

IGCSE Accounting Limited Liability Company

1 At 1 February 2014, Green Meadow Limited had the following shares and debentures.

250 000 ordinary shares of \$0.50 each
100 000 8% preference shares of \$1 each
\$50 000 6% debentures (2019)

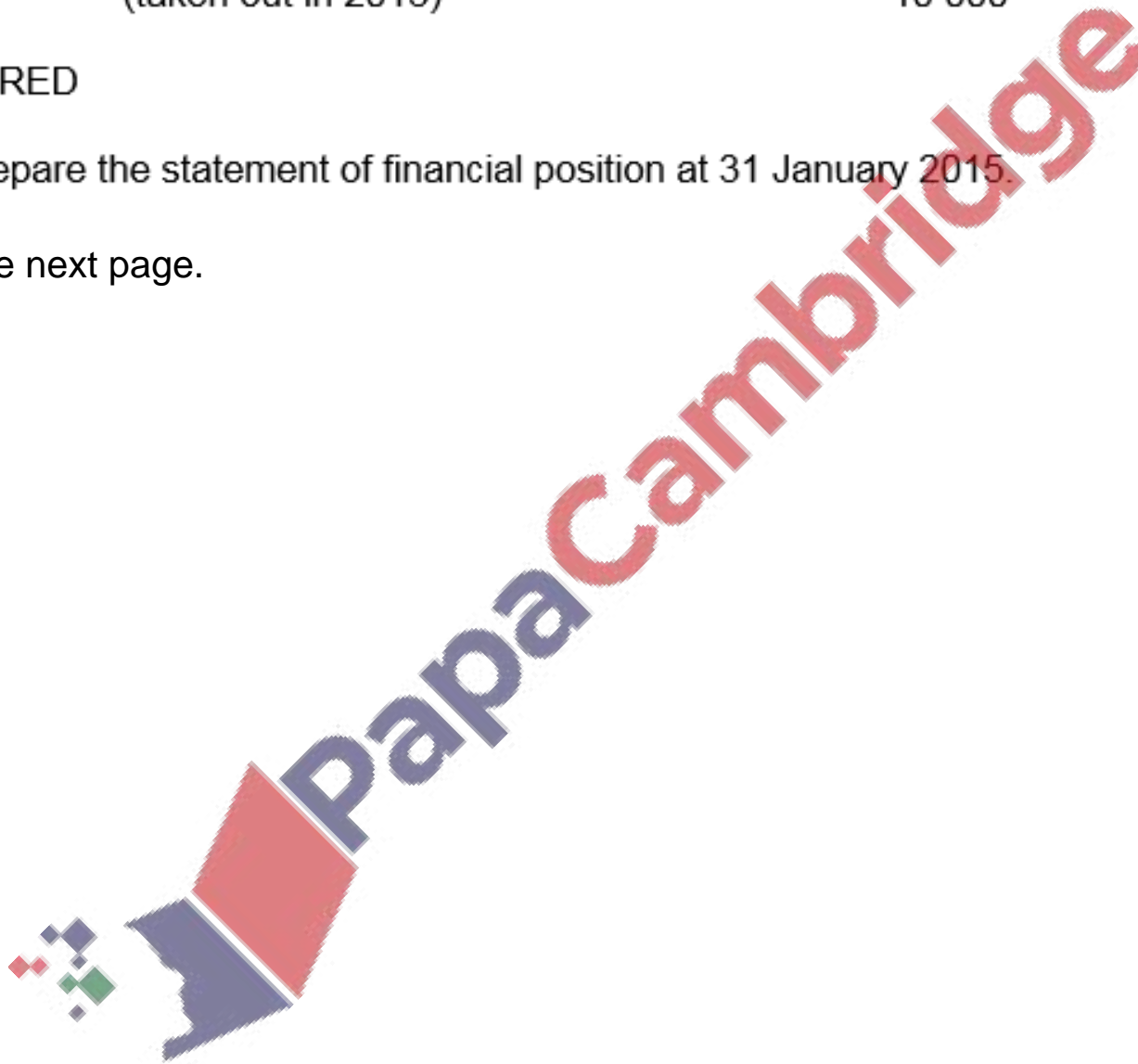
The following balances were extracted from the books on 31 January 2015.

	\$
Retained earnings	65 000
Plant and equipment (at book value)	184 000
Motor vehicles (at book value)	87 000
Trade payables	43 000
Trade receivables	57 000
Inventory	63 000
Bank	2 000 debit
Long term bank loan (5%) (taken out in 2013)	10 000

REQUIRED

(a) Prepare the statement of financial position at 31 January 2015.

See next page.



Answer:

Green Meadow Limited
Statement of Financial Position at 31 January 2015

	\$
<i>Non-current assets</i>	
<i>Plant and equipment</i>	184 000
<i>Motor vehicles</i>	<u>87 000</u>
	271000
<i>Current assets</i>	
<i>Inventory</i>	63 000
<i>Trade receivables</i>	57 000
<i>Cash and cash equivalents/Bank</i>	<u>2 000</u>
	122000
<i>Total assets</i>	<u>393000</u>
<i>Capital and reserves (1)</i>	
<i>Ordinary share capital</i>	125 000
<i>8% preference share capital</i>	100 000
<i>Retained earnings</i>	<u>65 000</u>
	290000
<i>Non-current liabilities (1)</i>	
<i>6% Debentures (2019)</i>	50 000
<i>Bank loan</i>	<u>10 000</u>
	60000
<i>Current liabilities</i>	
<i>Trade payables</i>	<u>43 000</u>
<i>Total liabilities</i>	<u>393000</u>

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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Answer:

	\$
<i>Closing profit</i>	65 000
<i>Opening profit</i>	<u>51 500</u>
	13500
<i>Add back:</i>	
<i>Ordinary dividend</i>	10 000
<i>Preference dividend</i>	<u>8 000</u>
<i>Profit for the year</i>	<u>31500</u>

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

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Answer:

	\$
<i>Profit for the year</i>	31 500
<i>Add back:</i>	
<i>Bank interest</i>	500
<i>Debenture interest</i>	<u>3 000</u>
<i>Profit for the year</i>	<u>35000</u>

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

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Answer: $\frac{35000}{290000 + 60000} \times 100 = 10\%$

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

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Answer: *To compare with other businesses.
 To compare with rate of finance cost on debentures etc.*

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

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Answer: *To avoid dilution of control/because debentures don't have voting rights.
 Ensure existing owners retain control of business.*

2 A limited company decides to create a provision for doubtful debts. How does this affect its statement of financial position?

- A decreases the ordinary share capital
- B increases the ordinary share capital
- C decreases the retained earnings
- D increases the retained earnings

Answer: *C. decreases the retained earnings*

3 Quik Flo Limited is a manufacturing business. It provided the following information.

	\$
At 1 May 2014	
Inventory – raw materials	5 000
– work in progress	2 000
– finished goods	8 500
Factory equipment – cost	18 000
– accumulated depreciation	7 000
Office equipment – cost	3 000
– accumulated depreciation	1 000
For the year ended 30 April 2015	
Revenue	140 000
Purchases of raw materials	48 000
Factory wages	20 500
Factory supervisor's salary	10 800
Office salaries	15 150
Rent	18 000
Selling and distribution costs	9 100
Loan interest	800
At 30 April 2015	
Inventory – raw materials	4 400
– work in progress	1 200
– finished goods	9 000

Additional information

1 Depreciation is provided as follows:

factory equipment at the rate of 10% per annum on the straight line basis
office equipment at the rate of 25% per annum on the reducing (diminishing) balance basis.

