

Principles of Accounts
Revision
Topic: Equity

Question 1 (Private Limited Company)

On 1 January 2020, Dino Pte Ltd had a share capital balance of \$75 000 with 25 000 ordinary shares issued and a retained earnings balance of \$24 750. The financial year of the business ends on 31 December.

REQUIRED

- (a) Explain the term retained earnings. [2]
- (b) Define dividends. [2]
- (c) State **three** reasons why the shareholders' equity in a private limited company may be different at the end of the financial year from that at the beginning. [3]

On 13 March 2020, Dino Pte Ltd issued another 50 000 shares at \$1.50 each. The business made a profit of \$129 000 for the year ended 31 December 2020 and declared a dividend of \$0.15 per share.

REQUIRED

- (d) Calculate the share capital as at 31 December 2020. [1]
- (e) Calculate the amount of dividends declared on 31 December 2020. [1]
- (f) Prepare the retained earnings account for the year ended 31 December 2020. [3]

Question 2 (Private Limited Company)

The following information was available for JRT Sports Pte Ltd at 1 April 2020.

	\$
Share capital, 200 000 ordinary shares	400 000
Retained earnings	138 700

Additional information

- 1 On 22 January 2021 there was an issue of 50 000 shares for \$1.50 each. All the shares were sold and fully paid by cheque.
- 2 The company made a loss of \$52 000 for the year ended 31 March 2021.
- 3 On 31 March 2021, a final dividend of \$0.15 per share was declared and will be paid on 30 April 2021.

REQUIRED

- (a) State the meaning of:
 - (i) Dividends
 - (ii) Retained earnings[2]
- (b) Prepare the journal entries for items 1 and 3. Narrations are **not** required. [4]
- (c) Prepare the retained earnings account for the year ended 31 March 2021. [3]
- (d) Prepare an extract of the statement of financial position of J Sports Pte Ltd as at 31 March 2021. [3]

Question 3

Simon Trading had a credit balance of \$48 000 in its capital account as at 1 January 2020. The following transactions took place during the financial year ended 31 December 2020 and 2021.

2020	
May 5	Owner took out \$2 500 cash from the business bank account for personal use.
Nov 7	Owner took some goods costing \$800 for his personal use.
Nov 7	Owner paid for insurance of \$2 000 meant for the business using his money from his bank account.
Dec 31	The business made a profit of \$6 000 for the year.
2021	
Feb 6	Owner paid for the amount due to a trade payable, Jerry, \$2 500, from his private funds.
May 2	Owner distributed inventory worth \$1 200 for use as advertising samples during a roadshow event.
Dec 8	A business cheque of \$7 500 was issued for the rental expense of the owner's house.
Dec 31	The business made a loss of \$4 500 for the year.

REQUIRED

- a) Prepare the drawings account for the two years ended 31 December 2020 and 2021, showing the closing entries at the year end.
- b) Prepare the capital account for the two years ended 31 December 2020 and 2021, and bring down the balance to the next financial year.

Question 4 (Sole-proprietorship)

Megan is a sole trader whose financial year ends on 30 June every year.

On 1 July 2020, the balance in the capital account was \$50 400.

During the year, the following took place.

2020

Nov 19 Cash drawings \$600.

Dec 29 Goods \$400 taken by Megan for her personal use.

2021

Feb 13 Megan contributed her own table costing \$250 into the business.

May 7 Megan withdrew \$850 from the business bank account for private use.

Profit for the year ended 31 October 2020 was \$23 550.

REQUIRED

- (a) Name and explain the accounting theory which is applied to the treatment of drawings. [2]
- (b) Prepare Megan' capital account for the year ended 31 October 2020 and bring down the balance. [5]
- (c) Explain how owner's equity changed over the year. [4]

Megan is considering changing his sole trader business into a private limited company.

REQUIRED

- (d) State **two** advantages of setting up a private limited company. [2]
- (e) State the **two** professional ethics an accountant should have. [2]