

## Limited companies

### J11/12/ (11/13 same)

2(h) Name two types of shares which may be issued by a limited company.

(i) .....

(ii) .....[2]

### J12/12

2(h) Shazeem owns 6 000 3% preference shares with a nominal value of \$1.50 each in Linga Limited. The company pays the dividend on the preference shares in two equal instalments on 30 April and 30 November.

How much preference dividend did Shazeem receive on 30 April 2012?

.....

.....[2]

### J12/13

2(i) Tapac Limited has issued 200 debentures of \$100 each. Interest at the rate of 3% per annum is payable in two equal instalments on 30 June and 31 December each year.

Calculate the amount of interest to be paid on the debentures on 30 June 2012. Show your workings.

.....

.....

.....[2]

### J12/13

6 Fanza Limited wishes to expand its business and needs to raise extra finance. It is considering issuing either preference shares or debentures.

REQUIRED

(c) State **two** features of preference shares.

(i) .....

.....

.....

(ii) .....

.....

.....[4]

(d) State **two** features of debentures.

(i) .....

.....

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(ii) .....

.....

.....[4]

**J12/22**

4 The financial year of Creekside Ltd ends on 30 April.

The following information is available after the preparation of the income statement and appropriation account for the year ended 30 April 2012.

|   |         |
|---|---------|
|   | \$      |
| Issued share capital 5% Preference shares of \$1 each | 80 000  |
| Ordinary shares of \$1 each                           | 100 000 |
| Retained profit at 1 May 2011                         | 6 500   |
| General reserve                                       | 10 000  |
| Premises at cost                                      | 120 000 |
| Plant and machinery at cost                           | 90 000  |
| Fixtures and fittings at cost                         | 32 000  |
| Inventory   | 24 660  |
| Trade payables  | 26 960  |
| Trade receivables                                     | 21 600  |
| Provision for depreciation on machinery               | 15 500  |
| Provision for depreciation on fixtures and fittings   | 6 400   |
| Provision for doubtful debts                          | 660     |
| Cash  | 200     |
| Bank overdraft  | 5 340   |
| 4% Debentures   | 30 000  |

Additional information

- 1 The profit retained for the year, after appropriations, was \$7 100.
- 2 The preference dividend for the year ended 30 April 2012 has been paid in full.

**REQUIRED**

(a) Prepare the Statement of Financial Position of Creekside Ltd at 30 April 2012.

Creekside Ltd  
Statement of Financial Position at 30 April 2012

|  | \$ | \$ | \$ |
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[15]

Creekside Ltd wishes to purchase additional premises costing \$40 000. It is proposed to obtain this money by issuing either 4% debentures or 5% preference shares.

**REQUIRED**

(b) (i) Calculate the amount of **additional** debenture interest which would have to be paid each year if debentures are issued.

.....  
..... [1]

(ii) State the effect on the profit for the year if additional debentures are issued. Give a reason for your answer.

Effect

.....

Reason

.....  
..... [2]

(c) (i) Calculate the amount of **additional** preference dividend which would have to be paid each year if preference shares are issued.

..... [1]

(ii) State **one** way in which the existing ordinary shareholders may be affected if the company issues additional preference shares.

.....  
.....  
..... [2]

(d) State **one** way in which the existing ordinary shareholders may be affected if the company obtained the money by issuing additional ordinary shares.

.....  
.....  
..... [2]

[Total: 23]

**N12/12**

2(h) Pringle Limited has an issued share capital of \$40 000 divided into ordinary shares of \$0.50 each. The company declared a dividend of \$0.30 per share. What was the total amount of the dividend paid to shareholders?

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.....  
..... [2]

**N12/13**

6 Black Limited has issued 100 000 ordinary shares of \$1.50 each and 120 000 6% preference shares of \$1 each. All the shares are fully paid.

REQUIRED

(a) Calculate the total issued share capital of Black Limited.

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..... [3]

(a) (i) Explain the meaning of the term called-up capital.

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.....  
..... [2]

(ii) Explain the meaning of the term paid-up capital.

.....  
.....  
..... [2]

(c) State **two** differences between ordinary shares and preference shares.

1 .....  
.....  
2 .....  
..... [4]

(d) State **two** differences between ordinary shares and debentures.

1 .....  
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2 .....  
.....[4]

Schmidt is a partner in Schmidt and Kohl, but is also a shareholder in Black Limited. He holds 10 000 ordinary shares and 12 000 preference shares.

Black Limited pays the dividend on the preference shares in two equal instalments on 30 April and 31 October.

Black Limited declared a dividend on the ordinary shares of 12% payable on 31 October 2012 and the preference share dividend was also paid on that date.

REQUIRED

(e) Explain why companies pay dividends on shares.

.....  
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.....[2]

(f) Calculate the total dividend paid to Schmidt on 31 October 2012.

.....  
.....  
.....[5]

(g) State **one** advantage of being an ordinary shareholder in a limited company compared with being a partner.

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.....  
.....[2]

[Total: 24]

**N12/22**

3 White Rose Ltd was formed some years ago. The company raised funds from the issue of ordinary shares and debentures.

**REQUIRED**

(a) Explain why it is an advantage to the shareholders in White Rose Ltd to have limited liability.

.....  
 .....  
 ..... [2]

(b) State two differences between ordinary shares and debentures.

1 .....  
 .....  
 2 .....  
 ..... [4]

White Rose Ltd provided the following information at the end of the financial year on 31 August 2012.

- 1 The issued share capital consisted of 350 000 ordinary shares of \$0.50 each.
- 2 The company had issued 1 000 5% debentures of \$100 each.
- 3 On 1 September 2011:
  - General reserve \$18 500
  - Retained profit \$7 300
- 4 The profit for the year ended 31 August 2012 was \$36 000.
- 5 During the year ended 31 August 2012 an interim dividend of 3% on the ordinary shares was paid.
- 6 On 31 August 2012 it was decided to transfer \$10 000 to general reserve and pay a dividend of 4% on the ordinary shares.

**REQUIRED**

(c) Prepare the statement of changes in equity of White Rose Ltd for the year ended 31 August 2012.

White Rose Ltd  
 statement of changes in equity for the year ended 31 August 2012

| Details             | Share<br>Capital<br>\$ | General<br>Reserve<br>\$ | Retained<br>Earnings<br>\$ | Total<br>\$ |
|---------------------|------------------------|--------------------------|----------------------------|-------------|
| On 1 September 2011 |                        |                          |                            |             |
|                     |                        |                          |                            |             |
|                     |                        |                          |                            |             |
|                     |                        |                          |                            |             |
|                     |                        |                          |                            |             |
| On 31 August 2012   |                        |                          |                            |             |

[9]

- (d) Prepare the capital and reserves section of the Statement of Financial Position of White Rose Ltd At 31 August 2012.

White Rose Ltd  
Extract from Statement of Financial Position at 31 August 2012

Capital and Reserves

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..... [5]

- (e) Prepare the non-current liabilities section of the Statement of Financial Position of White Rose Ltd At 31 August 2012.

White Rose Ltd  
Extract from Statement of Financial Position at 31 August 2012

Non-current liabilities

.....

..... [2]

[Total: 22]

**J13/12**

- 6** Jarvis Limited provided the following information about its assets and liabilities:

| At 31 March                         | 2012   | 2013   |
|-------------------------------------|--------|--------|
|                                     | \$     | \$     |
| Machinery at book value             | 95 000 | 76 000 |
| Fixtures and fittings at book value | 11 000 | 36 000 |
| Vehicle at book value               | 4 000  | 26 000 |
| Inventory                           | 19 000 | 27 000 |
| Trade receivables                   | 16 000 | 18 000 |
| Bank                                | 8 000  | -      |
| Trade payables                      | 14 000 | 21 000 |
| Bank overdraft                      | -      | 6 000  |
| Long term loan                      | 10 000 | 15 000 |

- (a)(i) Calculate to **two** decimal places the current ratio at **both** 31 March 2012 and 31 March 2013.

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.....

..... [4]

(ii) Suggest **one** reason for the change in the current ratio.