A full year's depreciation is provided in the year of acquisition but none is provided in the year of disposal.

- 2 On 30 April 2015 new factory equipment costing \$5000 was paid for by cheque. Old factory equipment with an original cost of \$2000 was sold on the same date at a profit of \$600.
- 3 The rent is to be apportioned 80% to the factory and 20% to the office.

REQUIRED

- (a) Prepare the ledger account for factory equipment (at cost). Balance the account and bring down the balance on 1 May 2015.

Quik Flo Limited
Factory equipment account

Date	Details	\$	Date	Details	\$
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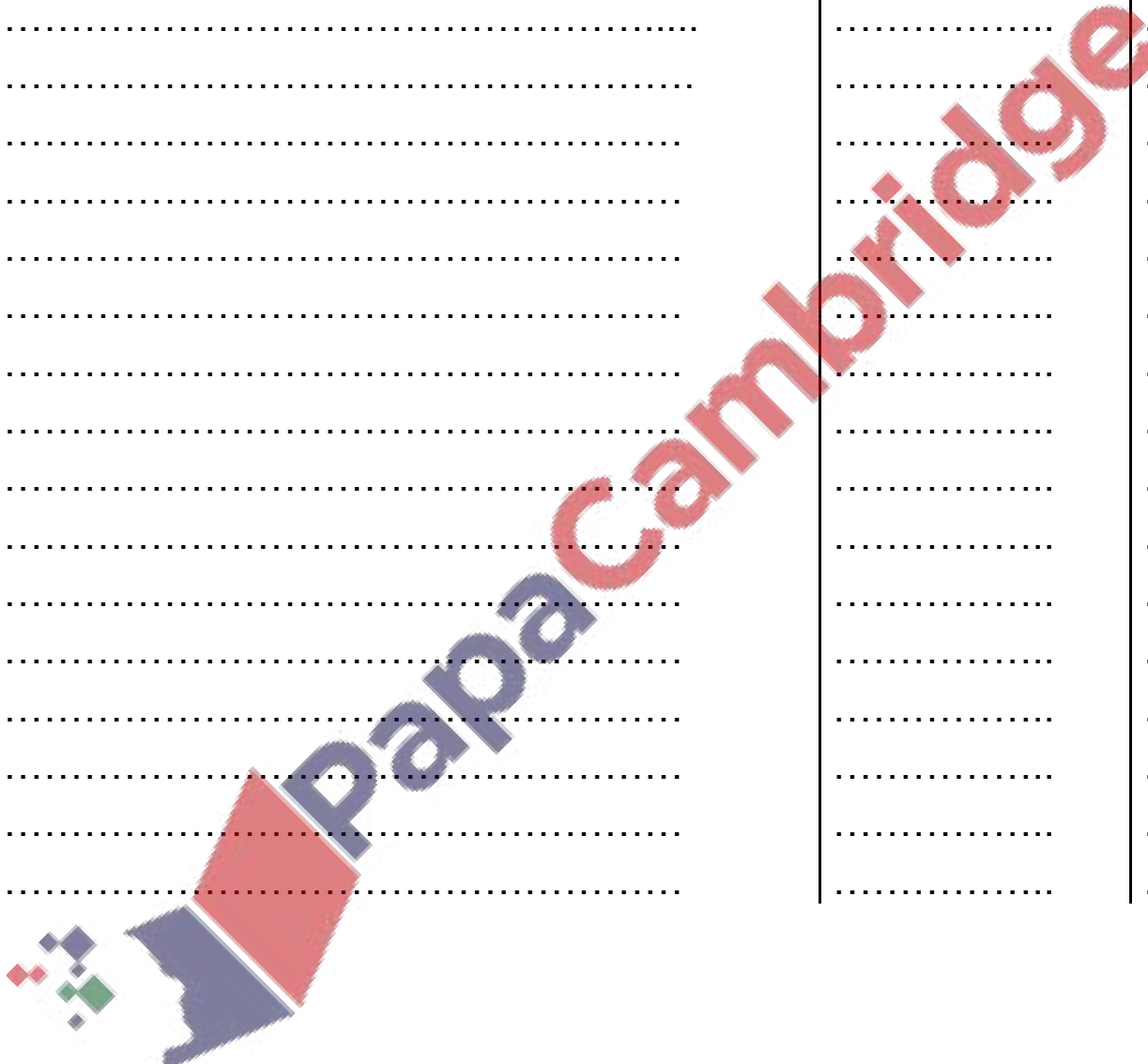
Answer:

2014			2015		
	Details	\$		Details	\$
1 May	Balance b/d	18 000	30 Apr	Disposal	2 000
30 Apr	Bank	5 000		Balance c/d	21 000
		<u>23 000</u>			<u>23 000</u>
1 May	Balance b/d	21 000			

(b) Prepare the manufacturing account for the year ended 30 April 2015.

Quik Flo Limited
 Manufacturing Account for the year ended 30 April 2015

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Answer:

Quik Flo Limited		
Manufacturing Account for the year ended 30 April 2015		
	\$	\$
<i>Raw materials at 1 May 2014</i>	5 000	
<i>Purchases of raw materials</i>	48 000	
	53 000	
<i>Raw materials at 30 April 2015</i>	4 400	
<i>Cost of raw materials consumed</i>		48 600
<i>Factory wages</i>		20 500
<i>Prime cost</i>		69 100
<i>Factory depreciation (21 000 x 10%)</i>	2 100	
<i>Supervisor's salary</i>	10 800	
<i>Rent</i>	14 400	
		27 300
		96 400
<i>Work in progress at 1 May 2014</i>		2 000 }
<i>Work in progress at 30 April 2015</i>		(1 200) }
<i>Cost of production</i>		97 200

(c) Prepare the income statement for the year ended 30 April 2015.

Quik Flo Limited		
Income Statement for the year ended 30 April 2015		
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Answer:

Quik Flo Limited		
Income Statement for the year ended 30 April 2015		
	\$	\$
Revenue		140 000
Finished goods at 1 May 2014	8 500	
Cost of production	<u>97 200</u>	
	105 700	
Finished goods at 30 April 2015		<u>96 700</u>
Gross profit		43 300
Profit on disposal		600
Office salaries	15 150	
Selling and distribution costs	9 100	
Rent		3 600
Office depreciation	<u>500</u>	
Finance charges	<u>800</u>	<u>29 150</u>
Profit for the year		<u>14 750</u>

(d) State what is meant by the term work in progress.

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Answer: Units of production which have been started but which have not been completed.

(e) State two possible reasons why total direct costs in the year ended 30 April 2015 were higher than in the previous year.

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Answer: Increase in costs of raw materials (higher prices) direct labour (higher rates).
Increase in level of production.

4 What are retained earnings in a limited company?

A profits after dividends and after transfers to general reserve

B profits after dividends but before transfers to general reserve

C profits before dividends and before transfers to general reserve

D profits before dividends but after transfers to general reserve

Answer: A. profits after dividends and after transfers to general reserve

5 The financial year of Joda Limited ends on 31 January. The following information is available for the year ended 31 January 2015.

