

- 2 Q Limited has been in business for a number of years. One of the directors is unsure of the difference between a capital reserve and a revenue reserve.

(a) Explain **one** difference between a capital reserve and a revenue reserve.

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..... [2]

Additional information

The directors of Q Limited provided the following information for the year ended 30 June 2023.

Balances at 1 July 2022	\$
Share capital: ordinary shares of \$0.50 each	30 000
Share premium	4 500
Revaluation reserve	6 000
Retained earnings	50 240
Total equity	90 740
8% debenture (2024)	40 000

At 1 July 2022, land, original cost \$80 000, had a valuation of \$86 000. No other non-current assets had been revalued.

The following transactions took place during the year ended 30 June 2023.

Date	
1 August 2022	Made a bonus issue of one ordinary share for every six shares held. The directors maintained the reserves in the most flexible form.
1 October 2022	Paid a final dividend of \$0.04 per share on all shares in issue at that date.
1 January 2023	Made a rights issue of two ordinary shares for every seven shares held at a price of \$0.65 per share. The issue was fully subscribed.
1 April 2023	Paid an interim dividend of \$0.02 per share on all shares in issue at that date.
30 June 2023	Land was revalued at \$75 000.

The draft profit for the year ended 30 June 2023 was \$43 600.

(b) Prepare the statement of changes in equity for the year ended 30 June 2023.

Q Limited
Statement of changes in equity for the year ended 30 June 2023

	Share capital \$	Share premium \$	Revaluation reserve \$	Retained earnings \$	Total \$
At 1 July 2022					

[8]

Additional information

The directors of Q Limited have plans to expand the business at a total cost of \$54 000 and are considering two options to raise finance.

Option 1:

Make a rights issue of four ordinary shares for every five shares held at a price of \$0.75 per share.

Option 2:

Issue a 10% debenture (2026–2027) of \$54 000.

(c) Advise the directors which option, if either, they should choose. Justify your decision.

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