1 The trial balance of Seema Limited for the year ended 30 June 2015 shows these figures:

	Debit $	Credit $
Revenue		526 000
Purchases	342 000	
Inventory at 1 July 2014	37 500	
Selling and distribution expenses	37 510	
Administrative expenses	36 130	
Provision for doubtful debts		125
Interest paid	625	
Non-current assets at cost		
Warehouse buildings	300 000	
Motor vehicles	70 000	
Office equipment	25 000	
Provision for depreciation		
Warehouse buildings		12 000
Motor vehicles		12 500
Office equipment		1 500
Trade receivables	5 020	
Trade payables		6 270
Cash and cash equivalents	27 200	
140 000 Ordinary shares of $1 each		140 000
5% Debentures (2021 – 2025)		25 000
General reserve		25 000
Retained earnings		140 990
Interim ordinary dividends paid	8 400	
	889 385	889 385

Additional information

1 Inventory on 30 June 2015 was valued at $29 400.

2 Depreciation is to be charged as follows:

Warehouse buildings	4% using straight line method
Motor vehicles	25% using straight line method
Office equipment	10% using reducing balance method.

3 The provision for doubtful debts is to be maintained at 5% of the trade receivables.

4 An irrecoverable debt of $200 should be written off.

5 The directors have decided to transfer $25 000 to the general reserve.

6 The directors have proposed a final dividend of $0.07 per share.

7 The debentures were issued in 2011.

8 The motor vehicles were used by the sales team.

REQUIRED

(a) Prepare the income statement for the year ended 30 June 2015.

[10]

(b) Prepare the statement of financial position at 30 June 2015.

[8]

(c) Explain the importance to a business of the current ratio.

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Additional information

The directors of Seema Limited have calculated the current ratio to be 8.87 : 1.
They regard the ratio calculated to be too high and are considering repaying the debentures.

REQUIRED

(d) Discuss the effect of this course of action on:

(i) working capital

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(ii) the return on capital employed

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(e) Advise the directors on whether they should repay the debentures early. Justify your answer.

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