

- 2 Samir buys and sells on credit. He has provided the following information.

2023
1 January Total trade receivables \$ 10 115

31 December Totals for the year:

Cash sales	136 900
Credit sales	124 670
Returns from credit customers	5 234
Bank transfers received from credit customers	98 620
Cash received from credit customers	11 470
Interest charged on overdue sales ledger accounts	139
Contra entries	1 833
Discount allowed to credit customers	3 125

In addition, one of Samir's trade receivables, Ria, has become bankrupt and Samir will not receive the \$178 which she owes to him. Samir thinks he will receive most of the other amounts due to him from his trade receivables.

REQUIRED

- (a) (i) Prepare the journal entry to write off the amount owed by Ria. A narrative **is** required.

Samir Journal

Date	Details	Debit \$	Credit \$
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.....

[3]

- (ii) State **two** reasons why Samir should use a provision for doubtful debts account.

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..... [2]

(c) (i) Advise Samir whether or not to stop allowing cash discount. Justify your answer by providing advantages and disadvantages of stopping cash discount to his credit customers.

[5]

- [1]

0452/22/F/M/24

Question	Answer	Marks								
2(a)(i)	<div>Samir Journal</div> <table><tr><th>Date</th><th>Details</th><th>Debit \$</th><th>Credit \$</th></tr><tr><td>2023 Dec 31</td><td>Irrecoverable debts (1) Ria (1) Amount due from Ria written off due to bankruptcy. (1)</td><td>178</td><td>178</td></tr></table>	Date	Details	Debit \$	Credit \$	2023 Dec 31	Irrecoverable debts (1) Ria (1) Amount due from Ria written off due to bankruptcy. (1)	178	178	3
Date	Details	Debit \$	Credit \$							
2023 Dec 31	Irrecoverable debts (1) Ria (1) Amount due from Ria written off due to bankruptcy. (1)	178	178							
2(a)(ii)	<p>To comply with the prudence principle/avoid overstating the profit for the year/avoid overstating the trade receivables (1) To comply with the matching principle/to ensure that a possible irrecoverable debt is recognised in the year in which the sale was made (1) It is unlikely that all the amounts due from trade receivable will be received (1)</p> <p>Max 2</p>	2								

Question	Answer	Marks
2(c)(i)	<p>Advantages: Customers would pay the full amount of each invoice (1) Profit for the year may increase as expenses would be reduced (1) Book-keeping would be less complicated (1) May improve relationship with trade payables/may reduce trade payables turnover (1) May be able to obtain cash discount from trade payables (1) Trade payables may charge interest if payment made late (1) Max (3)</p> <p>Disadvantages: No incentive for customers to pay quickly/customers may take longer to pay (1) Increased risk of irrecoverable debts (1) Customers may buy less/go elsewhere/sales decrease/relationship with customers may deteriorate (1) Over half of sales are made for cash so the removal of cash discount would have limited effect (1) Max (3)</p> <p>Accept other valid points Max (4) Recommendation (1)</p>	5
2(c)(ii)	<p>Increase selling price (1) Reduce other expenses (1) Reduce drawings/introduce additional capital (1) Apply for a short-term loan/overdraft (1) Charge interest on overdue accounts (1) Improve credit control (1)</p> <p>Accept other valid points Max (1)</p>	1