.....  
.....  
.....[1]

(b)(i) Calculate to **two** decimal places the quick ratio (acid test ratio) at both 31 March 2012 and 31 March 2013.

.....  
.....  
.....  
.....[4]

(ii) Suggest **one** possible effect of the change in the quick ratio (acid test ratio).

.....  
.....  
.....[2]

(c) Suggest **two** reasons for the change in the company's bank balance

.....  
.....  
.....  
.....[2]

The equity section of Jarvis Limited's Statement of Financial Positions showed the following:

| At 31 March                    | 2012    | 2013    |
|--------------------------------|---------|---------|
|                                | \$      | \$      |
| Ordinary shares of \$0.50 each | 100 000 | 100 000 |
| Retained earnings              | 29 000  | 31 000  |
| General reserve                | -       | 10 000  |

The profit for the year ended 31 March 2013 was \$26 000.

On 1 June 2012 the directors paid a dividend of \$0.03 per share. On 15 January 2013 they paid a further dividend of 8%.

(d) Prepare the appropriation account for the year ended 31 March 2013.

Jarvis Limited  
Appropriation Account for the year ended 31 March 2013

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[7]

(e) Explain why Jarvis Limited created a general reserve.

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 .....  
 ..... [2]

(f) Explain the difference between authorised and issued share capital.

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 .....  
 .....  
 ..... [2]

[Total: 24]

**J13/21**

4 The financial year of Sildean Ltd ends on 30 April. The following balances appeared on the books after the preparation of the income statement for the year ended 30 April 2013.

|  | \$      |
|--|---------|
| Non-current assets at cost                           | 206 000 |
| Provision for depreciation of non-current assets     | 12 500  |
| Ordinary share capital 280 000 shares of \$0.50 each | 140 000 |
| 4% Debentures  | 40 000  |
| Trade payables                                       | 14 156  |
| Trade receivables                                    | 15 400  |
| Inventory  | 16 300  |
| Petty cash   | 200     |
| Bank overdraft                                       | 7 982   |
| Provision for doubtful debts                         | 462     |
| General reserve 1 May 2012                           | 10 000  |
| Retained profits 1 May 2012                          | 2 000   |

Additional information

- 1 The profit for the year ended 30 April 2013 before debenture interest was \$24 800.
- 2 During the year ended 30 April 2013 an interim ordinary share dividend of \$0.05 per share was paid.
- 3 At 30 April 2013:

A whole year's interest on debentures was accrued  
No final ordinary share dividend was proposed  
It was proposed to transfer \$5 000 to general reserve

(a) Calculate the retained profit for the year ended 30 April 2013.

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.....[4]

(b) Prepare the Statement of Financial Position of Sildean Ltd at 30 April 2013.

Sildean Ltd  
Statement of Financial Position at 30 April 2013

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[10]

(c)(i) Calculate the current ratio at 30 April 2013. The calculation should be correct to **two** decimal places.

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 ..... [2]

(ii) Calculate the quick ratio at 30 April 2013. The calculation should be correct to **two** decimal places.

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 ..... [2]

(iii) Explain the importance of the quick ratio to Sildean Ltd.

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 .....  
 .....  
 ..... [2]

(iv) Suggest **two** ways in which Sildean Ltd could increase the quick ratio.

1.....  
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2.....  
.....[2]

(d) Explain **two** features of ordinary shares.

1.....  
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2.....  
.....[2]

(e) Explain two features of debentures.

1.....  
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2.....  
.....[2]

[Total: 26]

**N13/11**

2(a) Name two items which might be deducted from profit in the appropriation account of a limited company.

.....  
.....[2]

(b) Explain what is meant by the term 'limited liability'.

.....  
.....  
.....[2]

(c) Complete the following sentences.

Authorised share capital is the ..... amount of share capital a company is allowed to issue.

The amount of share capital a company has requested from shareholders is known as ..... capital.

Paid up capital represents the proportion of shares for which ..... has been received.

[3]

- (d) A limited company has issued 1 million shares of \$0.50 each. The directors declare a dividend of 8%. Calculate the dividend per share.

.....  
.....[1]

**N13/23**

- 3** Glenbrook Limited has an issued share capital consisting of 40 000 5% preference shares of \$1 each and 120 000 ordinary shares of \$0.50 each. It also has \$20 000 in 4% debentures.

The financial year of Glenbrook Limited ends on 31 October.

The following information is available.

- 1 At 1 November 2012
- |   | \$      |
|---|---------|
| Premises at cost                                  | 105 000 |
| Plant and machinery at cost                       | 40 000  |
| Provision for depreciation of plant and machinery | 12 800  |
| Office equipment at cost                          | 16 000  |
| Provision for depreciation of office equipment    | 4 000   |
| Retained profits                                  | 6 200   |
- 2 The plant and machinery is being depreciated at 16% per annum using the straight line method. The office equipment is being depreciated at 25% per annum using the reducing (diminishing) balance method.  
No non-current assets were bought or sold during the year.

- 3 At 31 October 2013
- |                   | \$     |
|-------------------|--------|
| Inventory         | 9 300  |
| Trade receivables | 12 100 |
| Trade payables    | 10 208 |
| Other receivables | 241    |
| Bank overdraft    | 14 920 |
| Petty cash        | 100    |

The provision for doubtful debts was 3% of trade receivables.  
The preference dividend for the year had been paid in full.  
No ordinary share dividend was paid or proposed.  
The retained profit for the year was \$4 850.

- (a) Prepare the Statement of Financial Position of Glenbrook Limited at 31 October 2013.

Glenbrook Limited  
Statement of Financial Position at 31 October 2013

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[16]

(b) State two differences between preference shares and debentures.

- 1 .....  
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- 2 .....  
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..... [4]

The quality of information contained in financial statements will determine the usefulness of those statements.

(c)(i) Explain what is meant by the objective of reliability when selecting accounting policies.

- .....  
.....  
..... [2]

(ii) List **three** other objectives which should be considered when selecting accounting policies.

- 1 .....
- 2 .....
- 3 ..... [3]

[Total: 25]

**J14/11**

**3(e)** The company's statement of financial position contains entries for ordinary share capital, preference share capital, debentures and a bank loan.

Explain one difference

(i) between ordinary shares and preference shares

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.....  
.....  
.....[2]

(ii) between ordinary shares and debentures.

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.....[2]

(f) The 6% bank loan of \$50 000 was taken out on 1 July 2013. Calculate the interest charged in the income statement for the year ended 28 February 2014.

.....  
.....[2]

(g) Name two interested parties who would use the financial statements of Highfield Manufacturing Limited.

1 .....  
2 .....[2]

**J14/12**

**3(c)** State two differences between debentures and ordinary shares.

1 .....  
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2 .....  
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.....[4]

- (d) Explain why a limited company might decide not to distribute all of its profit for the year in the form of a dividend.

.....  
.....  
.....[2]

**J14/21**

**4** The financial year of LWS Limited ends on 30 April.

The following information was available on 30 April 2014.

|                       |   |
|-----------------------|---|
| Paid-up share capital | 140 000 ordinary shares of \$0.50 each<br>50 000 6% preference shares of \$1 each |
| Loan capital          | 30 000 5% debentures of \$1 each  |

On 1 May 2013 the retained profits amounted to \$7 500.

On 1 November 2013 debenture interest for the period 1 May to 31 October 2013 was paid.

On 29 April 2014 the annual preference share dividend was paid.

On 30 April 2014 debenture interest for the period 1 November 2013 to 30 April 2014 was accrued.

On 30 April 2014 the directors recommended a transfer of \$4 000 to a general reserve and a payment of an ordinary share dividend of 8%.

The profit for the year ended 30 April 2014 before interest amounted to \$18 600.

**REQUIRED**

- (a) Calculate the following.

Total debenture interest for the year (in \$)

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.....  
.....

Preference share dividend paid (in \$)

.....  
.....

Ordinary share dividend to be paid (in \$)

.....  
.....[3]

- (b) State why the company made a transfer to general reserve.

