

- 1 J Limited's financial year ended on 30 September 2022. The following balances were available on this date.

	\$
8% Debentures (2025)	100 000
Administrative expenses	28 000
Distribution costs	57 000
Dividends paid	21 000
Finance costs	4 000
Inventory at 1 October 2021	54 000
Issued share capital: shares of \$0.50 each at 1 October 2021	420 000
Non-current assets at 1 October 2021	
Cost	1 300 000
Provision for depreciation	260 000
Purchases	460 000
Retained earnings at 1 October 2021	125 000
Revenue	869 000
Share premium at 1 October 2021	210 000
Trade receivables	83 000

The following additional information is available.

- 1 Inventory at 30 September 2022 was valued at \$57 000.
- 2 The balance of the account of a credit customer, \$3000, should be written off as irrecoverable and charged to administrative expenses.
- 3 The directors have agreed to create an allowance for irrecoverable debts of 5% of trade receivables. The allowance should be charged to administrative expenses.
- 4 Debenture interest for the second half of the year is outstanding.
- 5 Non-current assets should be depreciated at 20% per annum using the straight-line method. Depreciation should be allocated as follows:

Administrative expenses	60%
Distribution costs	40%

REQUIRED

- (a)** Prepare the statement of profit or loss for the year ended 30 September 2022. the space provided to show your workings.

J Limited
Statement of profit or loss for the year ended 30 September 2022

[illegible]

Workings:

Administrative expenses

Distribution costs

Additional information

The directors found that the following transaction had **not** been recorded in the books of account:

On 30 September 2022 the directors had made a bonus issue of 2 ordinary shares for every 3 shares held. The directors had decided to maintain reserves in their most flexible form.

REQUIRED

- (b) Calculate the balance of retained earnings at 30 September 2022 following the bonus issue.

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- (c) State **one** reason why the directors of a company might decide to make a bonus issue.

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- (d) Explain **one** reason why trade payables and potential lenders might approve of a company making a bonus issue.

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(e) Identify **three** points the directors should consider when deciding whether to pay a dividend.

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[3]

Additional information

The directors of J Limited wish to improve the company's liquidity. They will choose one of the following options.

Option 1: allow trade receivables a cash discount of 5% for payment within 20 days.

Option 2: make all purchases on credit from a different supplier who is prepared to offer a trade discount.

REQUIRED

- (f) Advise the directors which option they should choose. Justify your choice by discussing **both** options.

[7]