

- 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

	\$		\$

## 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**

(b) Prepare the statement of changes in equity for F Limited for the year ended 30 June 2016.

F Limited  
Statement of Changes in Equity for the year ended 30 June 2016

	Ordinary shares \$000	Share premium \$000	Revaluation reserve \$000	Retained earnings \$000	Total \$000

[8]

**Additional information**

The directors of F Limited wish to purchase a new retail store for \$400 000. They are considering two different ways to raise the finance for this investment.

- 1 Issue a further \$400 000 8% debentures (2026–2028).
- 2 Make a rights issue of 320 000 ordinary shares of \$1 each at a price of \$1.25.

## 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.

[4]

### Additional information

F Limited also operates a manufacturing business. In the last financial year they extended the factory premises. Expenditure included the following:

	\$
Building contractor charges to construct extension	28 000
Structural repairs to existing roof	4 600
Wages to own employees to construct new loading bay	4 000
Materials for new loading bay	2 400
Legal fees for planning permission	2 200

## REQUIRED

- (e)** Define the term 'revenue expenditure'.

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[2]

- (f) Prepare a statement to show the total amount of capital expenditure to appear in the financial statements of the business in respect of the extension of the factory premises.

[4]