.....  
.....[1]

(c) Calculate the profit retained in the year.

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.....  
.....[5]

(d) Prepare the capital and reserves section of the statement of financial position of LWS Limited at 30 April 2014.

LWS Limited  
Extract from Statement of Financial Position at 30 April 2014

**Capital and reserves**

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.....  
.....[4]

(e) Name the section of the statement of financial position of LWS Limited at 30 April 2014 in which debentures would appear.

.....[1]

(f) (i) Name the section of the statement of financial position of LWS Limited at 30 April 2014 in which debenture interest would appear.

.....[1]

(ii) State the amount of debenture interest which would appear in the statement of financial position of LWS Limited at 30 April 2014.

.....[1]

[Total: 16]

**N14/13**

6 (a) Explain why a sole trader might convert his business into a limited company.

.....  
 .....[1]

(b) Name one type of share capital other than ordinary share capital.

.....[1]

Two companies provided the following information.

|   | ABC Limited | XYZ Limited |
|---|-------------|-------------|
|   | \$          | \$          |
| At 1 January 2013                               |             |             |
| Retained profit                                 | 29 300      | 14 100      |
| For the year ended 31 December 2013             |             |             |
| Profit from operations (profit before interest) | 15 000      | 15 000      |
| Dividend paid per share                         | 0.03        | 0.05        |
| At 31 December 2013                             |             |             |
| 10% debentures (issued in 2009)                 | 15 000      |             |
| 8% debentures (issued in 2008)                  |             | 100 000     |
| Ordinary shares of \$0.50 each                  | 130 000     |             |
| Ordinary shares of \$1.00 each                  |             | 62 000      |
| Non-current assets                              | 100 000     | 100 000     |
| Net current assets                              | 80 000      | 80 000      |

During the year ended 31 December 2013 the directors of ABC Limited decided to create a general reserve of \$5 000.

**REQUIRED**

(c) Explain why a company might wish to create a general reserve.

.....  
 .....[2]

(d) Calculate the profit after interest for the year ended 31 December 2013 for each of the companies.

ABC Limited .....

.....

.....

.....

XYZ Limited .....  
 .....  
 .....  
 ..... [4]

- (e) Prepare the statement of changes in equity for the year ended 31 December 2013 for each of the companies.

ABC Limited  
 Statement of changes in equity for the year ended 31 December 2013

| Details             | Share<br>Capital<br>\$ | General<br>Reserve<br>\$ | Retained<br>Earnings<br>\$ | Total<br>\$ |
|---------------------|------------------------|--------------------------|----------------------------|-------------|
| On 1 January 2013   |                        |                          |                            |             |
|                     |                        |                          |                            |             |
|                     |                        |                          |                            |             |
|                     |                        |                          |                            |             |
|                     |                        |                          |                            |             |
| On 31 December 2013 |                        |                          |                            |             |

XYZ Limited  
 Statement of changes in equity for the year ended 31 December 2013

| Details             | Share<br>Capital<br>\$ | General<br>Reserve<br>\$ | Retained<br>Earnings<br>\$ | Total<br>\$ |
|---------------------|------------------------|--------------------------|----------------------------|-------------|
| On 1 January 2013   |                        |                          |                            |             |
|                     |                        |                          |                            |             |
|                     |                        |                          |                            |             |
|                     |                        |                          |                            |             |
|                     |                        |                          |                            |             |
| On 31 December 2013 |                        |                          |                            |             |

[11]

- (f) Explain why these two companies, having the same capital employed, can have different retained profits for the year.

.....  
 .....  
 .....  
 ..... [2]

(g) Prepare the summarised statement of financial position of ABC Limited at 31 December 2013. [6]

ABC Limited  
Statement of Financial Position at 31 December 2013

|  | \$ | \$ | \$ |
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(h) Antoinette bought \$20 000 of shares in each company when they were formed. Suggest two reasons why she is happier with her investment in ABC Limited than her investment in XYZ Limited.

- 1 .....
- 2 .....

[4]  
[Total: 31]

**N14/22**

5 Watson Limited provided the following information.

Trial Balance at 30 September 2014  
(After the preparation of the Income Statement for the year ended 30 September 2014)

|   | \$             | \$             |
|---|----------------|----------------|
| Premises at cost                                    | 99 000         |                |
| Fixtures and fittings at cost                       | 65 000         |                |
| Motor vehicles at cost                              | 33 000         |                |
| Provision for depreciation of fixtures and fittings |                | 23 000         |
| Provision for depreciation of motor vehicles        |                | 11 000         |
| Ordinary share capital                              |                | 120 000        |
| General reserve (1 October 2013)                    |                | 20 000         |
| Retained profits (1 October 2013)                   |                | 9 000          |
| Profit for the year                                 |                | 38 000         |
| Interim ordinary share dividend                     | 6 000          |                |
| 4% Debentures                                       |                | 10 000         |
| Inventory (30 September 2014)                       | 19 300         |                |
| Trade payables                                      |                | 16 300         |
| Trade receivables                                   | 28 000         |                |
| Other payables                                      |                | 350            |
| Other receivables                                   | 300            |                |
| Provision for doubtful debts                        |                | 1 400          |
| Bank  |                | 2 050          |
| Cash  | 500            |                |
|   | <b>251 100</b> | <b>251 100</b> |

Appropriation Account for the year ended 30 September 2014

|                                      | \$     | \$     |
|--------------------------------------|--------|--------|
| Profit for the year                  |        | 38 000 |
| Less: Ordinary share dividend – paid | 6 000  |        |
| proposed                             | 2 000  |        |
|                                      | 8 000  |        |
| Transfer to general reserve          | 12 000 | 20 000 |
| Profit retained in the year          |        | 18 000 |
| Retained profit brought forward      |        | 9 000  |
| Retained profit carried forward      |        | 27 000 |

REQUIRED

(a) Prepare the statement of financial position of Watson Limited at 30 September 2014.

Watson Limited  
Statement of Financial Position at 30 September 2014

|  | \$ | \$ | \$ |
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[15]

Watson Limited requires funds for expansion and is considering raising the money by issuing more debentures.

REQUIRED

(b) State two features of debentures.

1 .....  
 .....

2 .....  
 .....[2]



Following additional information is available:

- 1 Retained earnings at 1 February 2014 were \$51 500.
- 2 The interim ordinary dividend paid during the year was \$0.04 per share.
- 3 The preference dividend was paid on time.

REQUIRED

(b) Calculate the profit for the year ended 31 January 2015.

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.....  
..... [4]

(c) Calculate the profit from operations (profit before interest) for the year ended 31 January 2015.

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.....  
..... [4]

(d) Calculate the return on capital employed (ROCE).

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.....  
.....  
..... [4]

(e) State one reason why the directors would wish to know the ROCE.

.....  
..... [1]

Arsan Zarif, TCS <PAF Chapter>

(f) State why the directors chose to issue debentures rather than issue more ordinary shares.

.....  
 .....  
 .....[1]

[Total: 24]

**J15/22**

5 Craven Limited provided the following information at the start of the financial year on 1 April 2014.

|                        |         |
|------------------------|---------|
|                        | \$      |
| Ordinary share capital | 200 000 |
| General reserve        | 17 000  |
| Retained earnings      | 9 000   |

During the year ended 31 March 2015 the following took place.

- 1 The company made a profit for the year of \$43 000.
- 2 A dividend of \$16 000 was paid on the ordinary shares.
- 3 A transfer of \$15 000 was made to general reserve.

**REQUIRED**

(a) Complete the following statement of changes in equity for the year ended 31 March 2015.