	\$
Revenue	164 000
Cost of sales	125 542
Expenses	24 748

REQUIRED

(a) Calculate the gross profit as a percentage of revenue. The calculation should be correct to two decimal places.

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Answer: $Gross\ profit = 164\ 000 - 125\ 542 = 38\ 458$

$$\frac{38\ 458}{164\ 000} \times \frac{100}{1} = 23.45\%$$

(b) Suggest two reasons why the gross profit as a percentage of revenue is lower than it was for the previous financial years.

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Answer: *Decrease in selling price*
Increase in trade discount allowed to customers
Selling at lower mark-up
Increase in cost price
Reduction in trade discount allowed by suppliers
Not taking advantage of bulk buying

(c) Calculate the profit for the year as a percentage of revenue. The calculation should be correct to two decimal places.

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Answer: *Profit for the year = 38 458 OF – 24 748 = 13 710*

$$\frac{13\,710}{164\,000} \times \frac{100}{1} = 8.36\%$$

6 During the accounting year a limited company had the following transactions.

	\$
ordinary share dividend paid	25 000
interest paid on short term bank loan	3 000
interest paid on debentures (repayable in 2019)	12 000
interest received on bank deposit	5 000

Which amount appeared in the expenses in the income statement?

- A \$10 000
- B \$12 000
- C \$15 000
- D \$35 000

Answer: C. \$15 000

7 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	\$4000
Retained earnings	\$5500

3 The profit for the year ended 30 September 2015 was \$9000.
\$2000 of this was transferred to the general reserve.
An interim dividend of \$4500 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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Answer:

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

	\$	
<i>Equity and Reserves</i>		
<i>Ordinary Share Capital</i>	90 000	
<i>General Reserve (4000 (1) + 2000 (1))</i>	6 000	
<i>Retained Earnings (5500 (1) + 2500 (1))</i>	8 000	
	104 000	

8 Two companies, X Limited and Y Limited, provided the following information.

	X Limited	Y Limited
	\$	\$
Profit for the year	10 000	10 000
Revenue for the year	200 000	100 000
Capital employed	180 000	300 000

Which company had the higher profit to revenue percentage (net profit margin) and which had the higher return on capital employed (ROCE)?

	profit to revenue percentage	return on capital employed	
A	X Limited	X Limited	<input type="checkbox"/>
B	X Limited	Y Limited	<input type="checkbox"/>
C	Y Limited	X Limited	<input type="checkbox"/>
D	Y Limited	Y Limited	<input type="checkbox"/>

Answer: C.

9 D Limited provided the following information:

On 1 July 2015

The company had in issue 400 000 ordinary shares of \$0.50 each. Retained earnings were \$80 000.

The general reserve amounted to \$25 000.

During the year ended 30 June 2016

Debentures, \$100 000, were issued.

A dividend of \$0.09 per share was paid.

The profit for the year was \$78 600.

\$10 000 was transferred to general reserve.

(a) Calculate the retained earnings at 30 June 2016.

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Answer:

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<i>At 1 July 2015</i>	80 000
<i>Profit for the year</i>	78 600
<i>Dividend paid</i>	(36 000)
<i>Transfer to general reserve</i>	<u>(10 000)</u>
<i>At 30 June 2016</i>	112 600

(b) Prepare an extract from the statement of financial position at 30 June 2016 showing the capital and reserves section.

D Limited
Statement of Financial Position (extract) at 30 June 2016

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Answer:

	\$
<i>Capital and reserves</i>	
<i>Ordinary shares of \$0.50</i>	200 000
<i>Retained earnings</i>	112 600
<i>General reserve</i>	<u>35 000</u>
	<u>347 600</u>

(c) State **one** reason why D Limited paid a dividend.

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Answer: *To distribute profit to shareholders.*
OR
To reward shareholders for their investment.

(d) Suggest **two** reasons why the directors decided that the total dividend should be less than the profit for the year.

Reason 1

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Reason 2

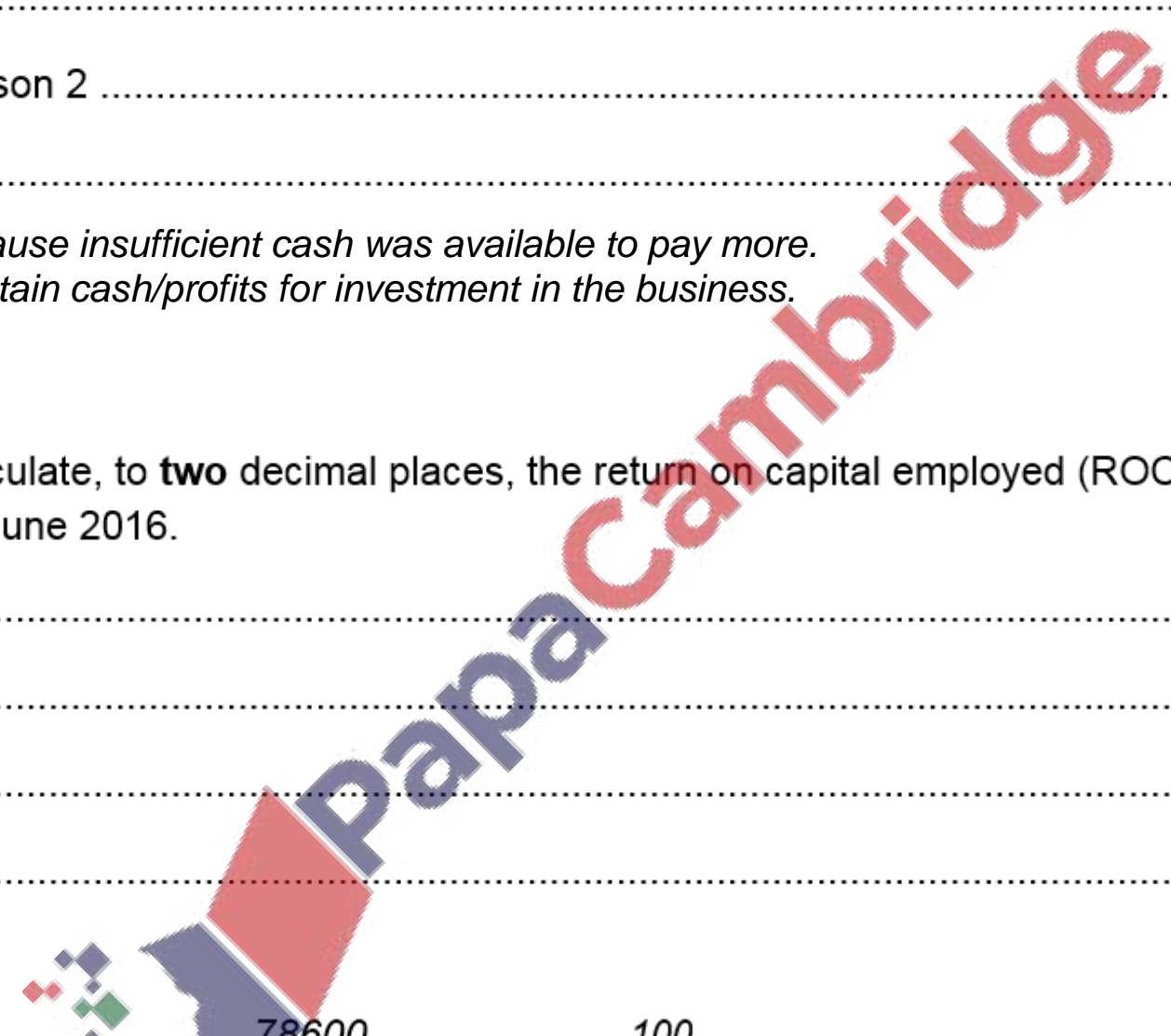
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Answer: *Because insufficient cash was available to pay more.*
To retain cash/profits for investment in the business.

