Company Accounts

Need for limited companies
Limited liability companies, more commonly referred to as **limited companies**, came into existence originally because of the growth in the size of businesses, and the need to have a lot of people investing in the business who would not be able to take part in its management.

Difference between Partnership and Limited Company

	Partnership	**Company**
Legal Status	It is not a separate legal entity so acts of partnership are treated as acts of company	It Is a separate legal entity distinct and different from the owners of the company.
Rights of Property	Property of partnership is jointly owned by partners	A company can own property in its own name, sue and be sued
Management of business	All partners (except partner with limited liability) are entitled to manage the business	All Shareholders have no say in the company's management rather it vests in the hands of a few directors elected by shareholders
Liability of the owners	Liability of the partners towards the partnership debts is unlimited. i.e. if the business is unable to meet its debts from its assets then private assets of partners may be used to pay off the unpaid debts (unless he is a limited partner)	The liability of ordinary shareholders is limited to the fully paid amount of the shares they own
Transferability of ownership	A partner cannot transfer his share within the partnership without the consent of other partners	A shareholder can easily transfer/sell his shares without the consent of other shareholders
No of Owners	Minimum no of partners is two with max no limited to 20 (exceptions are professionals such as lawyers, accountants)	Min no of shareholders is two with no max limit except no of authorized shares which can also be increased
Statutory Regulations	No major statutory regulations	It is required to comply with various statutory regulations under companies Act and IFRS
Audit of Accounts	There are no legal requirements to audit accounts	Companies are bound to audit its accounts annually
Tax	Partnerships are not required to pay tax on their profits.	Companies are liable to pay tax at specified rates on its

	However partners have to pay taxes individually on their personal incomes (including their share of profit from partnership)	profits after charging all expenses. Shareholders may be required to pay tax again on their dividends.
Min amount of capital	There is no minimum requirement of capital however it can be setup through agreement	For a public limited company there must be a minimum authorized capital of $50,000 of which ¼ must be paid up.

Advantages of a Limited Company

- Separate legal identity
- Limited liability
- Perpetual succession
- No mutual agency
- Easy transferability of shares
- Divorce of ownership and management
- Financing

Disadvantages of a Limited Company

- Statutory Regulations
- No Secrecy
- Limited power of shareholders
- More secretarial expenses

Limited liability
the capital of a limited company is divided into **shares**. Shares can be of any nominal value 10p, 25p, $1, $5, $10, or any other amount per share. To become a member of a limited company, or a **shareholder**, a person must buy one or more of the shares. If shareholders have paid in full for their shares, their liability is limited to what they have already paid for those shares. If a company loses all its assets, all those shareholders can lose is their share. They cannot be forced to pay anything more in respect of the company's losses. Shareholders who have only partly paid for their shares can be forced to pay the balance owing on the shares, but nothing else.

Public vs. Private companies
In the Companies Acts, a public company is defined as one which fulfils the following conditions:

- Its memorandum (a document that describes the company) states that it is a public company, and that it has registered as such.
- It has an authorized share capital of at least $50,000.
- Minimum membership is two. There is no maximum.
- Its name must end with the words 'public limited company' or the abbreviation 'PLC'.

The main differences between a private company and a public company are that a private

company
• can have an authorized capital of less than $50,000, and
• cannot offer its shares for subscription to the public at large, whereas public companies can.

Directors of the company
the day-to-day business of a company is *not* carried out by the shareholders. The possession of a share normally confers voting rights on the holder, who is then able to attend general meetings of the company. At one of these general meetings, normally the **Annual General Meeting** or AGM, the shareholders vote for **directors**, these being the people who will be entrusted with the running of the business. At each AGM, the directors report on their stewardship, and this report is accompanied by a set of financial statements for the year – the 'annual report'.

Legal status of a limited company
a limited company is said to possess a 'separate legal identity' from that of its shareholders. Put simply, this means that a company is not seen as being exactly the same as its shareholders. For instance, a company can sue one or more of its shareholders, and similarly, a shareholder can sue the company. This would not be the case if the company and its shareholders were exactly the same thing, as one cannot sue oneself. This concept is often referred to as the **veil of incorporation**.

