17.3

CHAPELPORTH LIMITED
INCOME STATEMENT (EXTRACT) FOR THE YEAR ENDED 30 JUNE 20-8

	£
Profit from operations	135,000
Finance costs	(12,500)
Profit before tax	122,500
Tax	(48,000)
Profit for the year	74,500

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 20-8

Retained earnings	
Balance at 1 July 20-7	185,000
Profit for the year	74,500
	259,500
Dividends paid £30,500 + £18,000	(48,500)
Balance at 30 June 20-8	211,000

17.5

JOBSEEKERS LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 20-6

Retained earnings	£
Balance at 1 January 20-6	8,400
Profit for the year	68,200
	76,600
Dividends paid	(10,000)
Balance at 31 December 20-6	66,600

BALANCE SHEET AS AT 31 DECEMBER 20-6

	Cost	*Depreciation*	*Net book value*
Non-current Assets	£	£	£
Intangible			
Goodwill	20,000	6,000	14,000
Property, plant and equipment			
Premises	175,000	10,500	164,500
Office equipment	25,000	5,000	20,000
	220,000	21,500	198,500
Current Assets			
Inventories			10,750
Trade and other receivables			42,500
Cash and cash equivalents			1,950
			55,200
Current Liabilities			
Trade and other payables			(17,250)
Tax liabilities			(14,850)
			(32,100)
Net Current Assets			23,100
Non-current Liabilities			
Bank loan			(55,000)
Net Assets			166,600
EQUITY			
Issued Share Capital			
100,000 ordinary shares of £1 each, fully paid			100,000
Revenue Reserve			
Retained earnings			66,600
TOTAL EQUITY			166,600

17.6 (a) **Ordinary shares**

Advantage	Voting rights Potential capital growth High dividends in good years
Disadvantage	Risk of losing money invested Low (or no) dividend in poor years

7% preference shares

Advantage	Fixed rate of dividend which will not go down if interest rates fall Less risky than ordinary shares
Disadvantage	Generally, no voting rights Fixed dividends, so no growth in dividends Fewer capital growth prospects than ordinary shares

6% debentures

Advantage	Fixed rate of interest which will not go down if interest rates fall Loans rather than shares Less risky than shares
Disadvantage	No capital growth prospects Fixed rate of interest, whatever may happen to interest rates

(b)
- Jill is probably better off investing in ordinary shares
- The risk is that she could lose the amount invested but, if the company does well, she could make large capital gains
- Her income – in the form of dividends – will vary from year-to-year, depending on how successful the company has been

(c)
- Jack is probably better off investing in debentures
- These are the safest form of investment for him and will give him an income of £600 per year
- If he wishes to take a slightly higher risk he could invest some or all of the money in preference shares; if all, then his income will be £700 per year
- With preference shares there could also be some capital growth
- Debentures offer the safest investment: in the event of the company going into liquidation, debentures will be repaid before the preference and ordinary shareholders

17.8

	Profit for the year	**Retained earnings**	**Total equity**	**Current assets**	**Current liabilities**
(a)	*decrease £12,000*	*decrease £12,000*	*decrease £12,000*	*no change*	*increase £12,000*
(b)	increase £50,000	increase £50,000	increase £50,000	no change	no change
(c)	no change	decrease £25,000	no change	no change	no change
(d)	decrease £43,000	decrease £43,000	decrease £43,000	no change	increase £43,000