

- 5 B Limited provides cleaning services to client offices and factories. The clients provide their own cleaning materials. The trial balance of B Limited at 30 June 2023 was as follows.

B Limited
Trial Balance at 30 June 2023

| | Debit \$ | Credit \$ |
|----------------------------------------------|----------------|----------------|
| Revenue | | 135 040 |
| Wages and salaries | 72 000 | |
| Motor expenses | 9 820 | |
| Insurance | 11 040 | |
| General expenses | 12 780 | |
| Motor vehicles at cost | 42 000 | |
| Provision for depreciation of motor vehicles | | 16 500 |
| Equipment at cost | 5 000 | |
| Provision for depreciation of equipment | | 2 000 |
| Trade receivables | 1 640 | |
| Bank | 19 950 | |
| Ordinary share capital | | 10 000 |
| General reserve | | 2 000 |
| Retained earnings | | 13 490 |
| Dividend paid on ordinary shares | 4 800 | |
| | <u>179 030</u> | <u>179 030</u> |

Additional information

- 1 Revenue of \$9240 was received in advance.
- 2 The insurance charge for the 12 months to 31 December 2022 was \$7200 and for the 12 months to 31 December 2023 it is \$7440. On 1 January 2023 insurance was paid in full for the 12 months to 31 December 2023.
- 3 Accrued general expenses at 30 June 2023 were \$186.
- 4 Depreciation is to be charged on motor vehicles at 25% per annum using the reducing balance method.
- 5 Depreciation on equipment is to be charged at 20% per annum using the straight line method.
- 6 No dividends were outstanding at 30 June 2023.
- 7 \$1000 is to be transferred to the general reserve at 30 June 2023.

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

B Limited
Statement of Changes in Equity for the year ended 30 June 2023

| Details | Ordinary Share capital \$ | General reserve \$ | Retained earnings \$ | Total \$ |
|-----------------|------------------------------------|--------------------------|----------------------------|-------------|
| On 1 July 2022 | | | | |
| | | | | |
| | | | | |
| | | | | |
| On 30 June 2023 | | | | |
| | | | | |

[5]

- (c) Explain why:

- (i) B Limited has no inventory

.....
 [2]

- (ii) B Limited does **not** require a provision for doubtful debts

.....
 [2]

The directors of B Limited are also the shareholders. They plan to expand the company. They are considering whether to issue debentures or ordinary shares.

REQUIRED

- (d)** Advise the directors whether they should issue debentures or ordinary shares. Justify your answer.

..... [5]

[Total: 20]