(e) Calculate, to **two** decimal places, the return on capital employed (ROCE) for the year ended 30 June 2016.

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Answer:


$$ROCE = \frac{78600}{347600 + 100000} \times \frac{100}{1} = 17.56\%$$

(f) State **two** possible reasons why the return on capital employed (ROCE) had decreased from the previous year.

Reason 1

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Reason 2

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Answer: *Profit has fallen*
Selling price has decreased
Worse control of expenses
Worsening credit control/increased bad debts
Poorer control of inventory
Capital employed has increased/non-current liability created

D Limited wishes to raise additional finance and is considering issuing more ordinary shares or taking out a long-term bank loan.

REQUIRED

(g) Advise the company of **three** factors it might take into consideration when making its decision.

Factor 1

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Factor 2

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Factor 3

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Answer: *It may not be easy to sell the shares.*
There will be loss of control by existing shareholders.
Dividends payable may increase.
If the interest rate is variable interest payable could increase.
The company would have to pay interest irrespective of profit made.
The bank may require security.

10 The directors of a limited company increased the general reserve.

Which item decreased?

- A balance at bank
- B ordinary share capital
- C preference share capital
- D retained earnings

Answer: D. retained earnings

11 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.

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Answer:

$$\frac{43\,000}{(500\,000 + 11\,000 + 14\,000 + 75\,000)} \times \frac{100}{1} = 7.17\%$$

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.

December 31	Payment of final ordinary share dividend 25 000 for the year ended 30 September 2016	
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.

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Answer:

$$\frac{25000}{500000} \times \frac{100}{1}$$

= 5%

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

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

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Answer: (c)

$$\frac{15000 + 30000}{500000 + 100000} \times \frac{100}{1}$$

$$= \frac{45000}{600000}$$

$$= 7.5\%$$

(d)

$$71\,000 - (3\% \times 75\,000)$$

$$= 71\,000 - 2250$$

$$= 68\,750$$

(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 \$	General reserve \$	Retained earnings \$	Total \$
On 1 October 2016
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On 30 September 2017

Answer:

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

	Ordinary share capital	General reserve	Retained earnings	Total
	\$	\$	\$	\$
<i>On 1 October 2016</i>	<i>500 000</i>	<i>11 000</i>	<i>14 000</i>	<i>525 000</i>
<i>Share issue</i>	<i>100 000</i>			<i>100 000</i>
<i>Profit for the year</i>			<i>68 750</i>	<i>68 750</i>
<i>Dividend paid (for year ended 30 September 2016)</i>			<i>(25 000)</i>	<i>(25 000)</i>
<i>Dividend paid (for year ended 30 September 2017)</i>			<i>(15 000)</i>	<i>(15 000)</i>
<i>Transfer to general reserve</i>		<i>5 000</i>	<i>(5 000)</i>	
<i>On 30 September 2017</i>	<i>600 000</i>	<i>16 000</i>	<i>37 750</i>	<i>653 750</i>

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

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

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Answer: (f) Long term loans

- Debenture holders are not members of the company*
- Do not carry voting rights*
- Carry a fixed rate of interest*
- Interest is not dependent on the company's profit*
- Are often secured on the assets of the company's*
- Debenture holders are repaid before the shareholders in a winding-up*

(g) Carry a fixed rate of dividend

- Dividend may not be paid if there is not enough profit*
- Dividend is paid before ordinary share dividend*
- Preference shareholders are members of the company*
- Do not usually carry voting rights*
- Capital is repaid before ordinary share capital in a winding-up*
- Are not secured on the assets of the company*

(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 \$	decrease \$	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			

Answer:

	increase \$	decrease \$	no effect
effect on current assets	300 000		
effect on non-current liabilities	300 000		
effect on profit for the year		9 000	
effect on profit available for ordinary shareholders		9 000	
effect on equity			✓

12 ABC Limited has a share capital consisting of ordinary shares. The financial year ends on 31 December.

The accountant prepared the income statement for the year ended 31 December 2017 which showed a profit of \$21 000.

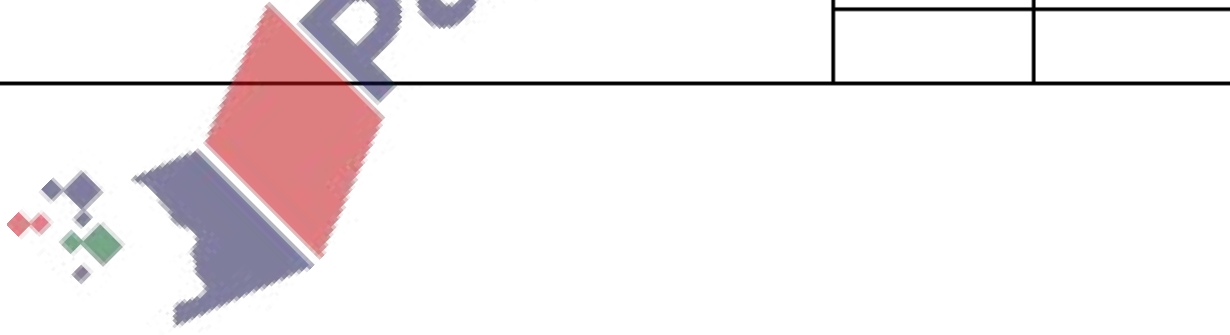
The accountant started to prepare a statement of changes in equity but was taken ill before it was completed.

REQUIRED

(a) Complete the following statement of changes in equity for the year ended 31 December 2017.

ABC Limited
Statement of Changes in Equity for the year ended 31 December 2017

	Ordinary share capital \$	General reserve \$	Retained earnings \$	Total \$
On 1 January 2017	180 000	25 000	9 500	214 500
Share issue	20 000	.....	.....	.....
Profit for the year	.....	.....	.....	.....
Final dividend paid for year ended 31 December 2016	.....	.....	.....	(7 200)
Interim dividend for the year ended 31 December 2017	.....	.....	.....	(6 000)
Transfer to general reserve	.....	2 000	.....	.....
At 31 December 2017	.....	.....	.....	.....



ABC Limited
Statement of Changes in Equity for the year ended 31 December 2017

	Ordinary share capital \$	General reserve \$	Retained earnings \$	Total \$
<i>On 1 January 2017</i>	180 000	25 000	9 500	214 500
<i>Share issue</i>	20 000	.....	.....	20 000
<i>Profit for the year</i>	.....	.....	21 000	21 000
<i>Final dividend paid for year ended 31 December 2016</i>	.....	.....	(7 200)	(7 200)
<i>Interim dividend for the year ended 31 December 2017</i>	.....	.....	(6 000)	(6 000)
<i>Transfer to general reserve</i>	.....	2 000	(2 000)	.....
<i>At 31 December 2017</i>	200 000	27 000	15 300	242 300

ABC Limited provided the following information.

