

- 1 K Limited's financial year ended on 31 December 2021. The company's income statement for the year ended on that date has already been prepared. The following information was available at the year-end.

	\$
8% Debentures (2022)	120 000
Bank overdraft	4 700
Dividends paid	96 000
Inventory	49 400
Non-current assets at cost	960 000
Non-current assets provision for depreciation	170 000
Ordinary share capital: shares of \$0.25 each at 31 December 2021	480 000
Other payables	2 700
Other receivables	1 400
Profit for the year	99 400
Retained earnings at 1 January 2021	133 000
Share premium at 31 December 2021	90 000
Trade payables	25 900
Trade receivables	18 900

On 1 July 2021, the directors had made a rights issue of one ordinary share for every two ordinary shares in issue. The rights issue was made at \$0.35 per share and was fully subscribed.

REQUIRED

- (a) Calculate the profit from operations for the year ended 31 December 2021.

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- (b) Calculate the amount raised by the rights issue on 1 July 2021.

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..... [3]

(c) Prepare a statement of changes in equity for the year ended 31 December 2021.

K Limited
Statement of changes in equity for the year ended 31 December 2021

	Share capital \$	Share premium \$	Retained earnings \$	Total \$
Balances at 1 January 2021				

[7]

(d) Prepare the statement of financial position at 31 December 2021.

K Limited
Statement of financial position at 31 December 2021

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[illegible]

(e) Explain the meaning of **each** of the following terms.

(i) Revenue reserve

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(ii) Capital reserve

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Additional information

The directors of K Limited will require additional finance in 2022 to cover the cost of opening a new branch of the business.

They are considering two options.

Option 1: Make a further rights issue of shares.

Option 2: Make an issue of 8% debentures.

REQUIRED

- (f) Advise the directors which option they should choose. Justify your answer by discussing **both** options.

[7]