Craven Limited  
 Statement of Changes in Equity for the year ended 31 March 2015

| Details                     | Share<br>Capital<br>\$ | General<br>Reserve<br>\$ | Retained<br>Earnings<br>\$ | Total<br>\$ |
|-----------------------------|------------------------|--------------------------|----------------------------|-------------|
| On 1 April 2014             | 200 000                | 17 000                   | 9 000                      | 226 000     |
| Profit for the year         |                        |                          |                            |             |
| Dividend paid               |                        |                          |                            |             |
| Transfer to general reserve |                        |                          |                            |             |
| On 31 March 2015            |                        |                          |                            |             |

[4]

Craven Limited provided the following information at 31 March 2015.

|                                      |         |
|--------------------------------------|---------|
|                                      | \$      |
| Premises at cost                     | 179 000 |
| Fixtures and equipment at book value | 54 000  |
| Motor vehicles at book value         | 22 500  |
| 5% Debentures                        | 15 000  |
| Inventory at 31 March 2015           | 26 525  |
| Trade payables                       | 26 375  |
| Trade receivables                    | 21 000  |
| Provision for doubtful debts         | 525     |
| Bank overdraft                       | 8 125   |

**REQUIRED**

(b) Prepare a statement of financial position at 31 March 2015.

Craven Limited  
Statement of Financial Position at 31 March 2015

|  | \$ | \$ | \$ |
|--|----|----|----|
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[13]

Craven Limited wants to raise funds for expansion. It is considering either issuing more ordinary shares or more debentures.

REQUIRED

(c) State two features of ordinary shares.

- 1 .....  
.....
- 2 .....  
..... [2]

(d) State two features of debentures.

- 1 .....  
.....
- 2 .....  
..... [2]

(e) State two ways the issue of debentures may affect the ordinary shareholders.

- 1 .....  
.....
- 2 .....  
..... [2]

[Total: 23]

**N15/13**

6 On 1 January 2014 General Stores Limited had fixtures and fittings which had cost \$31 500.

On 1 March 2014 it paid by cheque for new fixtures and fittings, \$17 400, and sold old fixtures and fittings with an original cost of \$6 000. There was no profit or loss on this disposal.

General Stores Limited provides for depreciation on fixtures and fittings at a rate of 30% per annum on the straight-line basis.

It provides a full year’s depreciation in the year of purchase and none in the year of disposal.

**REQUIRED**

(a) Prepare the fixtures and fittings account for the year ended 31 December 2014. Balance the account and bring down the balance on 1 January 2015.

General Stores Limited  
Fixtures and fittings account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
|      |         |    |      |         |    |
|      |         |    |      |         |    |
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[5]

(b) Calculate the depreciation charge for the year ended 31 December 2014.

.....

.....

.....[2]

The company provided the following additional information for the year ended 31 December 2014.

|                             |         |
|-----------------------------|---------|
|                             | \$      |
| Revenue                     | 227 000 |
| Purchases                   | 129 000 |
| Sales assistants’ wages     | 15 900  |
| Office salaries             | 12 060  |
| Rent                        | 24 000  |
| Other operating expenses    | 6 220   |
| Dividend paid               | 10 000  |
| Interest paid               | 15 000  |
| Transfer to general reserve | 5 000   |

Inventory values were as follows.

|                  |        |
|------------------|--------|
|                  | \$     |
| 1 January 2014   | 41 200 |
| 31 December 2014 | 44 520 |

**REQUIRED**

- (c) Prepare the income statement for the year ended 31 December 2014.

General Stores Limited  
Income Statement for the year ended 31 December 2014



[10]

- (d) Complete the following statement of changes in equity for the year ended 31 December 2014.

General Stores Limited  
Statement of Changes in Equity for the year ended 31 December 2014

| Details                     | Share Capital<br>\$ | General Reserve<br>\$ | Retained Earnings<br>\$ | Total<br>\$ |
|-----------------------------|---------------------|-----------------------|-------------------------|-------------|
| On 1 January 2014           | 100 000             | 20 000                | 4 810                   | 124 810     |
| Profit for the year         |                     |                       |                         |             |
| Dividend paid               |                     |                       |                         |             |
| Transfer to general reserve |                     |                       |                         |             |
| On 31 December 2014         |                     |                       |                         |             |

[5]

(e) Calculate to **two** decimal places the net profit margin.

.....  
.....  
.....[2]

(f) Explain why the ratio for General Stores Limited is lower than that of the neighbouring shop.

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....[6]

(g) Suggest **three** ways in which General Stores Limited might improve its net profit margin.

1 .....  
.....  
.....  
2 .....  
.....  
.....  
3 .....  
.....[3]

[Total: 33]

**N15/22**

5 Kelbrook Limited provided the following information.

- 1 The issued share capital consists of 180 000 ordinary shares of \$0.50 each.
- 2 On 1 October 2014:

|                   |         |
|-------------------|---------|
| General reserve   | \$4 000 |
| Retained earnings | \$5 500 |
- 3 The profit for the year ended 30 September 2015 was \$9 000.  
\$2 000 of this was transferred to the general reserve.  
An interim dividend of \$4 500 was paid during the year.  
No dividends were proposed at the end of the year.

**REQUIRED**

(a) Prepare the equity and reserves section of the statement of financial position at 30 September 2015.

Kelbrook Limited  
Extract from Statement of Financial Position at 30 September 2015

.....

.....

.....

.....

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.....

.....

[5]

**J16/12**

**5 (a)** State **three** reasons why a sole trader might wish to turn his business into a limited company.

- 1 .....
- 2 .....
- 3 ..... [3]

**(b)** State the term used to describe **each** of the following.

| Definition  | Term |
|---|------|
| the value of shares which a company has requested from its shareholders |      |
| the value of shares for which the company has received cash             |      |

[2]

AC Industries Limited provided the following information.

|                                     | \$      |
|-------------------------------------|---------|
| At 31 March 2015                    |         |
| Ordinary shares of \$1 each         | 100 000 |
| General reserve                     | 20 000  |
| Retained earnings                   | 36 800  |
| During the year ended 31 March 2016 |         |
| Profit for the year                 | 19 300  |
| Transfer to general reserve         | 5 000   |
| Interim dividend paid               | 7 000   |
| New shares issued                   | 10 000  |
| Long-term bank loan received        | 15 000  |
| At 31 March 2016                    |         |
| Inventory                           | 17 800  |
| Trade receivables                   | 8 000   |
| Bank overdraft                      | 2 500   |
| Trade payables                      | ?       |
| Current ratio                       | 1.2 : 1 |



(e) Suggest **one** reason why the directors might have taken out the loan.

.....  
 .....[1]

(f) Name and calculate **one** ratio (other than the current ratio given) which would help the directors assess the liquidity position of the company. Your calculation should be to **two** decimal places.

Name of ratio .....  
 Calculation .....  
 .....  
 .....  
 .....[4]

(g) Comment on the liquidity position of the company on 31 March 2016.

.....  
 .....  
 .....  
 .....  
 .....  
 .....[4]

[Total: 30]

**J16/21**

**4** At the end of the financial year on 29 February 2016 Nyeko Limited provided the following information.

|                             |                |
|-----------------------------|----------------|
| On 28 February 2015:        | \$             |
| 4% Debentures               | <u>80 000</u>  |
| Equity and reserves         |                |
| Ordinary shares of \$1 each | 200 000        |
| General reserve             | 34 000         |
| Retained earnings           | <u>8 000</u>   |
|                             | <u>242 000</u> |

During the year ended 29 February 2016:

|             |  |        |
|-------------|--|--------|
| 2015        |  | \$     |
| March 1     | Issue of ordinary shares of \$1 each   | 50 000 |
| May 1       | Payment of final dividend on ordinary shares for the financial year ended 28 February 2015   | 8 000  |
| November 1  | Payment of interim dividend on ordinary shares for the financial year ended 29 February 2016 | 6 250  |
| 2016        |  |        |
| February 29 | Transfer to general reserve  | 6 000  |
|             | Proposed final ordinary share dividend for the financial year ended 29 February 2016         | 5 000  |

For the year ended 29 February 2016:

|   |         |
|---|---------|
| Revenue                                       | 180 200 |
| Profit for the year before debenture interest | 19 360  |

**REQUIRED**

(a) Calculate the profit for the year ended 29 February 2016 after debenture interest.

.....  
 .....[2]

(b) (i) Calculate the percentage (%) **final** ordinary share dividend for the year ended 28 February 2015. Show your workings.