Share capital
Shareholders of a limited company obtain their reward in the form of a share of the profits, known as a **dividend**. The directors consider the amount of profits and decide on the amount of profits which are placed to reserves. Out of the profits remaining the directors then propose the payment of a certain amount of dividend. It is important to note that the shareholders cannot propose a higher dividend for themselves than that already proposed by the directors.

There are two main types of shares:

1 Preference shares. Holders of these shares get an agreed percentage rate of dividend before the ordinary shareholders receive anything.

2 Ordinary shares. Holders of these shares receive the remainder of the total profits available for dividends. There is no upper limit to the amounts of dividends they can receive.

<u>**Types of Preference Shares**</u>

Non-cumulative preference shares. These can receive a dividend up to an agreed percentage each year. If the amount paid is less than the maximum agreed amount, the shortfall is lost by the shareholder. The shortfall cannot be carried forward and paid in a future year.

Cumulative preference shares. These also have an agreed maximum percentage dividend. However, any shortfall of dividend paid in a year can be carried forward. These arrears of preference dividends will have to be paid before the ordinary shareholders receive anything.

Participating preference shares:
These shares entitle preference shareholders, not only to receive fix rate dividends but also additional distribution of profits in good trading years.

Redeemable and irredeemable preference shares

Most classes of preference shares are either redeemable or irredeemable.

 Redeemable preference shares will be bought back by the company at a date in the future, and cancelled. When a company buys back and cancels shares, the shares are 'redeemed'. Shares might be redeemed at their nominal value (par value) but the redemption price might be higher.

 Irredeemable preference shares will not be redeemed. Like ordinary shares, they are 'permanent' share capital.

In practice most preference shares issued by companies are redeemable.

Preference shares: equity or debt?
Companies are required to show equity capital separately from liabilities in the statement of financial position. Long-term debt is a non-current liability.
There is no special place in the statement of financial position for preference shares, and preference shares must be classified either as equity or as debt. The rules for deciding whether preference shares are equity or debt are fairly complex, but as a general rule:

 redeemable preference shares are usually treated as debt capital in financial Reporting

 irredeemable preference shares are likely to be included in equity.
A consequence of treating preference shares as either equity or debt capital, depending on circumstances, the dividends paid to preference shareholders are also treated in one of two ways:

 When preference shares are treated as debt capital and included in non-current liabilities, dividends paid to the preference shareholders are reported as a finance cost in the income statement, similar to interest costs on a loan. These preference dividends reduce the reported profit.

 When preference shares are treated as equity, dividends paid to the shareholders are treated as equity dividends. Accounting for equity dividends is explained later.

__Share capital: Different meanings__

1) Authorized share capital. Sometimes known as registered capital or nominal capital. This is the total of the share capital which the company is allowed to issue to shareholders.

2) Issued share capital. This is the total of the share capital actually issued to shareholders. If all of the authorized share capital has been issued, then 1 and 2 above would be the same amount.

3) Called-up capital. Where only part of the amount payable on each issued share has been asked for, the total amount asked for on all the issued shares is known as the called-up capital.

4) Uncalled capital. This is the total amount which is to be received in future relating to issued share capital, but which has not yet been asked for.

5) Calls in arrears. The total amount for which payment has been asked for (i.e. 'called for'), but has not yet been paid by shareholders.

6) Paid-up capital. This is the total of the amount of share capital which has been paid for by shareholders.

Types of Share Prices

- Nominal Value / Par Value / Face Value
- Issue Price
- Market Value

__Dividends (Preference and Ordinary)__
the amount given to shareholders as their share of profits in the company.

Interim and final dividends

Many companies make two (or possibly more) dividend payments each year to the ordinary shareholders.

 There might be a payment during the financial year, based on profits for the first six months of the year. This mid-year dividend is called an interim dividend.

 There is usually a payment after the end of the financial year, based on profits for the full year. This is called a final dividend.

Proposed Dividend
Dividend announced or declared, but not yet issued to the shareholders. It is considered to be a liability or disclosed through notes to the accounts.

Note: Dividend payment by be expressed either on "per share basis" or as a "%age of the share capital".

Debentures

when a limited company receives money on loan, and certificates called debenture certificates are issued to the lender. Interest will be paid to the holder, the rate of interest being shown on the certificate. They are not always called debentures; they are often known as loan stock or as loan capital. Debenture interest has to be paid whether profits are made or not. They are, therefore, different from shares, where dividends depend on profits being made.

