

- 1 The following information is available for S Limited for the year ended 31 December 2019.

Balances at 1 January 2019

	\$
Inventory	122 000
Administrative expenses accrued	3 875

Amounts paid during the year ended 31 December 2019

Distribution costs	84 475
Administrative expenses	298 875
Purchases	435 000

Amounts received during the year ended 31 December 2019

Revenue	998 400
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Balances at 31 December 2019

Inventory	134 200
Administrative expenses prepaid	7 500
6% debenture (2024)	100 000

The following information is also available.

- 1 Inventory at 31 December 2019 included some damaged goods which had cost \$5000. These goods can only be sold for \$3000 after repairs costing \$700 have been carried out.
- 2 The 6% debenture (2024) was issued on 1 September 2019.

REQUIRED

- (a)** Prepare the income statement for the year ended 31 December 2019.

S Limited
Income statement for the year ended 31 December 2019

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Workings:

Additional information

The following additional balances were also available at 1 January 2019.

	\$
Ordinary shares of \$1 each	100 000
Share premium	20 000
Retained earnings	126 230

- 1 An interim dividend of \$0.08 per share was paid on 30 June 2019.
- 2 A bonus issue of one ordinary share for every four shares held was made on 31 October 2019. Reserves were maintained in their most flexible form.
- 3 A final dividend of \$0.09 per ordinary share was proposed on 31 December 2019.

REQUIRED

- (b) Explain what is meant by 'Reserves were maintained in their most flexible form'.

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[2]

- (c) Prepare the ordinary share capital account for the year ended 31 December 2019.

Ordinary share capital account

	\$		\$

[4]

(d) Prepare the statement of changes in equity for the year ended 31 December 2019.

S Limited
Statement of changes in equity for the year ended 31 December 2019

	Share capital \$	Share premium \$	Retained earnings \$	Total \$

[5]

Additional information

The directors are planning to acquire more machinery in the following year and require a further investment of \$50 000. They are considering two options:

option 1: issue an additional 6% debenture for \$50 000

option 2: make a rights issue of one ordinary share for every five shares held at a premium of \$1 per share.

REQUIRED

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

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