

- 1 The following balances have been extracted from the books of P Limited at 31 August 2021.

	\$
5% Debentures (2022–2023)	36 000
Administrative expenses	35 180
Bank	4 770 Credit
Carriage inwards	390
Delivery vehicles	
Cost	89 420
Provision for depreciation at 1 September 2020	42 200
Distribution costs	44 320
Dividend paid	3 000
Freehold property at valuation at 31 August 2020	66 000
Interest paid	1 590
Inventory at 1 September 2020	22 880
Purchases	88 900
Revenue	216 600
Retained earnings	24 200
Returns outwards	260
Revaluation reserve	6 000
Share capital (ordinary shares of \$0.50 each)	60 000
Share premium	8 500
Trade payables	11 730
Trade receivables	32 480
Wages and salaries	26 100

The freehold property was revalued on 1 September 2020 at \$58 000. The revaluation has not yet been recorded in the books of account.

REQUIRED

- (a) Prepare the journal entry to record the revaluation of the freehold property on 1 September 2020. A narrative is **not** required.

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Additional information

The following information is also available.

- 1 Revenue includes goods sent to a credit customer on 23 August 2021 on a sale or return basis. The directors were uncertain whether any of these goods would be returned. The selling price of the goods was \$6400, and they had been sold at a gross margin of 25%.
- 2 Inventory in P Limited's warehouse at 31 August 2021 was valued at cost, \$18 600.
- 3 Debenture interest had been paid to 30 June 2021.
- 4 Delivery vehicle licences of \$540 had been paid for the year ending 31 December 2021.
- 5 Wages and salaries of \$620 were outstanding at 31 August 2021.
- 6 Wages and salaries are to be charged as follows:

Administrative expenses	25%
Distribution costs	75%

- 7 On 31 August 2021, a delivery vehicle was sold for \$7000. The vehicle had been purchased on 1 September 2018 for \$13 000. No entries for the sale had been made in the books of account and the sale proceeds had not yet been received.
- 8 The freehold property is used only as a distribution warehouse. Its remaining useful life at 1 September 2020 was estimated to be 40 years.
- 9 Depreciation is to be charged as follows:

Non-current asset	Depreciation method
Freehold property	Written off over the remaining useful life
Delivery vehicles	20% per annum reducing balance

A full year's depreciation is charged in the year of purchase, but none in the year of disposal.

REQUIRED

- (b) Prepare the income statement for the year ended 31 August 2021. the space on the **next page** for your workings.

P Limited
Income statement for the year ended 31 August 2021

	\$
Revenue	
Cost of sales	
Gross profit	
Administrative expenses	
Distribution costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings

Revenue

Cost of sales

Depreciation

Administrative expenses

Distribution costs

Finance costs

- (c) Prepare a statement to show the balance of retained earnings at 31 August 2021 after the preparation of the income statement.

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Additional information

The directors wish to reduce the level of trade receivables.

REQUIRED

- (d) State **two** ways in which the level of trade receivables of a business could be reduced.

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Additional information

The directors have plans to expand the business and they are considering two options.

Option 1: Make a rights issue of 80 000 ordinary shares of \$0.50 each at a premium of 25%.

Option 2: Issue 8% debentures (2027–2028) to raise \$50 000.

REQUIRED

(e) Advise the directors which option they should choose. Justify your decision.

[7]