	Year ended 31 December	
	2016	2017
Percentage of gross profit to revenue (gross profit margin)	32%	30%
Percentage of profit for the year to revenue (net profit margin)	12%	14%

REQUIRED

(b) Suggest **two** reasons for the change in the percentage of profit for the year to revenue.

1

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2

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(c) State the year in which ABC Limited had better control of the expenses. Give a reason for your answer.

Year

Reason

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Answer: (b) *Increase in gross profit*
Decrease in expenses/better control of expenses
Increase in other income
Different type of expenses
Or other suitable reason

(c) 2017
In 2016 the percentage of expenses to revenue was 20%: in 2017 the percentage of expenses to revenue was 16%

One of the directors has made four proposals for increasing the percentage of profit for the year to revenue.

REQUIRED

(d) Complete the following table by placing a tick (✓) to indicate the effect on the percentage of profit for the year to revenue of **each** proposal.

proposal	effect on percentage of profit for the year to revenue		
	increase	decrease	no effect
reduce number of employees to reduce the wages bill			
purchase supplies in bulk to get trade discount			
purchase supplies on a cash basis only			
delay payment of rent of premises			

Answer:

proposal	effect on percentage of profit for the year to revenue		
	increase	decrease	no effect
reduce number of employees to reduce the wages bill	✓		
purchase supplies in bulk to get trade discount	✓		
purchase supplies on a cash basis only			✓
delay payment of rent of premises			✓

ABC Limited makes all purchases and sales on credit terms.

Credit customers are allowed a credit period of 30 days and credit suppliers allow a credit period of 24 days.

ABC Limited provided the following information.

	2016	2017
Collection period for trade receivables	28 days	38 days
Payment period for trade payables	22 days	30 days

REQUIRED

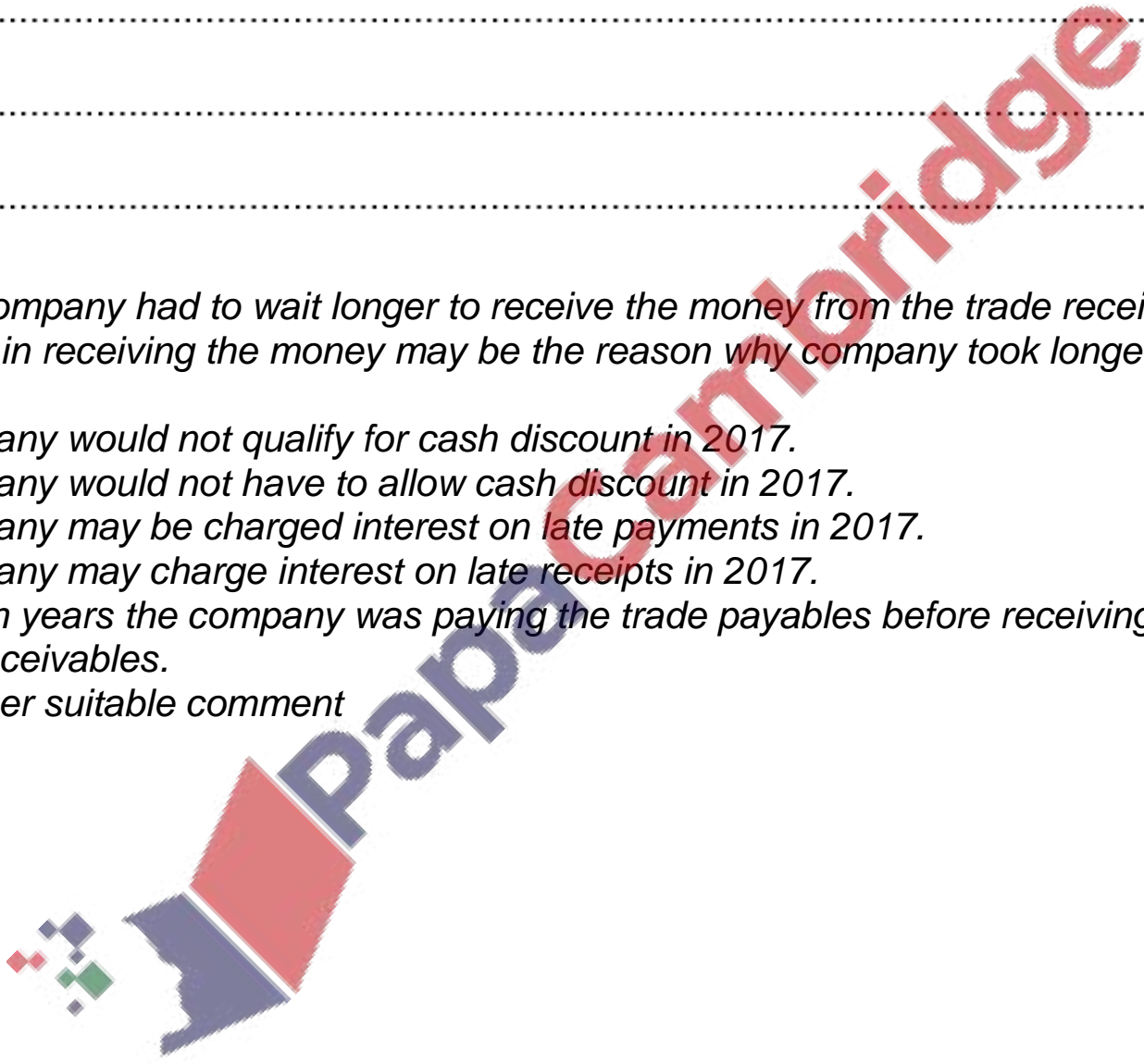
- (e) Comment on the effect on the liquidity of ABC Limited of the change in the collection period for trade receivables and the change in the payment period for trade payables.

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Answer: *The company had to wait longer to receive the money from the trade receivables. Delay in receiving the money may be the reason why company took longer to pay trade payables.*
Company would not qualify for cash discount in 2017.
Company would not have to allow cash discount in 2017.
Company may be charged interest on late payments in 2017.
Company may charge interest on late receipts in 2017.
In both years the company was paying the trade payables before receiving money from the trade receivables.
Or other suitable comment



(f) Suggest **two** ways in which ABC Limited could reduce the collection period for trade receivables.

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(g) Suggest **two** ways in which ABC Limited could reduce the possibility of bad debts.

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Answer: (f)

- Offer cash discount for prompt payment*
- Charge interest on overdue accounts*
- Improve credit control*
- Issue invoices and monthly statements promptly*
- Refuse further supplies until outstanding balance is paid*
- Invoice discounting and debt factoring*

(g)

- Reduce credit sales/sell for cash only*
- Obtain references from new credit customers*
- Fix a credit limit for each customer*
- Improve credit control*
- Issue invoices and monthly statements promptly*
- Refuse further supplies until outstanding balance is paid*
- Offer cash discount for prompt payment*
- Charge interest on overdue accounts*

(h) Suggest **one** disadvantage to the trade payables of the change in the payment period.

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(i) Suggest **one** advantage to the trade payables of the change in the payment period.

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ABC Limited's return on capital employed (ROCE) for the year ended 31 December 2017 was lower than that of the previous few years.

