

- 1 N Limited is a trading business. Sales are made on the credit basis only.

The following information was available at 31 December 2020.

	Debit \$000	Credit \$000
8% Debentures (2025)		250
Administrative expenses	171	
Cash and cash equivalents	14	
Cost of sales	466	
Debenture interest	8	
Distribution costs	63	
Dividends paid	80	
Inventory at 31 December 2020	33	
Issued capital:		
Ordinary shares of \$0.25 each at 31 December 2020		500
Non-current assets		
Cost	1140	
Provision for depreciation at 1 January 2020		140
Retained earnings at 1 January 2020		129
Revenue		923
Share premium at 31 December 2020		70
Trade payables		42
Trade receivables	79	
	<u>2054</u>	<u>2054</u>

The following information is also available at 31 December 2020.

- 1 Administrative expenses included insurance of \$16 000 for four months ended 31 January 2021.
- 2 Depreciation should be provided on non-current assets at 25% per annum using the reducing balance method. Depreciation charges should be allocated 20% to distribution costs and 80% to administrative expenses.
- 3 The account of a credit customer, \$3000, should be written off to administrative expenses as an irrecoverable debt.
- 4 Debenture interest was outstanding for the second half of the year. The directors had issued additional debentures of \$50 000 on 1 October 2020.

## REQUIRED

- (a) Prepare the company's income statement for the year ended 31 December 2020.

N Limited  
Income statement for the year ended 31 December 2020

	\$000

Workings:

Distribution costs
Administrative expenses
Finance costs

### Additional information

On 1 July 2020 the directors had decided to make a rights issue of two ordinary shares for every three shares held at a price of \$0.30 per share. The rights issue was fully subscribed.

### REQUIRED

- (b) Explain **two** reasons why a company may make a rights issue of shares rather than an issue of debentures.

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[4]

- (c) Calculate the amount raised by the rights issue.

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[4]

(d) Prepare a statement of changes in equity for the year ended 31 December 2020.

N Limited  
Statement of changes in equity  
for the year ended 31 December 2020

	Ordinary share capital \$000	Share premium \$000	Retained earnings \$000	Total \$000
Balance at 1 January 2020				

[5]

**Additional information**

The directors are concerned about the company's credit control and wish to improve the company's liquidity position. They are considering a proposal to offer a 5% cash discount to customers for settlement within 30 days on all invoices of more than \$2000.

**REQUIRED**

(e) Identify **two** ratios which can be used to assess the liquidity of a business.

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2 .....

[2]

