	\$

Retained earnings

Date	Details	\$	Date	Details	\$

[11]

(b) State **two** differences between capital reserves and revenue reserves.

1

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2

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[2]

(c) Explain **one** reason why a company might make a bonus issue of shares.

.....

..... [2]

[Total: 15]

Additional information

The following additional balances were also available at 1 January 2019.

	\$
Ordinary shares of \$1 each	100 000
Share premium	20 000
Retained earnings	126 230

- 1 An interim dividend of \$0.08 per share was paid on 30 June 2019.
- 2 A bonus issue of one ordinary share for every four shares held was made on 31 October 2019. Reserves were maintained in their most flexible form.
- 3 A final dividend of \$0.09 per ordinary share was proposed on 31 December 2019.

REQUIRED

(b) Explain what is meant by 'Reserves were maintained in their most flexible form'.

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[2]

(c) Prepare the ordinary share capital account for the year ended 31 December 2019.

Ordinary share capital account

	\$		\$

[4]

- 2 The following is an extract from the statement of financial position of X Limited at 31 December 2016.

\$	
Equity	
Share capital (\$1 ordinary shares)	400 000
Share premium	20 000
Retained earnings	190 000
Total equity	610 000
Non-current liabilities	
8% debentures (2019–20)	80 000
Current liabilities	
Trade and other payables	20 000
Cash and cash equivalents	60 000
	80 000
Total liabilities	160 000
Total equity and liabilities	770 000

During the year ended 31 December 2017 the following transactions took place.

- | | |
|-------------------|--|
| 1 January 2017 | Issue of 80 000 ordinary shares at \$1.25 each. |
| 30 June 2017 | Rights issue of 3 ordinary shares for every 8 shares held on this date at an issue price of \$1.30. This was fully subscribed. |
| 30 September 2017 | Bonus issue of 1 ordinary share for every 6 shares held on this date. |

1 From time to time M Limited issues shares.

REQUIRED

(a) State the double entry required to record a rights issue of shares at a premium.

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..... [3]



- 3 P Limited was formed on 1 June 2015. The company's share capital comprised of ordinary shares.

Additional information

P Limited prepares financial statements to 31 May.

The following transactions, all of which were entered in the appropriate accounts in the ledger, occurred in relation to the ordinary shares.

2015

1 June 100 000 ordinary shares, with a nominal value of \$1 each, were issued at a price of \$1.45 each. Of this, \$1.15 was received which included the full par value.

30 September The balance outstanding was received in full.

2016

1 October P Limited made a 1 for 4 rights issue at a discount of 15% of the most recent share valuation of \$1.40 per ordinary share. All shareholders took up their rights in full.

REQUIRED

- (b) Complete the following table for the **two** years ended 31 May 2017 to record these transactions.

Date	Name of account to be debited	Amount \$	Name of account to be credited	Amount \$

[6]

- 1 F Limited is a large retail company. On 1 February 2016, the company invited applications for 50 000 ordinary shares of \$1 each at an issue price of \$1.20. The following terms applied:

Payable on application	\$0.50
Payable on allotment	\$0.70

Applications were received for 65 000 shares.

All monies received in respect of the share issue were posted to the bank account and a share issue holding account until the shares were allotted.

At the time of allotment, transfers were made to the share capital account and the share premium account and monies were returned to the unsuccessful applicants.

REQUIRED

- (a) Prepare the following ledger accounts to show **all** transactions relating to the share issue. Dates are **not** required.

Share issue holding account

	\$		\$

Bank account

	\$		\$

Share capital account

	\$		\$

Share premium account

	\$		\$

[10]

Question 1(b) is on the next page.