REQUIRED

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

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Answer: (h)

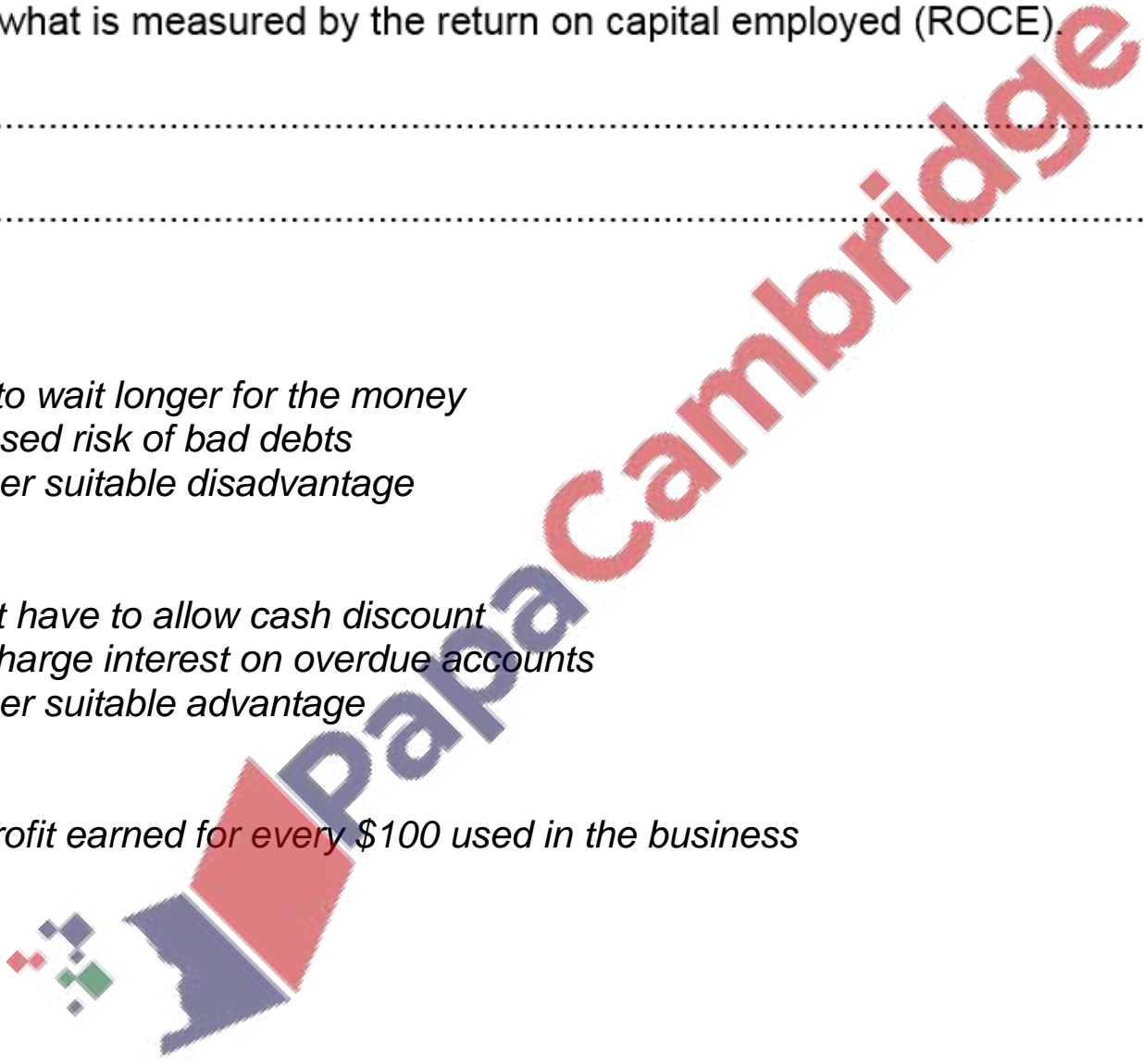
*Have to wait longer for the money
Increased risk of bad debts
Or other suitable disadvantage*

(i)

*Do not have to allow cash discount
May charge interest on overdue accounts
Or other suitable advantage*

(j)

The profit earned for every \$100 used in the business



One of the directors has made three proposals for increasing the return on capital employed (ROCE).

REQUIRED

(k) Complete the following table by placing a tick (✓) to indicate the effect on the return on capital employed (ROCE) of **each** proposal.

proposal	effect on return on capital employed (ROCE)		
	increase	decrease	no effect
reduce cost of insuring motor vehicles			
issue more ordinary shares			
obtain a short-term interest-free loan from a director			

Answer:

	effect on return on capital employed (ROCE)		
	increase	decrease	no effect
reduce cost of insuring motor vehicles	✓		
issue more ordinary shares		✓	
obtain a short-term interest-free loan from a director			✓

13 B Limited provided the following details at 30 April 2018.

	\$
profit for the year ended 30 April 2018	72 500
ordinary share dividends paid	15 000
transfer to general reserve	5 000
retained earnings at 30 April 2018	285 000

What were retained earnings at the beginning of the financial year?

- A \$227 500
- B \$232 500
- C \$337 500
- D \$342 500

Answer: B. \$232 500

14 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

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2

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(b) State how the general reserve has arisen.

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Answer: (a)

Debentures	Ordinary shares
<i>Receive interest</i>	<i>Receive dividends</i>
<i>Receive fixed interest</i>	<i>Receive variable dividends</i>
<i>Interest paid irrespective of profit</i>	<i>Dividends depend on profit</i>
<i>Do not carry voting rights</i>	<i>Carry voting rights</i>
<i>Are lenders/loans/(non-current) liabilities/creditors</i>	<i>Are members of the company/equity/capital</i>
<i>Priority for repayment in winding-up</i>	<i>Last to be repaid in winding-up</i>

(b) *Transfers made in the statement of changes of equity from the retained earnings.*

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

1

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2

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Answer: *In situations where there is not enough cash to pay a dividend
 To retain cash within the business rather than using it for dividends
 To use in future when the profits may be low/there may be a loss
 Or other acceptable comments*

- (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 Repayment of long-term loan				✓
1 November 2017 Payment of half-year interest on debentures				
31 December 2017 Payment of interim ordinary share dividend				
30 April 2018 Half-year interest on debentures accrued				
30 April 2018 Proposed ordinary share dividend				

Answer:

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

15 FD Paints Limited started trading on 1 January 2015. The company provided the following information for the year ended 31 December 2015.

	\$
Profit for the year	80 000
Dividend paid	4 200
Dividend proposed	10 400
Transfer to general reserve	5 000

What were the retained earnings at 31 December 2015?

- A \$60 400
- B \$70 800
- C \$75 800
- D \$89 200

Answer: B. \$70 800

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

- 1
- 2
- 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

Answer: (a) *Separate legal identity from its owner.
 Limited liability.
 Can issue shares to raise capital.
 May find it easier to obtain loans/issue debentures.
 Continuity.
 Other reasonable answers acceptable*

(b)

definition	term
<i>the value of shares which a company has requested from its shareholders</i>	<i>called up capital</i>
<i>the value of shares for which the company has received cash</i>	<i>paid up capital</i>

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

REQUIRED

(c) Complete the following statement of changes in equity for the year ended 31 March 2016.