.....  
 .....[1]

(ii) Calculate the percentage (%) **total** ordinary share dividend for the year ended 29 February 2016. Show your workings.

.....  
 .....  
 .....  
 .....[3]

(c) Prepare the statement of changes in equity for the year ended 29 February 2016.

Nyeko Limited  
 Statement of Changes in Equity for the year ended 29 February 2016

| Details | Share Capital<br>\$ | General Reserve<br>\$ | Retained Earnings<br>\$ | Total<br>\$ |
|---------|---------------------|-----------------------|-------------------------|-------------|
|         |                     |                       |                         |             |
|         |                     |                       |                         |             |
|         |                     |                       |                         |             |
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|         |                     |                       |                         |             |

[7]

(d) (i) Calculate the profit for the year after debenture interest as a percentage of revenue. The calculation should be to **two** decimal places. Show your workings.

.....  
 .....  
 .....[2]

(ii) Suggest **two** ways in which the profit for the year as a percentage of revenue could be improved.

1 .....

.....

2 .....

.....[2]

(e) (i) Calculate the profit for the year ended 29 February 2016 after debenture interest as a percentage of equity and reserves on 28 February 2015.

The calculation should be to **two** decimal places. Show your workings.

.....

.....

.....[2]

(ii) Suggest **two** ways in which the profit for the year as a percentage of equity and reserves could be improved.

1 .....

.....

2 .....

.....[2]

The directors of Nyeko Limited wish to raise additional funds to finance a programme of expansion. They are considering raising \$60 000 by an issue of 5% preference shares of \$1 each.

**REQUIRED**

(f) State **two** ways in which the ordinary shareholders may be affected if Nyeko Limited raised the additional funds by the issue of preference shares.

1 .....

.....

2 .....

.....[2]

**[Total: 23]**

**N16/22**

5 The financial year of Sandton Limited ends on 30 September.

During the year ended 30 September 2016 the following transactions took place.

- 1 The company made a profit for the year of \$14 750.
- 2 An interim dividend of \$4 500 was paid on the ordinary shares.
- 3 A transfer of \$5 000 was made to general reserve.

**REQUIRED**

(a) Complete the following statement of changes in equity for the year ended 30 September 2016.

Sandton Limited  
Statement of Changes in Equity for the year ended 30 September 2016

| Details                     | Share<br>Capital<br>\$ | General<br>Reserve<br>\$ | Retained<br>Earnings<br>\$ | Total<br>\$ |
|-----------------------------|------------------------|--------------------------|----------------------------|-------------|
| On 1 October 2015           | 150 000                | 14 000                   | 31 000                     | 195 000     |
| Profit for the year         |                        |                          |                            |             |
| Dividend paid               |                        |                          |                            |             |
| Transfer to general reserve |                        |                          |                            |             |
| On 30 September 2016        |                        |                          |                            |             |

[4]

Sandton Limited provided the following information at 30 September 2016.

|   |              |
|---|--------------|
|   | \$           |
| 3% Debentures (repayable 2020)                      | 15 000       |
| Premises at cost                                    | 135 200      |
| Fixtures and equipment at cost                      | 37 600       |
| Motor vehicles at cost                              | 54 000       |
| Provision for depreciation – fixtures and equipment | 7 520        |
| motor vehicles                                      | 10 800       |
| Trade receivables                                   | 10 840       |
| Trade payables                                      | 7 460        |
| Other receivables                                   | 472          |
| Other payables                                      | 130          |
| Bank  | 4 294 credit |
| Inventory   | 12 613       |
| Provision for doubtful debts                        | 271          |

**REQUIRED**

(b) Prepare a statement of financial position at 30 September 2016.

Sandton Limited  
Statement of Financial Position at 30 September 2016

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[14]

Sandton Limited sells and buys on both cash and credit terms. Credit customers are allowed 28 days in which to pay their accounts. The credit suppliers allow Sandton Limited 30 days in which to pay their accounts.

The following information was available for the year ended 30 September 2016.

|        | Sales   | Purchases |
|--------|---------|-----------|
|        | \$      | \$        |
| Cash   | 67 500  | 28 600    |
| Credit | 152 500 | 95 000    |

**REQUIRED**

(c) (i) Calculate the collection period for trade receivables. Use the amount of trade receivables before the provision for doubtful debts. Round up your answer to the next whole day.

.....  
.....  
..... [2]

(ii) Calculate the payment period for trade payables. Round up your answer to the next whole day.

.....  
.....  
..... [2]

(iii) Comment on your answers to (c)(i) and (c)(ii).

.....  
.....  
.....  
..... [2]

[Total: 24]

**N16/23**

2 The financial year of Crossroads Limited ends on 31 October.

The partially completed statement of changes in equity for the year ended 31 October 2016 was as follows:

|   | Ordinary<br>share<br>capital<br>\$ | General<br>Reserve<br>\$ | Retained<br>Earnings<br>\$ | Total<br>\$ |
|---|------------------------------------|--------------------------|----------------------------|-------------|
| On 1 November 2015  | 350 000                            | 16 000                   | 46 000                     | 412 000     |
| Share issue   | 50 000                             |                          |                            | 50 000      |
| Profit for the year                                       |                                    |                          | 72 000                     | 72 000      |
| Final dividend paid (for year<br>ended 31 October 2015)   |                                    |                          | (17 500)                   | (17 500)    |
| Interim dividend paid (for year<br>ended 31 October 2016) |                                    |                          | (10 500)                   | (10 500)    |
| Transfer to general reserve                               |                                    | 15 000                   | (15 000)                   | –           |
| On 31 October 2016  |                                    |                          |                            |             |

The following additional information was also available on 31 October 2016.

|   |                  |
|---|------------------|
|   | \$               |
| Premises at cost  | 363 000          |
| Machinery and equipment at cost   | 185 000          |
| Fixtures and fittings at cost   | 70 000           |
| Provision for depreciation – machinery and equipment<br>fixtures and fittings | 83 250<br>24 073 |
| Inventory   | 30 853           |
| Trade receivables   | 28 000           |
| Trade payables  | 31 600           |
| Rates paid in advance   | 1 340            |
| Debenture interest accrued  | 800              |
| Wages accrued   | 320              |
| Bank  | 11 400 credit    |
| Provision for doubtful debts  | 750              |
| 4% debentures (repayable 2026)  | 20 000           |

**REQUIRED**

(a) Prepare the statement of financial position on 31 October 2016.

Crossroads Limited  
Statement of Financial Position at 31 October 2016

|  | \$ | \$ | \$ |
|--|----|----|----|
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[15]

**(b)** State the meaning of **each** of the following terms.

Issued share capital

.....  
.....

Called-up share capital

.....  
.....

Paid-up share capital

.....  
..... [3]

[Total: 18]

**J17/11**

- 5 JW Limited extracted the following balances from its books of account on 30 April 2017, **after** the gross profit had been calculated.

|   |              |
|---|--------------|
|   | \$           |
| Gross profit                            | 63 000       |
| Distribution costs                      | 24 000       |
| Administrative expenses                 | 16 000       |
| Interim dividend paid                   | 6 000        |
| Debenture interest                      | 3 000        |
| Ordinary shares of \$1 each             | 100 000      |
| General reserve                         | 50 000       |
| Retained earnings                       | ?            |
| Equipment at cost                       | 260 000      |
| Provision for depreciation of equipment | 65 000       |
| Inventory                               | 33 000       |
| Trade receivables                       | 14 000       |
| Bank                                    | 6 800 credit |
| Trade payables                          | 17 500       |
| 10% Debentures (repayable 2025)         | 30 000       |

**REQUIRED**

- (a) Prepare the trial balance at 30 April 2017. Insert a value for retained earnings.

