

- 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:

- (b)** Prepare the statement of financial position at 31 December 2018. the space provided on the **next page** for your workings.

AB Limited  
Statement of financial position at 31 December 2018

Statement of financial position at 31 December 2018

[illegible]

Workings:

[9]

### Additional information

The directors of AB Limited wish to raise an additional \$100 000 capital for expansion. They are considering either a rights issue of ordinary shares or an issue of a further debenture.

## REQUIRED

**(c)** Advise the directors which option they should choose. Give reasons for your answer.

[5]

[5]

(d) Identify **two** internal stakeholders with an interest in the financial statements of a limited company.

- 1 .....
- 2 ..... [2]

**Additional information**

The directors of AB Limited use ratio analysis to assess the performance of the business.

**REQUIRED**

(e) Name **two** ratios that a business may use to assess:

(i) profitability

- 1 .....
- 2 ..... [2]

(ii) liquidity.

- 1 .....
- 2 ..... [2]