Debenture interest

the interest payable for the use of the money is an expense of the company, and is payable whether profits are made or not. This means that debenture interest is charged as an expense in the profit and loss account itself. Contrast this with dividends which are dependent on profits having been made.

Difference between

Ordinary shares	**Preference shares**	**Debentures**
Owner of the company	Hybrid	Trade Payables of a company
No fix rate of dividend	Carry fix rate of dividend	Carry fix rate of interest
Dividend cannot be accumulated	Dividends can be accumulated in case of Cumulative Preference Shares.	Interest must be paid in the year, cannot be accumulated
Can vote in AGM	Cannot vote in AGM	Cannot vote in AGM
Last one to get paid upon liquidation	They get paid after debenture holders get paid	First one to get paid upon liquidation
Most Risk	Moderate Risk	Least Risk
Highest Return	Moderate Return	Lowest Return

Rights issues: new share issues for cash

Occasionally, a company might issue new shares to obtain cash. An issue of new shares for cash might be in the form of a rights issue.

In a rights issue the existing shareholders have the right to purchase the new shares in proportion to their existing shareholding. For example in a 1 for 3 rights issue, existing shareholders are given the opportunity to buy one new share for every three shares they currently hold.

If existing shareholders do not want to buy the new shares that are offered to them, the shares will be sold to other investors.

When a stock market company makes a rights issue, the price at which the new shares are offered is below the current market price for the shares that are already in issue.

Advantages of a rights issue
There are several advantages with issuing shares in the form of a rights issue.

 A rights issue is a method of raising new capital in the form of cash. Companies might need new capital to expand their business.

 Existing shareholders have the opportunity to buy a proportion of the new shares, so that they retain the same proportion of the total shares in the company as before.

 Since the price of the new shares is below the current market price, the issue should be attractive to shareholders.

Note: A country's company law might require new issues of shares for cash to be made as a rights issue, unless the shareholders agree otherwise. (UK company law, for example, gives shareholders these rights.)

Disadvantages of a rights issue
There are also some disadvantages with rights issues.

 A rights issue usually involves raising a large amount of cash. When a company does not need a large amount of cash, it will try to persuade the shareholders to permit a different method of issuing shares to raise the cash required.

 A rights issue might be unsuccessful when the stock market is depressed and share prices are falling.

 A rights issue can be expensive. It is usually cheaper to obtain new finance by borrowing.

Bonus issue of shares (Capitalization issue)
A bonus issue of shares (also called a capitalization issue) is an issue of free new shares to existing shareholders in proportion to their existing shareholding. For example, if there is a 1 for 3 bonus issue, shareholders will receive one new share free of charge for every three shares they currently hold.

 The company raises no money from a bonus issue.
 A bonus issue is simply a way of converting reserves into share capital.

A bonus issue is accounted for in the main ledger as follows:
 Debit: Reserves (with the nominal value of the new shares)
 Credit: Ordinary share capital

The reserves are reduced when there is a bonus issue, and the nominal value of the issued share capital is increased.

The reserve that is reduced (debited) is normally the **share premium**. If the share premium is not big enough, it is reduced to zero, and any remaining reduction of reserves is made by reducing retained earnings.

Advantages of a bonus issue
A company whose shares are traded on a stock market can use a bonus issue to increase the number of shares in issue. This will bring down the share price and might help to make the shares more marketable.

A bonus issue can be used to reduce the share premium account, or even remove the share premium account entirely from the statement of financial position.

Disadvantages of a bonus issue
Except for the advantages listed above, a bonus issue serves no practical purpose.

No cash is raised from the issue.
If a bonus issue exceeds the size of the share premium account, retained earnings will be reduced by the issue. This would convert profits that are distributable as profits into long-term share capital that cannot be distributed.

Differences between Rights and Bonus Issue

Right Issue	Bonus Issue
Issue is made to maintain the proportional ownership of existing shareholders	It is made when company makes profit but does not have sufficient cash to pay dividends
Shares are issued at a price between nominal value and market value	Shares are issued without charging price
As they are not free shareholders may not subscribe for right issue	As they are free so all shareholder take these shares
As a result of right issue total equity of the company increases	Bonus issue has no effect on the net assets of the business.