JW Limited  
Trial Balance at 30 April 2017

|   | Debit<br>\$ | Credit<br>\$ |
|---|-------------|--------------|
| Gross profit                            |             |              |
| Distribution cost                       |             |              |
| Administrative expenses                 |             |              |
| Interim dividend paid                   |             |              |
| Debenture interest                      |             |              |
| Ordinary shares of \$1 each             |             |              |
| General reserve                         |             |              |
| Retained earnings                       |             |              |
| Equipment at cost                       |             |              |
| Provision for depreciation of equipment |             |              |
| Inventory                               |             |              |
| Trade receivables                       |             |              |
| Trade payables                          |             |              |
| 10% Debentures (repayable 2025)         |             |              |
|   |             |              |

[9]

(b) Calculate the profit for the year. The depreciation charge for the year was \$13 000.

.....  
 .....  
 .....  
 .....  
 .....  
 .....  
 .....  
 .....  
 .....[4]

The directors of the company transferred \$10 000 to general reserve on 30 April 2017.

**REQUIRED**

(c) Prepare the statement of changes in equity for the year ended 30 April 2017.

JW Limited  
 Statement of Changes in Equity for the year ended 30 April 2017

|                  | Share capital<br>\$ | General Reserve<br>\$ | Retained Earnings<br>\$ | Total<br>\$ |
|------------------|---------------------|-----------------------|-------------------------|-------------|
| On 1 May 2016    |                     |                       |                         |             |
|                  |                     |                       |                         |             |
|                  |                     |                       |                         |             |
|                  |                     |                       |                         |             |
| On 30 April 2017 |                     |                       |                         |             |

[8]

(d) Calculate to **two** decimal places the return on capital employed (ROCE) for the year ended 30 April 2017. (Use closing capital employed.)

.....  
 .....  
 .....  
 .....  
 .....  
 .....  
 .....  
 .....[4]

(e) Suggest **two** reasons why JW Limited’s return on capital employed (ROCE) is lower than the industry average.

1 .....

2 .....

.....[2]

(f) Suggest **three** ways in which JW Limited could increase its return on capital employed (ROCE).

- 1 .....
- .....
- 2 .....
- .....
- 3 .....
- .....[3][Total: 30]

**N17/21**

5 The financial year of CP Limited ends on 30 September.

The following information is available.

|                                |         |
|--------------------------------|---------|
| On 1 October 2016              | \$      |
| Ordinary shares of \$1 each    | 500 000 |
| General reserve                | 11 000  |
| Retained earnings              | 14 000  |
| 3% Debentures (repayable 2031) | 75 000  |

**REQUIRED**

(a) Calculate the return on capital employed (ROCE) at 1 October 2016. Use a profit of \$43 000. The calculation should be correct to **two** decimal places.

- .....
- .....
- ..... [3]

On 2 October 2016 an additional 100 000 ordinary shares of \$1 were issued. These shares qualified for dividends relating to the financial year ended 30 September 2017.

The following dividends were paid.

|             |   |        |
|-------------|---|--------|
| 2016        |   | \$     |
| December 31 | Payment of final ordinary share dividend for the year ended 30 September 2016   | 25 000 |
| 2017        |   |        |
| June 30     | Payment of interim ordinary share dividend for the year ended 30 September 2017 | 15 000 |

The profit for the year ended 30 September 2017 before debenture interest was \$71 000.

On 30 September 2017 a transfer was made of \$5000 to general reserve. On that date a final ordinary share dividend for the year ended 30 September 2017 of \$30 000 was proposed.

**REQUIRED**

(b) Calculate the percentage (%) final ordinary share dividend for the year ended 30 September 2016.

- .....
- .....
- ..... [1]

(c) Calculate the percentage (%) total ordinary share dividend for the year ended 30 September 2017.

.....  
 .....  
 .....  
 ..... [3]

(d) Calculate the profit for the year ended 30 September 2017 **after** debenture interest.

.....  
 ..... [2]

(e) Prepare the statement of changes in equity for the year ended 30 September 2017.

CP Limited  
 Statement of Changes in Equity for the year ended 30 September 2017

|                             | Ordinary share capital<br>\$ | General Reserve<br>\$ | Retained Earnings<br>\$ | Total<br>\$ |
|-----------------------------|------------------------------|-----------------------|-------------------------|-------------|
| <i>On 1 October 2016</i>    |                              |                       |                         |             |
|                             |                              |                       |                         |             |
|                             |                              |                       |                         |             |
|                             |                              |                       |                         |             |
|                             |                              |                       |                         |             |
|                             |                              |                       |                         |             |
| <i>On 30 September 2017</i> |                              |                       |                         |             |

[7]

CP Limited wants to expand and requires \$300 000. It is considering raising the funds from either issuing additional 3% debentures or issuing 4% preference shares.

**REQUIRED**

(f) State **two** features of debentures.

1 .....  
 .....  
 2 .....  
 ..... [2]

(g) State **two** features of preference shares.

1 .....  
 .....  
 2 .....  
 ..... [2]

(h) Complete the following table to indicate the effect of issuing debentures. Where there is no effect, place a tick (✓) in the column headed “no effect”. The first item has been completed as an example.

|  | Increase<br>\$ | Decrease<br>\$ | No effect |
|--|----------------|----------------|-----------|
| effect on current assets                             | 300 000        |                |           |
| effect on non-current liabilities                    |                |                |           |
| effect on profit for the year                        |                |                |           |
| effect on profit available for ordinary shareholders |                |                |           |
| effect on equity                                     |                |                |           |

[5]

[Total: 25]

**J18/21**

6 The financial year of CD Limited ends on 30 April. The following information was provided on 30 April 2018.

|                                 | \$      |   | \$      |
|---------------------------------|---------|---|---------|
| Non-current assets (book value) | 227 000 | Ordinary share capital                  |         |
| Inventory                       | 29 000  | (300 000 shares of \$0.50)              | 150 000 |
| Trade receivables               | 22 000  | General reserve 1 May 2017              | 30 000  |
| Bank                            | 11 000  | Retained earnings 1 May 2017            | 6 000   |
|                                 |         | Profit for the year ended 30 April 2018 | 13 000  |
|                                 |         | 5% Debentures (repayable 2025)          | 50 000  |
|                                 |         | Trade and other payables                | 40 000  |

**REQUIRED**

(a) State **two** differences between debentures and ordinary shares.

- 1 .....
- .....
- .....
- 2 .....
- .....
- .....
- .....[4]

(b) State how the general reserve has arisen.

- .....
- .....
- .....[1]

(c) State **two** reasons why CD Limited retains some profit each year.

- 1 .....
- .....
- 2 .....
- .....[2]

- (d) Complete the table by placing tick(s) (✓) in the correct column(s) to indicate where **each** of the following would be included in the financial statements of CD Limited at 30 April 2018.

Some items may appear in more than one statement. The first one has been completed as an example.

|  | Income Statement | Statement of changes in equity | Statement of financial position | No entry |
|--|------------------|--------------------------------|---------------------------------|----------|
| 1 September 2017<br>Repayment of long-term loan                |                  |                                |                                 | ✓        |
| 1 November 2017<br>Payment of half-year interest on debentures |                  |                                |                                 |          |
| 31 December 2017<br>Payment of interim ordinary share dividend |                  |                                |                                 |          |
| 30 April 2018<br>Half-year interest on debentures accrued      |                  |                                |                                 |          |
| 30 April 2018<br>Proposed ordinary share dividend              |                  |                                |                                 |          |

[5]

CD Limited requires an additional \$30 000 to pay for an expansion programme.

- (e) State **one** advantage to ordinary shareholders if CD Limited raises the money by issuing debentures.

.....  
 .....[1]

- (f) State **one** disadvantage to ordinary shareholders if CD Limited raises the money by issuing debentures.

.....  
 .....[1]

The current ratio of CD Limited on 30 April 2018 was 1.55 : 1.

The company is anxious to increase this ratio and several proposals are being considered.

**REQUIRED**

- (g) State the formula for the calculation of the current ratio.