AC Industries Limited
Statement of Changes in Equity for the year ended 31 March 2016

Details	Share capital \$	General reserve \$	Retained earnings \$	Total \$
On 1 April 2015
Share issue
Profit for the year
Dividend paid
Transfer to general reserve
On 31 March 2016

Answer:

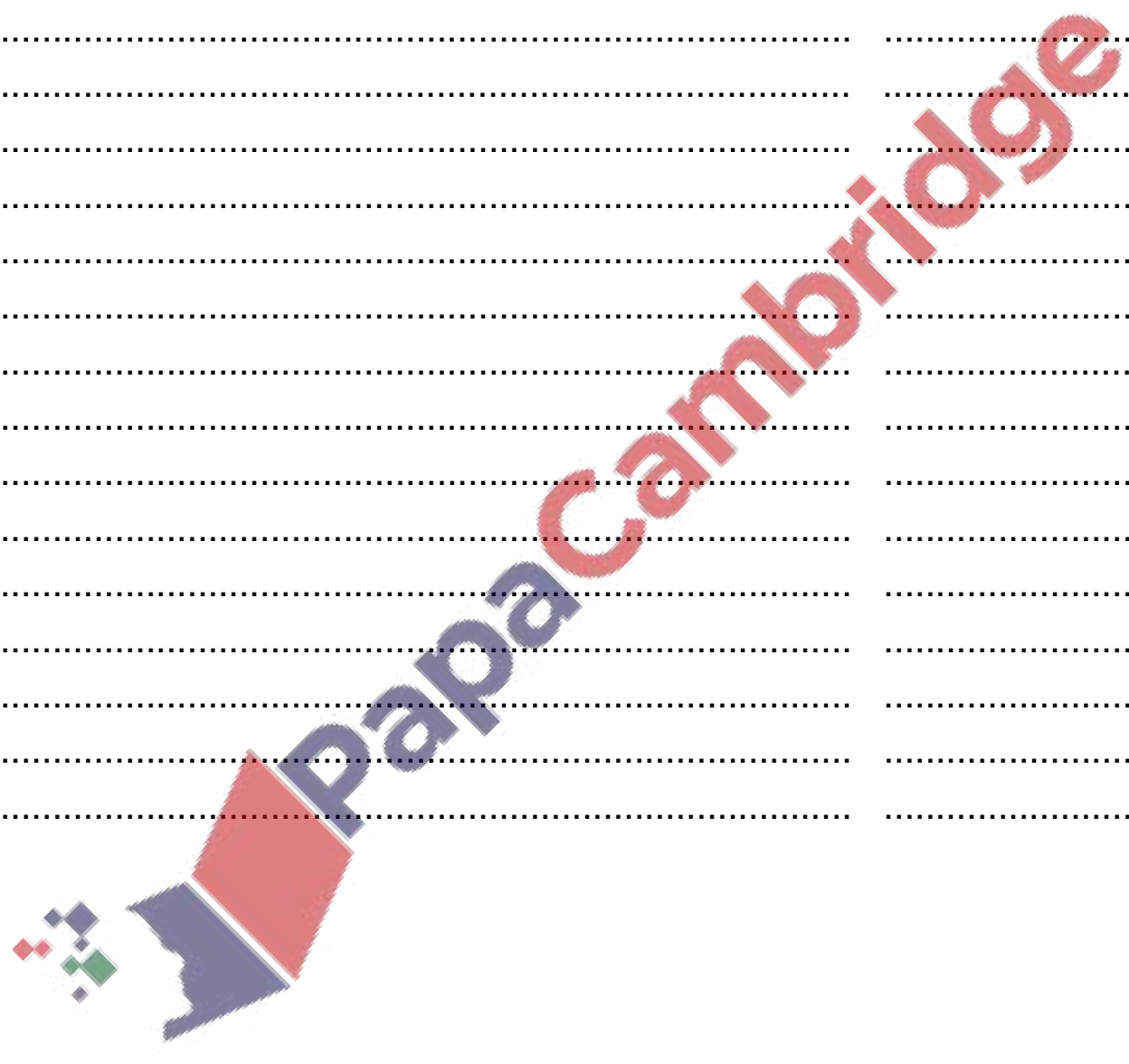
AC Industries Limited
Statement of Changes in Equity for the year ended 31 March 2016

Details	Share capital \$	General reserve \$	Retained earnings \$	Total \$
<i>On 1 April 2015</i>	<i>100 000</i>	<i>20 000</i>	<i>36 800</i>	<i>156 800</i>
<i>Share issue</i>	<i>10 000</i>	.....	.....	<i>10 000</i>
<i>Profit for the year</i>	.....	.....	<i>19 300</i>	<i>19 300</i>
<i>Dividend paid</i>	.....	.....	<i>(7 000)</i>	<i>(7 000)</i>
<i>Transfer to general reserve</i>	.....	<i>5 000</i>	<i>(5 000)</i>	<i>–</i>
<i>On 31 March 2016</i>	<i>110 000</i>	<i>25 000</i>	<i>44 100</i>	<i>179 100</i>

(d) Prepare the statement of financial position at 31 March 2016 in as much detail as possible.
(Non-current assets will be the balancing figure.)

AC Industries Limited
Statement of Financial Position at 31 March 2016

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Answer:

AC Industries Limited
Statement of Financial Position at 31 March 2016

	\$
<i>Non-current assets</i>	<u>189 800</u>
<i>Current assets</i>	
<i>Inventory</i>	17 800
<i>Trade receivables</i>	<u>8 000</u>
	25 800
<i>Total assets</i>	<u>215 600</u>
<i>Equity and reserves</i>	
<i>Ordinary share capital</i>	110 000
<i>General reserve</i>	25 000
<i>Retained earnings</i>	<u>44 100</u>
	179 100
<i>Non-current liabilities</i>	
<i>Bank loan</i>	<u>15 000</u>
<i>Current liabilities</i>	
<i>Trade payables</i>	19 000
<i>Bank overdraft</i>	<u>2 500</u>
	21 500
<i>Total liabilities</i>	<u>215 600</u>

Accept alternative presentation



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

.....
.....

(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

.....
.....

Answer: (e)

- To reduce the overdraft*
- To fund an increase in inventory*
- To purchase new non-current assets*
- Growth/expansion*