Directors' remuneration
as directors exist only in companies, this type of expense is found only in company accounts. Directors are legally employees of the company, appointed by the shareholders. Their remuneration is charged to the profit and loss account.

Trading and profit and loss accounts of companies
The trading and profit and loss accounts for both private and public companies are drawn up in exactly the same way.

<u>Reserves</u>

Reserves are surplus not yet distributed as profit among its share holders. It is the profit which is not appropriated as dividends. Reserves represent the claim that owners have because of the wealth created by the company over the years but not distributed to them.

There are two types of reserves.

1. **Revenue reserves** Those generally result from profits earned by the company but not appropriated as dividend. These represents increase in company's wealth and are available for the distribution of dividends to the shareholders.

Examples are: Retained Earnings / General Reserve/ Non Current Asset Replacement Reserve

2. **Capital reserves** Undistributed profits of a company that for various reasons are not regarded as distributable to share holders as dividend. These include certain profits on the revaluation of capital assets and sum received from the issuance of share over it's per value (Share premium). Capital reserves are also known as UNDISTRIBUTABLE RESERVES".

Examples are: Share Premium / Revaluation Reserve (Surplus)

Factoring

Factoring is a financial service designed to improve the cash flow of healthy, growing companies, enabling them to make better use of management time and the money tied up in trade credit to customers.In essence, factors provide their clients with three closely integrated services covering sales accounting and collection, credit management which can include protection against bad debts, and the availability of finance against sales invoices.

(w) Calculation of Net Profit after Interest and Tax

	Profit before interest and tax **(PBIT)**	XXX
Less:	Debentures / Loan interest (Debentures Amount X Rate %)	(XXX)
	Profit before tax **(PBT)**	XXX
	Less: Tax	(XXX)
	Profit after interest and tax **(PAT)**	**XXX**

ARD Limited
Statement of Financial Position extract
For the year ended Dec 31, 2015

Equity & Reserves			
AUTRHORIZED SHARE CAPITAL:			
Preference shares Capital	XXX		
Ordinary Share Capital	XXX	XXX	
ISSUED / CALLED UP / PAID UP SHARE CAPITAL:			
Preference share Capital	XXX		
Ordinary Share Capital	XXX	XXX	
General Reserves		XXX	
Retained Earnings		XXX	
Total Shareholder funds			**XXX**
Add: Debentures / Bank Loan			XXX
Capital Employed			**XXX**

Statement of changes in equity

A set of financial statements for a company must include a statement of changes in equity (SOCIE) in order to comply with the requirements of IAS1: **Presentation of financial statements**.

The SOCIE is a part of the financial statements of a company, together with the statement of financial position, statement of comprehensive income, statement of cash flows and notes to the financial statements.

For each 'component of equity', a SOCIE shows the amount at the beginning of the period for that component of equity, changes during the period, and its amount at the end of the period.

The purpose of the statement is simply to show how the total amount of equity has changed during the year, and which parts of equity have increased or decreased in amount, and by how much.

ARD Limited
Statement of Changes in Equity for the year ended 31 Dec 2016

	Share Capital	**Share Premium**	**Revaluation Reserve**	**General Reserve**	**Retained Earnings**	**Total Equity**
Balance at Start	XXX	XXX	-	XXX	XXX	XXXX
Profit / (Loss) after interest and tax for the year	-	-	-	-	XX(XX)	XX(XX)
Dividends paid	-	-	-	-	(XX)	(XX)
New Share Issue	XX	XX	-	-	-	XXX
Transfer to General Reserve	-	-	-	XX	(XX)	-
Assets Revalued			XXX			XXX
Balance at End	XXX	XXX	XXX	XXX	XXX	XXXX

Q1 The following information is available about Whittlesford plc on 31 December 2011.

	$
500 000 ordinary shares of $1 each	500 000
Share premium	200 000
General reserve	70 000
Retained earnings	298 300

Further information is as follows:

1. The draft profit for the year ended 31 December 2012 was $122 800.
2. On 1 January 2012 property was revalued from $520 000 to $780 000.
3. On 31 January 2012 a rights issue of 1 share for every 5 held was made at a premium of $0.25 each.
4. On 30 June 2012 an interim dividend of $0.08 per share was paid.
5. On 31 October 2012 a bonus issue of shares of 1 for every 4 held was made. The directors decided to keep the reserves in their most flexible form.
6. On 31 December 2012 $40 000 was transferred to general reserve and a final dividend of $0.12 per share was proposed.
7. On 5 January 2013 it was discovered that a customer who had owed $4200 at the year end had been declared bankrupt. It was also discovered that goods in inventory at the year end, with a cost of $3000, had been water damaged and could now only be sold for $600.