.....[1]

- (h) Complete the table by placing a tick (✓) in the correct column to indicate the effect on the current ratio of **each** proposal. The first one has been completed as an example.

|  | Increase | Decrease | No effect |
|--|----------|----------|-----------|
| Sell surplus non-current assets for cash   | ✓        |          |           |
| Sell goods on cash terms only  |          |          |           |
| Obtain a further long-term loan  |          |          |           |
| Buy additional non-current assets on credit rather than paying immediately                       |          |          |           |
| Persuade trade receivables to pay half of their debts immediately in return for 3% cash discount |          |          |           |
| Pay trade payables after 2 months instead of after 1 month                                       |          |          |           |

[5] [Total: 20]

### J18/22

- 4 The financial year of AB Limited ends on 31 March. The income statement for the year ended 31 March 2018 showed a profit for the year of \$35 000.

#### REQUIRED

- (a) Complete the following statement of changes in equity for the year ended 31 March 2018, which has been partially prepared by the accountant.

AB Limited  
Statement of Changes in Equity for the year ended 31 March 2018

|  | Ordinary<br>Share cap.<br>\$ | General<br>Reserve<br>\$ | Retained<br>Earnings<br>\$ | Total<br>\$ |
|--|------------------------------|--------------------------|----------------------------|-------------|
| On 1 April 2017                                      | 200 000                      | 14 000                   | 6 000                      | 220 000     |
| Profit for the year                                  |                              |                          |                            | 35 000      |
| Final dividend paid (for year ended 31 March 2017)   |                              |                          |                            | (10 000)    |
| Interim dividend paid (for year ended 31 March 2018) |                              |                          |                            | (4 000)     |
| Transfer to general reserve                          |                              | 2 000                    |                            |             |
| At 31 March 2018                                     |                              |                          |                            |             |

[6]

The following additional information was available on 31 March 2018.

|  |              |
|--|--------------|
|  | \$           |
| 4% Debentures (repayable 1 April 2022)         | 30 000       |
| Premises at cost                               | 195 000      |
| Machinery at cost                              | 98 000       |
| Office equipment at cost                       | 39 500       |
| Provision for depreciation of machinery        | 35 280       |
| Provision for depreciation of office equipment | 15 800       |
| Trade receivables                              | 9 900        |
| Trade payables                                 | 10 020       |
| Other receivables                              | 568          |
| Other payables                                 | 950          |
| Petty cash                                     | 200          |
| Bank   | 2 040 credit |
| Inventory                                      | 12 120       |
| Provision for doubtful debts                   | 198          |
| Bank loan (repayable 1 January 2019)           | 20 000       |

**REQUIRED**

(b) Prepare the statement of financial position at 31 March 2018.

AB Limited

Statement of Financial Position at 31 March 2018

|  |  |  |  |
|--|--|--|--|
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[14]

The directors of AB Limited want to raise \$100 000 in order to expand the business. After the first two years this should increase the annual profit before interest by \$25 000.

It is proposed to raise the funds by either issuing more debentures or more ordinary shares.

**REQUIRED**

(c) Suggest **two** disadvantages to the existing ordinary shareholders if the funds are raised by the issue of debentures.

- 1 .....
- .....
- .....
- .....
- 2 .....
- .....
- .....
- .....[2]



(b) Define **each** of the following terms.

(i) Shareholders

.....  
.....  
..... [1]

(ii) Limited liability

.....  
.....  
..... [1]

(c) (i) State **one** difference between ordinary shares and preference shares.

| ordinary shares | preference shares |
|-----------------|-------------------|
|                 |                   |

[2]

(ii) State **two** similarities between preference shares and debentures.

1 .....  
.....  
2 .....  
..... [2]

The directors of FW Limited want to raise \$60 000 to purchase additional premises.

The directors are considering two proposals:

- Proposal 1 Issuing 5% debentures (repayable 2030)
- Proposal 2 Issuing ordinary shares

It is anticipated that the ordinary share dividend will be 6% per annum.

**REQUIRED**

(d) State how **each** proposal would affect the profit of FW Limited in the next financial year (if at all). Give a reason for your answer in **each** case.

Proposal 1  
Effect on profit .....  
  
Reason .....  
..... [2]

Proposal 2  
 Effect on profit .....

Reason .....

..... [2]

The following information was available on 30 September 2018.

|                                  |        |
|----------------------------------|--------|
|                                  | \$     |
| Inventory                        | 42 000 |
| Trade receivables                | 34 000 |
| Trade payables                   | 35 000 |
| Cash at bank                     | 36 000 |
| Loan repayable on 1 January 2019 | 30 000 |

**REQUIRED**

(e) Calculate the current ratio. The calculation should be correct to **two** decimal places.

.....

.....

..... [2]

(f) Complete the table by placing a tick (✓) in the correct column to indicate the effect **each** would have on the current ratio.

|   | effect on current ratio |          |           |
|---|-------------------------|----------|-----------|
|   | Increase                | Decrease | No effect |
| use the bank balance to repay the loan                  |                         |          |           |
| purchase non-current assets on credit                   |                         |          |           |
| sell half the inventory at cost price to cash customers |                         |          |           |
| pay amount owed to trade payables by cheque             |                         |          |           |

[4]

[Total: 23]

**N18/22**

4 The financial year of LS Limited ends on 30 June.

The following information is available.

|   |         |
|---|---------|
|   | \$      |
| On 1 July 2017  |         |
| Issued share capital of ordinary share of \$0.50 each | 150 000 |
| 5% Debentures repayable in 2022                       | 20 000  |
| Long-term bank loan                                   | 10 000  |

The directors of LS Limited are hoping to expand the business and have estimated that \$80 000 will be required. They anticipate that the expansion will increase the profits of the company, but that there will be no significant increase until 2020.

The finance director has proposed raising funds from:  
**either** an issue of ordinary shares of \$0.50 each  
**or** an issue of 6% preference shares of \$1 each  
**or** an issue of 5% debentures repayable in 2024.

**REQUIRED**

- (a) Complete the table to indicate how **each** value would change if an issue of debentures was made. Where the value changes insert the amount in the relevant column. Where there is no effect, place a tick (✓) in the column headed 'no effect'.

|                           | Increase<br>\$ | Decrease<br>\$ | No effect |
|---------------------------|----------------|----------------|-----------|
| total of current assets   |                |                |           |
| total profit for the year |                |                |           |
| total equity              |                |                |           |

[3]

- (b) State **two** ways in which the existing ordinary shareholders may be affected if an issue of preference shares is made.

1 .....

.....

.....

2 .....

.....

..... [2]

- (c) State **two** ways in which the existing ordinary shareholders may be affected if an issue of additional ordinary shares is made.

1 .....

.....

2 .....

..... [2]

One of the directors has made the following alternative proposals for raising the necessary funds.

- Proposal 1 – use the general reserve
- Proposal 2 – request a bank overdraft

**REQUIRED**

- (d) State why **each** of these proposals should **not** be accepted.

Proposal 1

.....

.....

Proposal 2

.....

..... [2]

- (e) Suggest **one** method which the directors have not yet considered to raise the funds required for expansion.

..... [1]

[Total: 10]

## J19/11

6 ML Limited was formed some years ago. The company's share capital consists entirely of ordinary shares.

### REQUIRED

(a) Complete the table by placing a tick (✓) in the correct column to indicate whether **each** statement is true or false. The first one has been completed as an example.

|   | True | False |
|---|------|-------|
| The reward given to ordinary shareholders for investing in the company is known as a dividend.  | ✓    |       |
| The amount of issued shares for which payment has been received by the company from shareholders is known as paid-up share capital.                       |      |       |
| Ordinary shareholders receive a fixed percentage of the profit each year.   |      |       |
| In the event of the company being wound up the ordinary shares are the last to be repaid.   |      |       |
| Ordinary shareholders are personally liable for the debts of the company.   |      |       |
| Any ordinary share dividend paid during the financial year is entered in the statement of changes of equity irrespective of the year to which it relates. |      |       |

[5]

The financial year of ML Limited ends on 31 December. The following information is available.

