

- 1 S Limited is a private limited company. The directors have extracted the following information at 30 September 2019.

	\$	\$
6% debentures (2021 – 2022)		68 000
Accrued expenses		2 480
Administrative expenses	63 810	
Bank overdraft		12 770
Carriage inwards	3 600	
Distribution costs	49 330	
Interest paid	8 160	
Inventory at 1 October 2018	62 500	
Freehold property	220 000	
Motor vehicles		
Cost	84 600	
Provision for depreciation at 1 October 2018		38 760
Office equipment		
Cost	68 700	
Provision for depreciation at 1 October 2018		32 300
Prepaid expenses	4 400	
Purchases	392 340	
Retained earnings		69 700
Returns inwards	3 470	
Revenue		764 570
Share capital (ordinary shares of \$1 each)		50 000
Share premium		15 000
Trade payables		48 730
Trade receivables	86 500	
Wages and salaries	54 900	

The following information is also available:

- 1 The value of inventory at 30 September 2019 was \$73 100 at cost. The directors now wish to write off \$2000 in respect of damaged items.
- 2 Purchase of new office equipment of \$6000 had been posted to distribution costs in error.
- 3 Motor vehicles are to be depreciated at 20% per annum using the straight-line method. The estimated residual value of the motor vehicles is \$20 000. Depreciation is to be charged to distribution costs.
- 4 Office equipment is to be depreciated at 15% per annum using the reducing balance method. Depreciation is to be charged to administrative expenses.
- 5 At 30 September 2019 there was an additional accrual for wages and salaries of \$1700. Wages and salaries are to be charged as 70% to administrative expenses and 30% to distribution costs.
- 6 Interest paid included debenture interest paid to 30 June 2019.
- 7 At 30 September 2019 there was an additional prepayment of \$4800 for administrative expenses.
- 8 The directors wish to create a provision for doubtful debts equal to 2% of trade receivables at 30 September 2019 and include it in administrative expenses.

REQUIRED

- (a) Prepare the income statement for the year ended 30 September 2019. the space on the **next page** to show your workings.

S Limited
Income statement for the year ended 30 September 2019

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

Workings:

Cost of sales
Administrative expenses
Distribution costs
Finance costs

-
- 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:

[10]

- (c) Explain the term '6% debentures (2021 – 2022)', which appears in S Limited's financial statements.

.....

.....

.....

.....

.....

.....

[3]

Additional information

Despite having made substantial profit for the year, the directors are concerned that the shareholders have not received any dividends.

They are considering two options:

option 1: paying the shareholders a dividend of \$0.50 per share

option 2: making a bonus issue of 1 ordinary share for every 2 shares held.

REQUIRED

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

[5]