1 The directors of G Limited have provided a trial balance at 30 September 2020.

	Debit	Credit
	$	$
Administrative expenses	117 528	
Bank		10 316
Distribution costs	60 263	
Inventory at 1 October 2019	86 228	
Ordinary share capital ($1 shares)		200 000
Property plant and equipment		
Cost	300 000	
Provision for depreciation at 1 October 2019		82 500
Provision for doubtful debts at 1 October 2019		1 528
Purchases	237 851	
Retained earnings		34 572
Revenue		498 430
Share premium		20 000
Trade payables		26 124
Trade receivables	71 600	
	873 470	873 470

The following information is also available.

1 Property plant and equipment

	Cost $	Accumulated depreciation $	Depreciation method	Allocation of depreciation
Land	120 000	Nil	–	Nil
Other than land	180 000	82 500	15% per annum straight-line	2/3 administrative expenses 1/3 distribution costs
Total	300 000	82 500		

There were no acquisitions or disposals during the year.

2 Inventory at 30 September 2020 cost $91 368 and had a net realisable value of $126 435.

3 The directors wish to maintain a provision for doubtful debts at 3% of trade receivables. All expenses relating to doubtful debts are charged to administrative expenses.

4 At 30 September 2020

	$
Administrative expenses accrued	3850
Bank interest accrued	250
Distribution costs prepaid	1460

REQUIRED

(a) Prepare the income statement for the year ended 30 September 2020.

G Limited
Income statement for the year ended 30 September 2020

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Workings:

[12]

(b) Prepare the statement of financial position at 30 September 2020.

G Limited
Statement of financial position at 30 September 2020

Workings:

[7]

(c) State **two** differences between ordinary shares and preference shares.

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2 ....

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[2]

(d) **(i)** Define a 'capital reserve'.

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(ii) State **one** use of a capital reserve.

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Additional information

The directors are planning a major expansion. They wish to raise $100 000.

The directors are considering three options:

Option 1: Issue 6% debentures (2029) of $100 000.

Option 2: Make a rights issue of one ordinary share for every two ordinary shares held at $1 each.

Option 3: Make a new issue of 100 000 ordinary shares at a premium of $0.10 per share.

REQUIRED

(e) Advise the directors which option they should take. Justify your answer.

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