

- 4 The breakdown of land and buildings cost at 1 January 2018 was:

	\$
Land	1 200 000
Buildings	900 000
	<u>2 100 000</u>

The buildings were revalued on 2 January 2018 at \$1 050 000. This has not yet been recorded in the books of account.

- 5 At 31 December 2018, administration wages and salaries accrued totalled \$15 000.
- 6 The directors wish to create a provision for doubtful debts of 3%. This is to be included in administrative expenses.
- 7 Depreciation is to be charged as follows:

Asset	Annual rate	Method	Charge to
Fixtures and fittings	15%	Reducing balance	Administrative expenses
Buildings	2%	Straight-line	Property costs
Motor vehicles	25%	Reducing balance	75% Distribution costs 25% Administrative expenses

- 8 A full year's interest has been paid on debentures and bank loan.

REQUIRED

- (a) Prepare the income statement for the year ended 31 December 2018. the space on the next page for your workings.

D Limited
Income statement for the year ended 31 December 2018

	\$000
Revenue	
Cost of sales	
Gross profit	
Administrative expenses	
Distribution costs	
Property costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings

Revenue

Cost of sales

Administrative expenses

Distribution costs

Property costs

Depreciation

- D Limited
Extract from the statement of financial position at 31 December 2018

[3]

- [5]

Additional information

The directors wish to raise additional finance for expansion. They are considering two options.

- 1 Issue 5% preference shares of \$1 each to raise \$300 000.
- 2 Obtain an 8% bank loan to raise \$300 000.

REQUIRED

(d) Advise the directors which option they should choose. Justify your answer.

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(e) Explain **two** differences between a bonus issue of shares and a rights issue of shares.

1

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2

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