The directors of AB Limited provide the following financial information:			
Income Statement (extract) for the	year ended 30 April 2016 \$		
Revenue Purchases (80% on credit) Expenses	300 000 250 000 27 000		
All sales earned a uniform gross n	nargin of 20%.		
Statement of Financial Position at			
Non-current assets Current assets Inventory Trade receivables Cash and cash equivalents	\$ 160 000  38 000 35 000 45 000 118 000		
Total assets Equity and liabilities Equity	<u>278 000</u>		
Ordinary share capital of \$1 e Share premium Retained earnings	ach 170 000 5 000 <u>25 000</u> 200 000		
Current liabilities Trade payables Other payables	27 000 51 000 78 000		
Total equity and liabilities	<u>278 000</u>		
REQUIRED			
(a) Prepare the income statemen detail as possible.	nt for AB Limited for the year ended 30 April 2016 in as much		
	[4]		

(b)		gest <b>two</b> reasons why the balance on a retained earnings account may be lower than the it for the year.
	1 .	
	2	
		[2]
(c)	Cal	culate the following ratios.
	(i)	Rate of inventory turnover (to <b>two</b> decimal places)
		[2]
	(ii)	Liquid (acid test) ratio (to <b>two</b> decimal places)
		[2]
(	(iii)	Trade payables turnover (days)
		[2]

## **Additional information**

The following information is available for XY Limited, a competitor of AB Limited.

Rate of inventory turnover 8.75 times Liquid (acid test) ratio 0.85:1 Trade payables turnover (days) 42 days

## **REQUIRED**

(d)	Discuss the performance of AB Limited by comparing the ratios calculated in part (c) with those of XY Limited.
	Rate of inventory turnover
	Liquid (acid test) ratio
	Trade payables turnover (days)
	[6]

## **Additional information**

The financial statements of AB Limited for the year ended 30 April 2017 showed a draft profit for the year of \$71 000. A review of the books of account revealed the following errors:

- 1 A sales invoice for \$234 had been recorded as \$324.
- 2 Returns outwards account had been overcast by \$100.
- 3 Inventory of \$1200 had been omitted from closing inventory.

## **REQUIRED**

(f)	Calculate the revised profit for the year ended 30 April 2017.
	[4]
(g)	Explain the difference between a capital reserve and a revenue reserve.
	[4]