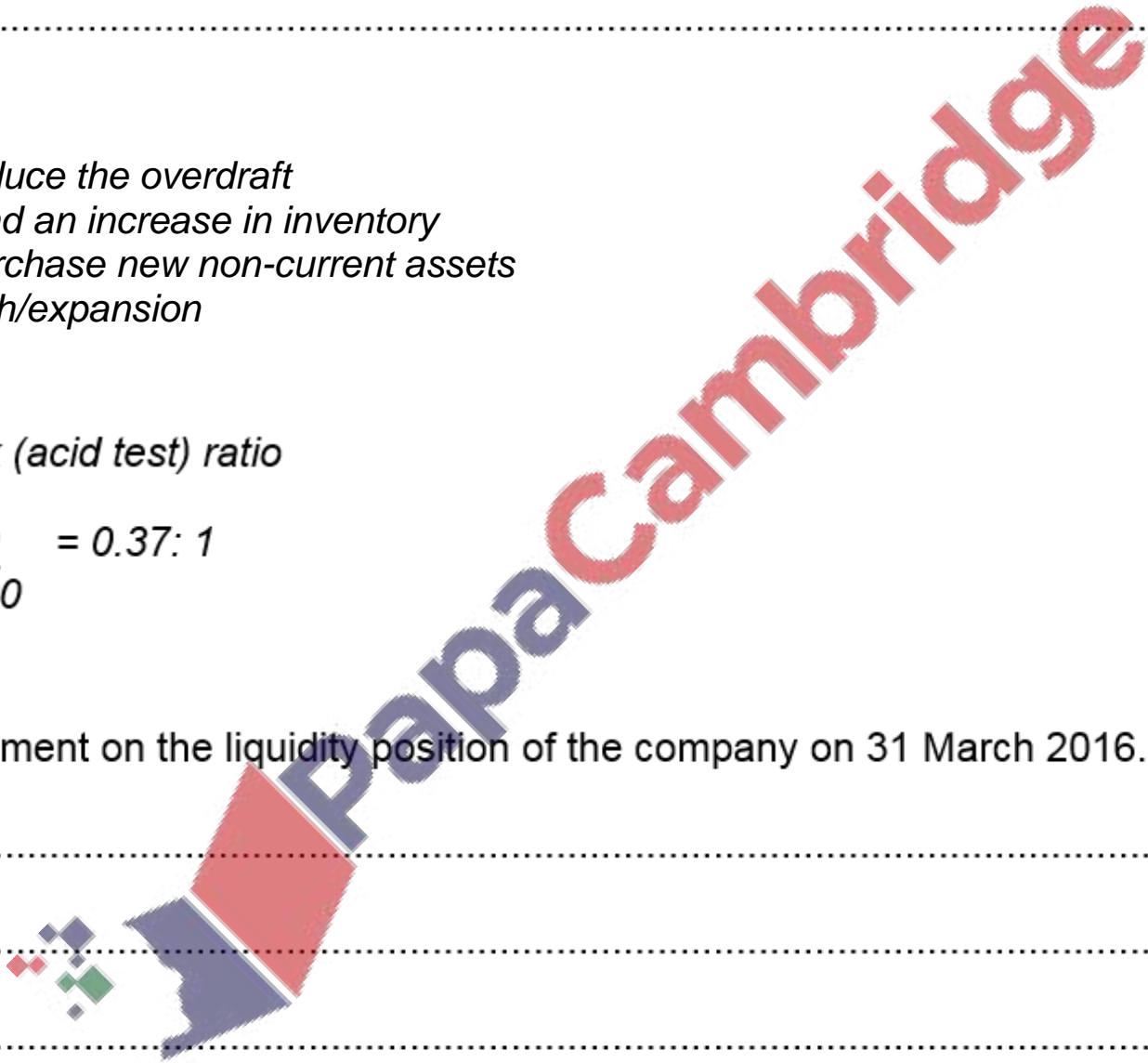
(f)

Quick (acid test) ratio

$$\frac{8\,000}{21\,500} = 0.37: 1$$

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

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Answer: *Liquidity is poor.
 Both ratios appear low.
 There is insufficient cash to meet current liabilities as they fall due.
 Current assets do exceed current liabilities.
 There is already a bank overdraft.
 Too high a proportion of current assets is made up of inventory.
 Trade payables are much higher than trade receivables.
 Overdraft facilities could be withdrawn at any time.
 Relationship with credit suppliers could be damaged.*

17 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		8 000
		<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.

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

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

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Answer:

(a) $\$19360 - (4\% \times 80000) = \16160

(b) (i) $\frac{8000}{200\,000} \times \frac{100}{1} = 4\%$

(ii) $\frac{(6250 + 5000)}{(200\,000 + 50\,000)} \times \frac{100}{1} = 4.5\%$

(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

	Ordinary share capital \$	General reserve \$	Retained earnings \$	Total \$
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.....
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Answer:

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

	Ordinary share capital \$	General reserve \$	Retained earnings \$	Total \$
<i>On 1 March 2015</i>	<i>200000</i>	<i>34000</i>	<i>8000</i>	<i>242000</i>
<i>Share issue</i>	<i>50000</i>			<i>50000</i>
<i>Profit for the year</i>			<i>16160</i>	<i>16160</i>
<i>Dividend paid (for year ended 28 February 2015)</i>			<i>(8000)</i>	<i>(8000)</i>
<i>Dividend paid (for year ended 29 February 2016)</i>			<i>(6250)</i>	<i>(6250)</i>
<i>Transfer to general reserve</i>		<i>6000</i>	<i>(6 000)</i>	
<i>On 29 February 2016</i>	<i>250000</i>	<i>40 000</i>	<i>3910</i>	<i>293910</i>

(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.

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

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

1

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2

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Answer:

(i) $\frac{16\ 160}{180\ 200} \times \frac{100}{1}$ whole formula = 8.97%

- (ii) *Increase gross profit*
Reduce expenses
Increase other income

(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.

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

1

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2

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Answer:

(i) $\frac{16\ 160}{242\ 000} \times \frac{100}{1}$ whole formula = 6.68%

- (ii) *Increase profit for the year*
Increase efficiency
Use resources more efficiently
Or other suitable point

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

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2

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Answer: *Reduction in profit available for ordinary shareholders*
Prior claim on the profits of the company
Prior claim on the assets of the company in the event of a winding-up
Or other suitable comment

18 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 \$4500 was paid on the ordinary shares.
- 3 A transfer of \$5000 was made to general reserve.

REQUIRED

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

See next page.

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

Details	Share capital \$	General reserve \$	Retained earnings \$	Total \$
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	.....	.....	.....	.....

Answer:

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

Details	Share capital \$	General reserve \$	Retained earnings \$	Total \$
On 1 October 2015	150 000	14 000	31 000	195 000
Profit for the year			14 750	14 750
Dividend paid			(4 500)	(4 500)
Transfer to general reserve		5 000	(5 000)	
On 30 September 2016	150 000	19 000	36 250	205 250

Answer:

Sandton Limited
Statement of Financial Position at 30 September 2016

Assets	\$	\$	\$
<i>Non-current assets</i>			
	<i>Cost</i>	<i>Accumulated depreciation</i>	<i>Book value</i>
<i>Premises</i>	135 200		135 200
<i>Fixtures and equipment</i>	37 600	7 520	30 080
<i>Motor vehicles</i>	<u>54 000</u>	<u>10 800</u>	<u>43 200</u>
	<u>226 800</u>	<u>18 320</u>	<u>208 480</u>
<i>Current assets</i>			
<i>Inventory</i>			12 613
<i>Trade receivables</i>		10 840	
<i>Less Provision for doubtful debts</i>		<u>271</u>	10 569
<i>Other receivables</i>			<u>472</u>
			<u>23 654</u>
Total assets			<u>232 134</u>
<i>Equity and liabilities</i>			
<i>Equity and reserves</i>			
<i>Ordinary share capital</i>			150 000
<i>General reserve (14 000 + 5000)</i>			19 000
<i>Retained earnings (31 000 + 5250)</i>			<u>36 250</u>
			<u>205 250</u>
<i>Non-current liabilities</i>			
<i>3% Debentures (repayable 2020)</i>			<u>15 000</u>
<i>Current liabilities</i>			
<i>Trade payables</i>			7 460
<i>Other payables</i>			130
<i>Bank overdraft</i>			<u>4 294</u>
			<u>11 884</u>
Total liabilities			<u>232 134</u>



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