REQUIRED

(a) Explain what is meant by keeping reserves in their most flexible form. [3]

(b) Prepare the statement of changes in equity for Whittlesford plc for the year ended 31 December 2012. [13]

Q2 Dolphin Limited is a bakery producing goods for wholesale.

The issued share capital of the company is 300 000 ordinary shares of $2 each. The directors offered a further 125 000 ordinary shares to family and friends.

The terms of issue were:
1 April 2016 – Payable on application $1.00 per share
30 June 2016 – Final payment $1.10 per share

Applications were received for 150 000 shares. All monies received were entered into a holding account called 'Application for Shares'. Transfers were made from this account to the relevant ledger accounts.

The applicants were issued shares and all final payments were received on the due date. Excess application monies were returned to applicants.

REQUIRED

(a) Prepare the relevant ledger accounts to record the issue of shares.

(b) Explain **two** differences between ordinary shares and preference shares.

(c) Name **one** capital reserve.

Q3 F Limited is a large retail company. On 1 February 2016, the company invited applications for 50 000 ordinary shares of $1 each at an issue price of $1.20. The following terms applied:

Payable on application	$0.50
Payable on allotment	$0.70

Applications were received for 65 000 shares.

All monies received in respect of the share issue were posted to the bank account and a share issue holding account until the shares were allotted.

At the time of allotment, transfers were made to the share capital account and the share premium account and monies were returned to the unsuccessful applicants.

REQUIRED

(a) Prepare the following ledger accounts to show **all** transactions relating to the share issue. Dates are **not** required.

Share issue holding account

Bank account

Share capital account

Share premium account

Additional information

F Limited's year end is 30 June. The following balances have been extracted from the books of account at **30 June 2016**:

	$
Ordinary share capital ($1 each)	400 000
Share premium account	40 000
8% debentures (2020–2022)	280 000
Bank loan (repayable 2021)	100 000

The following information is also available:

1 The balance of retained earnings at 1 July 2015 was $210 000.

2 On 30 November 2015 a final ordinary share dividend of 2% was paid on all shares in issue at that date.

3 On 31 May 2016 an interim ordinary share dividend of 3% was paid on all shares in issue at that date.

4 The profit for the year ended 30 June 2016 was $65 000.

5 On 30 June 2016 the directors revalued land and buildings from $820 000 to $850 000.

REQUIRED

(b) Prepare the statement of changes in equity for F Limited for the year ended 30 June 2016.

Additional information

The directors of F Limited wish to purchase a new retail store for $400 000. They are considering two different ways to raise the finance for this investment.

1 Issue a further $400 000 8% debentures (2026–2028).

2 Make a rights issue of 320 000 ordinary shares of $1 each at a price of $1.25.

REQUIRED

(c) Explain **one** difference between debentures and ordinary shares.

(d) Advise the directors which method of raising the finance you would recommend. Give reasons for your answer.

Q4 B Limited is a private limited company trading as a wholesaler of garden equipment. The draft trial balance at 30 June 2016 has been extracted from the books of account and is shown below.

	Debit	Credit
	$	$
Bank loan		26 400
Bank		14 040
Cash	650	
Directors' remuneration	53 200	
Fixtures and fittings		
Cost	18 110	
Provision for depreciation at 1 July 2015		5 310
Land and buildings		
Cost	135 000	
Provision for depreciation at 1 July 2015		21 840
Motor vehicles		
Cost	41 600	
Provision for depreciation at 1 July 2015		19 200
Interest paid	5 920	
Inventory at 1 July 2015	62 400	
Office costs	18 330	
Property costs	21 940	
Purchases	268 200	
Retained earnings		30 570
Revenue		563 800
Selling and distribution costs	36 120	
Share capital (ordinary shares of $1 each)		60 000
Trade payables		39 810
Trade receivables	71 000	
Wages and salaries	48 500	
	780 970	780 970

