

- 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. 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

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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- 2
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- 3
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[3]

Additional information

The directors of a rival company, Q plc, are concerned about their company's performance. The following information about Q plc is available.

| | Year ended 31 October | | | Industry averages for 2019 |
|--------------------------------|-----------------------|---------|---------|----------------------------|
| | 2017 | 2018 | 2019 | |
| Non-current asset turnover | 7 times | 6 times | 5 times | 4 times |
| Return on capital employed (%) | 23 | 20 | 16 | 18 |

REQUIRED

(d) Assess the performance of Q plc based on these ratios.

[4]

Additional information

Q plc's liabilities include 8% debentures of \$50 000.

A director has suggested repaying the debentures to improve the company's return on capital employed.

REQUIRED

- (e)** Advise the director whether or not the company should go ahead with this suggestion. Justify your answer.

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