At 1 January 2018

\$

|                        |         |
|------------------------|---------|
| Ordinary share capital | 200 000 |
| Retained earnings      | 16 500  |
| General reserve        | 8 000   |

Dividends paid during the year ended 31 December 2018

|  |       |
|--|-------|
| Final dividend for the year ended 31 December 2017   | 8 000 |
| Interim dividend for the year ended 31 December 2018 | 6 000 |

Profit for the year ended 31 December 2018 28 000

On 31 December 2018 it was decided to make a transfer to general reserve of \$3 000.

### REQUIRED

(b) Prepare a statement of changes in equity for the year ended 31 December 2018.

ML Limited  
Statement of Changes in Equity for the year ended 31 December 2018

|                             | Ordinary share capital | Retained Earnings | General Reserve | Total |
|-----------------------------|------------------------|-------------------|-----------------|-------|
| On 1 January 2018           |                        |                   |                 |       |
| Profit for the year         |                        |                   |                 |       |
| Dividend paid – final       |                        |                   |                 |       |
| – Interim                   |                        |                   |                 |       |
| Transfer to general reserve |                        |                   |                 |       |
| On 31 December 2018         |                        |                   |                 |       |

[6]

(c) Calculate the percentage (%) total ordinary share dividend for the year ended 31 December 2018.

.....  
 .....  
 .....

[2]

The directors of ML Limited want to expand the company and need to raise \$100 000. They are considering issuing either 6% preference shares or 5% debentures.

**REQUIRED**

(d) State **three** features of preference shares.

1 .....  
 .....  
 2 .....  
 .....  
 3 .....  
 .....

[3]

(e) State **three** features of debentures.

1 .....  
 .....  
 2 .....  
 .....  
 3 .....  
 .....

[3]

(f) Complete the table to indicate the effect of raising the funds from an issue of 5% debentures on 1 January 2019. Where there is no effect place a tick (✓) in the 'no effect' column. The first one has been completed as an example.

|                                    | Increase<br>\$ | Decrease<br>\$ | no effect |
|------------------------------------|----------------|----------------|-----------|
| effect on balance at bank          | 100 000        |                |           |
| effect on non-current liabilities  |                |                |           |
| effect on working capital          |                |                |           |
| effect on equity at 1 January 2019 |                |                |           |
| effect on annual profits           |                |                |           |

[4]

[Total: 23]

## J19/12

- 6 S Limited was formed on 1 May 2018. On that date the company issued ordinary shares and 5% debentures.

At the end of the financial year on 30 April 2019 the following financial statements were prepared:

Income statement  
Statement of changes in equity  
Statement of financial position

### REQUIRED

- (a) Name the financial statement in which **each** of the following items would appear. Some items may appear in more than one statement. If the item does not appear in any of the financial statements write 'No entry'. The first one has been completed as an example.

|   | financial statement   |
|---|---|
| Wages accrued at 30 April 2019                                | <i>Income statement</i><br><i>Statement of financial position</i> |
| Ordinary share capital  |   |
| Creation of general reserve                                   |   |
| Payment of interim ordinary share dividend on 31 October 2018 |   |
| Proposed ordinary share dividend at 30 April 2019             |   |
| Debenture interest accrued on 30 April 2019                   |   |

[8]

The directors of S Limited wish to raise funds for expansion. They are undecided whether to issue additional ordinary shares or additional 5% debentures.

### REQUIRED

- (b) Complete the table by placing a tick (✓) in the correct column to indicate whether **each** statement is true or false. The first one has been completed as an example.

|   | True | False |
|---|------|-------|
| debenture holders receive interest  | ✓    |       |
| debenture holders receive a variable rate of interest   |      |       |
| debentures are usually included in the non-current liabilities section of the statement of financial position |      |       |
| debentures have a prior claim in the event of the company being wound up                                      |      |       |
| debenture holders are entitled to vote at the annual general meeting  |      |       |
| debentures are often secured on the non-current assets of the company   |      |       |

[5]

(c) Suggest **two** ways in which the ordinary shareholders may be affected if the directors decide to raise funds from an issue of debentures.

1 .....

.....

2 .....

.....

[2]

The directors of S Limited are concerned about the working capital of the company at the end of the first year of trading.

The following information is available at 30 April 2019.

|                   |        |
|-------------------|--------|
|                   | \$     |
| Inventory         | 27 400 |
| Trade payables    | 28 700 |
| Trade receivables | 25 200 |
| Bank overdraft    | 10 800 |

**REQUIRED**

(d) Calculate the current ratio. The calculation should be correct to **two** decimal places.

.....

.....

..... [2]

(e) Calculate the quick ratio. The calculation should be correct to **two** decimal places.

.....

.....

..... [2]

(f) Explain why the quick ratio is more reliable than the current ratio as an indicator of liquidity.

.....

.....

..... [2]

(g) Complete the table by placing a tick (✓) in the correct column to show how **each** of the following would affect the working capital of S Limited.

|   | Increase | Decrease | no effect |
|---|----------|----------|-----------|
| issue additional debentures               |          |          |           |
| pay operating expenses by cheque          |          |          |           |
| sell goods for cash instead of on credit  |          |          |           |
| delay paying credit suppliers             |          |          |           |
| sell unused non-current assets            |          |          |           |
| reduce credit period for credit customers |          |          |           |

[6]

(h) Suggest **two** problems the directors of S Limited may encounter if the working capital is inadequate.

- 1 .....
- .....
- 2 .....
- .....

[2]

[Total: 29]

### N19/21

2 The financial year of CS Limited ends on 30 September.

The following information is available for the year ended 30 September 2019.

- 1 The final ordinary share dividend of \$6 000 for the year ended 30 September 2018 was paid on 1 December 2018.
- 2 The profit for the year ended 30 September 2019 was \$15 000.
- 3 On 30 September 2019 a transfer of \$5 000 was made to general reserve.

#### REQUIRED

(a) Complete the statement of changes in equity for the year ended 30 September 2019.

CS Limited  
Statement of Changes in Equity for the year ended 30 September 2019

| Details              | Share<br>Capital<br>\$ | General<br>Reserve<br>\$ | Retained<br>Earnings<br>\$ | Total<br>\$ |
|----------------------|------------------------|--------------------------|----------------------------|-------------|
| On 1 October 2018    | 150 000                | 7 000                    | 16 000                     | 173 000     |
|                      |                        |                          |                            |             |
|                      |                        |                          |                            |             |
|                      |                        |                          |                            |             |
| On 30 September 2019 |                        |                          |                            |             |

[4]

The following information is available at 30 September 2019.

|   |         |
|---|---------|
| Non-current assets at cost                        | \$      |
| Premises  | 172 000 |
| Machinery   | 38 000  |
| Fixtures and fittings                             | 19 500  |
| Provisions for depreciation of non-current assets |         |
| Machinery   | 13 680  |
| Fixtures and fittings                             | 3 900   |
| Inventory   | 14 360  |
| Trade payables                                    | 14 866  |
| Trade receivables                                 | 16 800  |
| Other payables                                    | 198     |
| Other receivables                                 | 110     |
| Provision for doubtful debts                      | 504     |
| Petty cash  | 200     |
| Bank overdraft                                    | 10 822  |
| 5% Debentures (repayable 1 October 2030)          | 25 000  |
| Bank loan (repayable 1 April 2020)                | 10 000  |

#### REQUIRED

(b) Prepare the statement of financial position at 30 September 2019.

CS Limited

Statement of Financial Position at 30 September 2019

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Ahsan Zarif, TCS (PAF Chapter)

[14]

The directors were disappointed that the profit for the current year was not as good as that of previous years.

**REQUIRED**

(c) Explain why the difference between the gross profit percentage and the percentage of profit to revenue is an indication of the efficiency of the company.

.....

.....

.....

..... [2]

The directors were also disappointed with the return on capital employed (ROCE). They decided to ask the bank to extend the repayment date of the bank loan to 1 April 2025.

**REQUIRED**

(d) State what is measured by the return on capital employed (ROCE).

.....  
..... [1]

(e) Explain the effect on the return on capital employed (ROCE) of extending the loan repayment date.

.....  
.....  
.....  
.....  
.....  
..... [2]

[Total: 23]

Ahsan Zarif, TCS <PAF Chapter>