

- 1 Booksellers Limited prepared the following trial balance for the year ended 31 December 2012:

	\$000	\$000
Gross profit for the year		415
Wages and salaries	127	
Rent	44	
Heating and lighting	15	
Motor expenses	50	
Office expenses	19	
Insurance	15	
Discount allowed	2	
Other expenses	53	
Inventory at 31 December 2012	37	
Trade receivables	45	
Provision for doubtful receivables		4
Bank	37	
Trade payables		15
Goodwill	44	
Motor vehicles at cost	176	
Shop fittings at cost	42	
Office fittings at cost	25	
Provision for depreciation on motor vehicles		46
Provision for depreciation on shop fittings		12
Provision for depreciation on office fittings		3
5% Debentures		20
Ordinary share capital		190
Retained earnings		<u>26</u>
	<u>731</u>	<u>731</u>

**Additional information:**

- 1 Wages owing amounted to \$23 000 at 31 December 2012.
- 2 Debenture interest for the year had not been paid.
- 3 Bad debts of \$5000 were to be written off.
- 4 The provision for doubtful receivables was to be 5% of trade receivables.
- 5 Depreciation was provided on motor vehicles at 12½% on cost and on shop fittings at 10% on net book value.
- 6 Office fittings had been revalued at \$19 000.
- 7 Rent paid in advance was \$8000.

## REQUIRED

**(a) (i)** Prepare an income statement for the year ended 31 December 2012.

[12]

**(ii)** Calculate the retained earnings of Booksellers Limited at 31 December 2012.

[2]

**(b)** Prepare, in as much detail as possible, a statement of financial position at 31 December 2012.

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- (c) (i) The directors wish to raise funds to expand the business. State **two** sources of finance they could use.

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- (ii) State the advantages and disadvantages to the company of the **two** sources of finance you have chosen.

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