

1 R Limited provided the following information at 30 June 2018.

An extract from the statement of financial position

	\$
10% Debenture	75 000
Inventory	45 000
Other receivables (insurance)	1 000
Other payables (electricity expenses)	500

An extract from the schedule of non-current assets

Details	Land and buildings \$	Fixtures and fittings \$	Motor vehicles \$
Cost	350 000	75 000	200 000
Revaluation	100 000	-	-
Accumulated depreciation 30 June 2018	-	(35 000)	(50 000)
Net book value 30 June 2018	<u>450 000</u>	<u>40 000</u>	<u>150 000</u>

The company lost all its accounting records as a result of a computer virus but was able to provide the following summary of its receipts and payments for the year ended 30 June 2019.

	\$		\$
Takings banked	286 000	Purchases	135 000
		Insurance	12 000
		Motor vehicle expenses	10 000
		Wages and salaries	45 000
		Electricity expenses	2 700
		Motor vehicles	50 000
		Debenture interest	3 750

All the receipts and payments were through the bank.

All sales and purchases were on cash basis.

The company's depreciation policy is as follows:

Fixtures and fittings	10% per annum reducing balance method	Charged to administrative expenses
Motor vehicles	20% per annum reducing balance method	Charged to distribution costs
Land and buildings	No depreciation	

The following information is available at 30 June 2019.

- 1 Inventory was valued at cost \$42 000 including damaged inventory costing \$5000. This could be repaired at a cost of \$450 and sold for \$5100.
- 2 Insurance of \$750 for the three months ended 31 July 2019 was outstanding.
- 3 Electricity expenses included \$600 for the three months ended 31 August 2019.
- 4 Expenses are split as follows:

Insurance	Charged to administrative expenses
Motor vehicle expenses	Charged to distribution costs
Wages and salaries	Split between distribution costs and administrative expenses in the ratio of 4 : 1
Electricity expenses	Charged to administrative expenses

## REQUIRED

- (a) Prepare the income statement for the year ended 30 June 2019.      the space on the **next page** to show your workings.

R Limited  
Income statement for the year ended 30 June 2019

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

Workings:

Cost of sales
Administrative expenses
Distribution costs
Finance cost

(b) State **two** differences between capital reserves and revenue reserves.

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**Additional information**

R Limited is planning to acquire a new building at a cost of \$500 000 to expand its business. The directors are considering two options to finance this acquisition.

- Option 1: issue of shares  
Option 2: issue of a further debenture

**REQUIRED**

(c) Advise the directors which option should be chosen to raise finance to acquire the building. Justify your answer.

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(d) State **one** advantage and **one** disadvantage to a business:

(i) of making all sales on a cash basis only

Advantage .....

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Disadvantage .....

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[2]

(ii) of making all purchases on a cash basis only.

Advantage .....

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Disadvantage .....

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[2]