Additional information

1 The value of inventory at 30 June 2016 was $70 300 at cost.

2 Land and buildings at 30 June 2016 were as follows:

	$
Land	70 000
Buildings	65 000

3 Depreciation is to be provided as follows:

Asset	Annual Rate	Method	Charge to
Fixtures and fittings	15%	Reducing balance	Office costs
Buildings	2%	Straight-line	Property costs
Motor vehicles	25%	Reducing balance	Selling and distribution costs

4 Wages and salaries are to be charged as follows:

Selling and distribution costs	60%
Office costs	40%

5 B Limited took out a 5% debenture (repayable between 2021 and 2025) for $50 000 on 30 June 2016 and repaid the bank loan in full. Neither of these transactions has yet been recorded in the books of account.

6 A prepayment of $1240 is to be accounted for on property costs at 30 June 2016.

7 An accrual of $2680 is to be accounted for on selling and distribution costs at 30 June 2016.

8 The directors require a provision for doubtful debts to be created representing 2% of trade receivables at 30 June 2016, to be charged to office costs.

REQUIRED

(a) Prepare the income statement for the year ended 30 June 2016.

(b) Prepare an extract showing the current assets section of the statement of financial position at 30 June 2016.

Q5 The directors of Rebuild Limited are preparing the financial statements for the year ended 31 December 2015. The equity section of the statement of financial position at 31 December 2014 was as follows:

	$
Ordinary shares of $2 each, fully paid	240 000
Share premium	8 000
General reserve	40 000
Retained earnings	75 500
	363 500

During the year ended 31 December 2015, the following transactions took place:

March 1	Issued 10 000 ordinary shares at $2.10 each
March 31	Paid final dividend of 3% on all shares in issue at 31 December 2014
December 31	The directors revalued the company premises upwards by $20 000

The profit for the year ended 31 December 2015 was $47 100.

REQUIRED

(a) Prepare the statement of changes in equity for the year ended 31 December 2015.

Additional information

The directors of Rebuild Limited made a bonus issue of ordinary shares on 30 June 2016. The basis of the issue was one ordinary share for every twenty-five ordinary shares held. The company policy is to leave reserves in their most flexible form.

The profit for the 6 months ended 30 June 2016 was $25 000.

REQUIRED

(b) Prepare the statement of changes in equity for the 6 months ended 30 June 2016.

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

Additional information

The following item appears on the statement of financial position of Rebuild Limited at 31 December 2015:

6% debentures (2018–2020) $60 000

REQUIRED

(d) State the significance of (2018–2020).

(e) State why an issue of debentures does **not** appear in the statement of changes in equity.

Q6 Bayliss Limited is a retailer of ladies' fashion material. The following trial balance has been extracted from the books of account at 31 December 2015:

	Dr	Cr
	$	$
5% debentures (2017)		80000
Administrative expenses	205000	
Cash and cash equivalents		32000
Distribution costs	197000	
Dividends paid	10000	
General reserve		21000
Interest paid	13000	
Inventory at 1 January 2015	98000	
Non-current assets at cost/valuation		
Land and buildings	185000	
Plant and machinery	204000	
Provision for depreciation		
Buildings		23000
Plant and machinery		94000
Ordinary shares of $0.50 each fully paid		140000
Other payables		7000
Other receivables	3000	
Purchases	480000	
Retained earnings		61000
Revenue		984000
Share premium		3000
Trade payables		59000
Trade receivables	109000	
	1504000	1504000

Additional information

1 Inventory at 31 December 2015 is valued at a cost of $105000.

2 Land is included in the trial balance at a value of $135000. It is to be revalued to $150000 at 31 December 2015.

3 Depreciation for the year ended 31 December 2015 is to be provided as follows:

Buildings – 2% per annum using the straight-line method
Plant and machinery – 10% per annum using the reducing balance method.

All annual depreciation is to be charged to administrative expenses.

4 Trade receivables includes a debt of $9000 which is to be written off to administrative expenses at 31 December 2015.

5 The directors wish to make provision for doubtful debts of 3% of trade receivables. The adjustment should be charged to administrative expenses.

6 On 31 December 2015, Bayliss Limited made a bonus issue of shares on the basis of one ordinary share for every twenty ordinary shares held. The company policy is to leave reserves in their most flexible form. No entries have been made in the books of account in respect of the bonus issue.

