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]

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

2016		Ordinary share capital	Share premium	General reserve	Retained earnings	Total
		$	$	$	$	$
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	500 000	50 000	50 000	100 000	700 000

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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.... [1]

(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]

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.

REQUIRED

(c) Calculate the net book value of non-current assets which will appear in the statement of financial position at 31 December 2017.

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.... [6]

Additional information

The following information is also available.

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At 1 January 2017	
10% Bank loan (2025)	100 000
During the year ended 31 December 2017	
Dividend paid	66 000
Profit for the year before charging depreciation and loan interest	163 000
There was no change to issued share capital	
At 31 December 2017	
Current assets	290 300
Current liabilities (including accrued loan interest)	96 300

REQUIRED

(d) Prepare the statement of financial position at 31 December 2017. the space on the next page for your workings.

this space for your workings.

[10]

Additional information

The directors are considering the rates of depreciation applied to the company's non-current assets.

REQUIRED

(e) Advise the directors whether or not they should decrease the depreciation rates.
Justify your answer.

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.... [4]