| Question | Answer | Marks | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| 5(a) | <div>B Limited</div> <div>Income Statement for the year ended 30 June 2023</div> <table><tr><td></td><td>\$</td><td>\$</td><td></td></tr><tr><td>Revenue (135 040 – 9 240)</td><td></td><td>125 800</td><td>(1)</td></tr><tr><td>Less Expenses</td><td></td><td></td><td></td></tr><tr><td>Wages and salaries</td><td>72 000</td><td></td><td></td></tr><tr><td>Motor expenses</td><td>9 820</td><td></td><td></td></tr><tr><td>Insurance (1/2 × 7 220)+(1/2 × 7 440)</td><td>7 320</td><td></td><td>(1)</td></tr><tr><td>General expenses (12 780 + 186)</td><td>12 966</td><td></td><td>(1)</td></tr><tr><td>Depreciation of motor vehicles (42 000 – 16 500) × 25%</td><td>6 375</td><td></td><td>(1)</td></tr><tr><td>Depreciation of equipment (5 000 × 20%)</td><td>1 000</td><td>109 481</td><td></td></tr><tr><td>Profit for the year</td><td></td><td>16 319</td><td>(1)OF</td></tr></table> | | \$ | \$ | | Revenue (135 040 – 9 240) | | 125 800 | (1) | Less Expenses | | | | Wages and salaries | 72 000 | | | Motor expenses | 9 820 | | | Insurance (1/2 × 7 220)+(1/2 × 7 440) | 7 320 | | (1) | General expenses (12 780 + 186) | 12 966 | | (1) | Depreciation of motor vehicles (42 000 – 16 500) × 25% | 6 375 | | (1) | Depreciation of equipment (5 000 × 20%) | 1 000 | 109 481 | | Profit for the year | | 16 319 | (1)OF | 6 | | |
| | \$ | \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Revenue (135 040 – 9 240) | | 125 800 | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less Expenses | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Wages and salaries | 72 000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Motor expenses | 9 820 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Insurance (1/2 × 7 220)+(1/2 × 7 440) | 7 320 | | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| General expenses (12 780 + 186) | 12 966 | | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Depreciation of motor vehicles (42 000 – 16 500) × 25% | 6 375 | | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Depreciation of equipment (5 000 × 20%) | 1 000 | 109 481 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Profit for the year | | 16 319 | (1)OF | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5(b) | <div>B Limited</div> <div>Statement of Changes in Equity for the year ended 30 June 2023</div> <table><tr><th>Details</th><th>Ordinary share capital \$</th><th>General Reserve \$</th><th>Retained earnings \$</th><th>Total \$</th><th></th></tr><tr><td>On 1 July 2022</td><td>10 000</td><td>2 000</td><td>13 490</td><td>25 490</td><td>(1) row</td></tr><tr><td>Profit for the year</td><td>.....</td><td>.....</td><td>16 319</td><td>16 319</td><td>(1)OF row</td></tr><tr><td>Dividend paid</td><td>.....</td><td>.....</td><td>(4 800)</td><td>(4 800)</td><td>(1) row</td></tr><tr><td>Transfer to general reserve</td><td>.....</td><td>1 000</td><td>(1 000)</td><td>.....</td><td>(1) row</td></tr><tr><td>On 30 June 2023</td><td>10 000</td><td>3 000</td><td>24 009</td><td>37 009</td><td>(1)OF row</td></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td></tr></table> | Details | Ordinary share capital \$ | General Reserve \$ | Retained earnings \$ | Total \$ | | On 1 July 2022 | 10 000 | 2 000 | 13 490 | 25 490 | (1) row | Profit for the year | | | 16 319 | 16 319 | (1)OF row | Dividend paid | | | (4 800) | (4 800) | (1) row | Transfer to general reserve | | 1 000 | (1 000) | | (1) row | On 30 June 2023 | 10 000 | 3 000 | 24 009 | 37 009 | (1)OF row | | | | | | | 5 |
| Details | Ordinary share capital \$ | General Reserve \$ | Retained earnings \$ | Total \$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| On 1 July 2022 | 10 000 | 2 000 | 13 490 | 25 490 | (1) row | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Profit for the year | | | 16 319 | 16 319 | (1)OF row | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dividend paid | | | (4 800) | (4 800) | (1) row | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Transfer to general reserve | | 1 000 | (1 000) | | (1) row | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| On 30 June 2023 | 10 000 | 3 000 | 24 009 | 37 009 | (1)OF row | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5(c)(i) | <div>The company provides a service rather than a product (1)</div> <div>The clients provide their own cleaning materials (1)</div> <div>Max (2)</div> | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Question | Answer | Marks | | | | |
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| 5(c)(ii) | There were no irrecoverable debts during the year/there are no irrecoverable trade receivables (1) There are very few trade receivables/trade receivables represent less than a week's revenue (1) Some customers are paying in advance (1) Max (2) | 2 | | | | |
| 5(d) | <table><tr><th>Issuing debentures</th><th>Issuing ordinary shares</th></tr><tr><td>Annual interest is payable (1) Are a liability\are a loan\must be repaid (1) If company is wound up they are repaid before ordinary shareholders (1) Debenture holders are not members of the company/cannot vote (1) Issue of debentures will not dilute the control of the existing ordinary shareholders (1) Interest is a fixed amount (1) (and so can be budgeted for) Interest must be paid irrespective of profits (1) May be secured on the non-current assets of the company (1) Issue may not raise adequate funds (1) Max (3)</td><td>A dividend may be paid (1) Do not have to be repaid (1) If company is wound up they are repaid after debenture holders (1) Shares will carry same voting rights/rank equally as existing shares (1) May dilute control of existing shareholders (1) (if some purchase a greater proportion of shares) Dividend is not fixed (and may depend on profit levels) (1) Directors they can decide on amount of dividend they will pay (1) May take longer to raise the funds (1) Issue may not raise adequate funds (1) Max (3)</td></tr></table> Recommendation (1) | Issuing debentures | Issuing ordinary shares | Annual interest is payable (1) Are a liability\are a loan\must be repaid (1) If company is wound up they are repaid before ordinary shareholders (1) Debenture holders are not members of the company/cannot vote (1) Issue of debentures will not dilute the control of the existing ordinary shareholders (1) Interest is a fixed amount (1) (and so can be budgeted for) Interest must be paid irrespective of profits (1) May be secured on the non-current assets of the company (1) Issue may not raise adequate funds (1) Max (3) | A dividend may be paid (1) Do not have to be repaid (1) If company is wound up they are repaid after debenture holders (1) Shares will carry same voting rights/rank equally as existing shares (1) May dilute control of existing shareholders (1) (if some purchase a greater proportion of shares) Dividend is not fixed (and may depend on profit levels) (1) Directors they can decide on amount of dividend they will pay (1) May take longer to raise the funds (1) Issue may not raise adequate funds (1) Max (3) | 5 |
| Issuing debentures | Issuing ordinary shares | | | | | |
| Annual interest is payable (1) Are a liability\are a loan\must be repaid (1) If company is wound up they are repaid before ordinary shareholders (1) Debenture holders are not members of the company/cannot vote (1) Issue of debentures will not dilute the control of the existing ordinary shareholders (1) Interest is a fixed amount (1) (and so can be budgeted for) Interest must be paid irrespective of profits (1) May be secured on the non-current assets of the company (1) Issue may not raise adequate funds (1) Max (3) | A dividend may be paid (1) Do not have to be repaid (1) If company is wound up they are repaid after debenture holders (1) Shares will carry same voting rights/rank equally as existing shares (1) May dilute control of existing shareholders (1) (if some purchase a greater proportion of shares) Dividend is not fixed (and may depend on profit levels) (1) Directors they can decide on amount of dividend they will pay (1) May take longer to raise the funds (1) Issue may not raise adequate funds (1) Max (3) | | | | | |