7 Debenture interest has been paid to 30 September 2015.

REQUIRED

(a) Prepare the income statement for Bayliss Limited for the year ended 31 December 2015.

(b) Prepare the statement of changes in equity for Bayliss Limited for the year ended 31 December 2015.

(c) Prepare the statement of financial position for Bayliss Limited at 31 December 2015.

Additional information

The 5% debentures are due for repayment in the next two years. The directors of Bayliss Limited are considering the following two options to raise the necessary finance to repay the $80 000.

1 Issue 160 000 ordinary shares of $0.50 each.

2 Issue a further debenture of $80 000.

REQUIRED

(d) (i) Discuss the impact of **each** option on the future profits of Bayliss Limited.

(ii) Advise the directors which option they should choose. Give reasons for your decision.

Additional information

The statement of financial position of a limited company may include capital reserves and also revenue reserves.

REQUIRED

(e) Explain the difference between a capital reserve and a revenue reserve.

(f) State **one** example of a capital reserve.

Q7 P Limited was formed on 1 June 2015. The company's share capital comprised of ordinary shares.

(a) **(i)** Identify **two** differences between ordinary shares and cumulative preference shares.

(ii) State **three** differences between a rights issue and a bonus issue.

Additional information

P Limited prepares financial statements to 31 May.

The following transactions, all of which were entered in the appropriate accounts in the ledger, occurred in relation to the ordinary shares.

2015	
1 June	100 000 ordinary shares, with a nominal value of $1 each, were issued at a price of $1.45 each. Of this, $1.15 was received which included the full par value.
30 September	The balance outstanding was received in full.
2016	
1 October	P Limited made a 1 for 4 rights issue at a discount of 15% of the most recent share valuation of $1.40 per ordinary share. All shareholders took up their rights in full.

REQUIRED

(b) Complete the following table for the **two** years ended 31 May 2017 to record these transactions.

Date	Name of account to be debited	Amount $	Name of account to be credited	Amount $

Additional information

Shareholders have not received any dividend since the company was formed. However, the financial statements show the following:

1 Profit for the years ended

31 May 2016 $15 000
31 May 2017 $30 000

2 Cash and cash equivalents at 31 May 2017 $90 000

On 1 June 2017 several major shareholders demanded that the directors pay a dividend of $0.48 per share.

REQUIRED

(c) Advise the directors how they should respond to the shareholders' demand. Support your answer with calculations.

Q8 The following is an extract from the statement of financial position of WX Limited at 1 March 2016:

	$
Equity	
Ordinary share capital ($0.50 each)	150 000
Share premium account	60 000
Retained earnings	40 000

The following additional information is available:

1 On 30 April 2016, the non-current assets were revalued from their net book value of $175 000 to $225 000.

2 On 30 June 2016, a bonus issue was made on the basis of three ordinary shares for every ten held. Reserves were kept in the most distributable form.

3 On 30 September 2016, a rights issue was offered on the basis of one ordinary share for every eight held. The ordinary shares were offered at a price of $0.80 per share and the issue was fully subscribed.

4 On 31 December 2016, the company paid a dividend of $0.04 on all shares in issue at that date.

5 Profit for the year ended 28 February 2017 was $50 500.

REQUIRED

(a) Prepare a statement of changes in equity for the year ended 28 February 2017 (A total column is **not** required.)

(b) State **three** advantages and **one** disadvantage to a limited company of making a bonus issue of shares.

ISSUE OF SHARES

Q1. You are required to write the Journal Entry for the following transactions:

(a) A company issues 10000 ordinary shares of $1 each at par value

(b) A company issues 10000 ordinary shares of $1 each at $1.2 each

(c) A company issues 5000 ordinary shares of $1 each at a premium of $1 each

(d) A company issues 10000 ordinary shares of $0.5 each at $0.8 each

(e) A company issues 2000 10% $1 preference shares at $1 each

(f) A company issues 6000 8% $0.5 preference shares at a premium of $0.05 each

(g) A company issues 8% debentures of $10000

Q2. Following is the summarized Statement of Financial position for Unique Limited as at 31st December 2009.

	$
Non-Current Assets	60000
Current Assets	30000
Current Liabilities	(10000)
Financed by	
$1 Ordinary share capital	50000
$1 6% Preference share Capital	5000
Revaluation Reserve	3000
Share Premium	5000
Retained Profit	17000

Following transactions are not recorded in the books:

i. An interim dividend of $100 was paid to Preference shareholders and $0.01 per share to ordinary shareholders.

ii. Final dividend for Preference shares was announced together with a final dividend of 10% for ordinary shareholders.

iii. At 31st December 2009, the company issues 10% loan stock worth $20000

REQUIRED:

(a) Write up the journal entries for the above transactions.

(b) Re-draw the Statement of Financial position as at 31st December 2009.

Q3. Following is the summarized Statement of Financial position for Starwars Limited as at 31st July 2009:

	$
Non-Current Assets (N. B. V)	90000
Inventory	3000
Accounts Receivable	12000
Bank	25000
Accounts Payable	(20000)
10% Loan Stock (issued on 1st Jan 2009)	(30000)
Net Assets	80000
Capital & Reserves	
Ordinary share capital ($0.1 each)	40000
Share premium	15000
General reserve	5000
Accumulated Profits	20000
	80000

After the Statement of Financial position is prepared following transactions are completely omitted from the books:

(a) During the year building which had cost $10000 and had a net book value of $8000 was revalued at $11000

(b) On 31st July 2009 a bonus issue (scrip issue) was announced on the basis of 1 share for every 5 held (can also be called a 20% bonus issue)

(c) After the bonus issue, a right issue was announced at par value on the basis of 1 share for every 10 held

(d) No account has been taken for interest due on Loan stock.

(e) The company also decides to create a provision for doubtful debts as 5% of total accounts receivable

(f) During the year Due to flood some amount of inventory which cost $1000 is destroyed and is of no use.

REQUIRED:

Redraw the Statement of Financial position as at 31st July 2009 after adjusting for the above transactions (You should make Journal Entries)

Q4. Following is the extract from the Statement of Financial position of Indiana Limited as at 30th June 2008:

	$
Financed by	
$5 Ordinary Share Capital	170000
7% $1 Preference Share Capital	30000
General Reserve	15000
Share Premium	10000
Retained Profit (P&L)	75000

Following transactions are not recorded in the books:

(i) A 1 for 2 rights issue was announced at $6 each

(ii) A 10% bonus issue was after the rights issue

REQUIRED:

(a) Write up the Journal Entries for the above transaction

(b) Re-draw the Statement of Financial position as at 31st December 2008.

Q5. The Share Capital and Reserves sections from the Statement of Financial positions of two companies are shown below:

	Rites Plc	Bonus Plc
Share capital and Reserves	$ 000	$ 000
Issue Ordinary Shares of 25¢ each	4000	2000
Share Premium Accounts	5000	5000
Revaluation Reserve	3000	3000
Profit and Loss Account	256	256
	12256	10256

Immediately after these Statement of Financial position extracts were prepared, the following occurred:

(i) The directors of Rites Plc declared a rights issue of ordinary shares on the basis of one share for every two held at a premium of 10¢ per share. The rights issue was fully subscribed.

(ii) The directors of Bonus Plc restructured the Statement of Financial position by making a bonus issued on the basis of four shares for every one held. The directors maintained the reserves in their most distributable form.

REQUIRED:

(a) Prepare the share capital and reserves section of the Statement of Financial position of Rites plc to show the effect of the rights issue.

(b) Prepare the share capital and reserves section of the Statement of Financial position of Bonus plc to show the effect of bonus issue.

Q6. Mellors plc and Balden plc have both recently made a rights issue on the basis of 1 share for every 2 held at a premium of 50 cents. Extracts from the Statement of Financial positions following issues are shown below:

Statement of Financial position extracts as at 1 December 2002

	Mellors plc $m	**Balden plc $m**
Amounts falling due after more than one year		
Debentures	125	200
Capital and Reserves:		
Called up share capital (ordinary shares of $ 1 each)	150	150
Share premium account	75	25
Profit and loss account	25	75

Mellors Plc has used all the funds generated by the rights issue to redeem some of its debentures.

Balden plc has invested all its proceeds in 'state of the art' technology for its business.

<u>REQUIRED:</u>

Prepare Statement of Financial position extracts for Mellors plc and Balden plc to show the position before the rights issue.