4 Sara is a trader. She has prepared her income statement for the year ended 31 December 2023. This shows a profit for the year of $20 180. She has closed the ledger accounts for income and expenses and has transferred the closing inventory to the income statement.

The following balances remain in Sara's ledger at 31 December 2023.

	$
Premises (cost)	100 000
Fixtures and fittings (cost)	40 000
Accumulated depreciation on fixtures and fittings	15 000
Inventory (at 31 December 2023)	6 275
Trade receivables	8 540
Provision for doubtful debts	427
Trade payables	5 125
Bank overdraft	4 900
Cash	350
Long-term loan	12 000
Wages (accrued)	1 000
Capital (at 1 January 2023)	115 793
Drawings	19 260

REQUIRED

(a) Prepare the inventory account for the year ended 31 December 2023. Balance the account and bring down the balance at 1 January 2024.

Sara
Inventory account

Date 2023	Details	$	Date	Details	$
Jan 1	Balance b/d	5 811	....	....	....
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[4]

(b) Prepare the capital account for the year ended 31 December 2023. Balance the account and bring down the balance at 1 January 2024.

Sara
Capital account

Date	Details	$	Date	Details	$
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[3]

(c) Prepare the statement of financial position at 31 December 2023.

<div align="center">

Sara
Statement of financial position at 31 December 2023

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[7]

Sara is considering purchasing a delivery vehicle. She thinks that her sales would increase if she was able to deliver goods to her customers. She would charge a small amount to her customers to cover the cost of delivery.

REQUIRED

(d) Advise Sara whether or not she should purchase the delivery vehicle. Justify your answer by providing **two** advantages and **two** disadvantages of purchasing the delivery vehicle.

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.... [5]

(e) State the meaning of the term revenue receipts.

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.... [1]

[Total: 20]

Question	Answer	Marks
4(a)	Sara Inventory account	4

Sara
Inventory account

Date	Details		$	Date	Details		$
2023 *Jan 1*	*Balance b/d*		*5 811* 5 811	2023 Dec 31	Income statement	**(1)**	5 811 5 811
Dec 31	Income statement	**(1)**	6 275 6 275		Balance c/d		6 275 6 275
2024 Jan 1	Balance b/d	**(1)**	6 275				

+ (1) dates

Question	Answer	Marks
4(b)	Sara Capital account	3

Sara
Capital account

Date	Details		$	Date	Details		$
2023 Dec 31	Drawings Balance c/d	**(1)**	19 260 116 713 135 973	2023 Jan 1 Dec 31	Balance b/d Income statement	**(1)**	115 793 20 180 135 973
				2024 Jan 1	Balance b/d	**(1)OF**	116 713

Question	Answer	Marks
4(c)	**Sara** **Statement of financial position at 31 December 2023**	7

	$ Cost	$ Accumulated depreciation	$ Net Book value	
Non-current assets				
Premises	100 000	–	100 000	
Fixtures and fittings	40 000	15 000	25 000	
	140 000	15 000	125 000	**(1)**
Current assets				
Inventory		6 275		
Trade receivables	8 540			
Less Provision for doubtful debts	427	8 113		**(1)**
Cash		350	14 738	**(1)OF**
			139 738	
Capital and liabilities				
Capital				
Opening balance			115 793	
Profit for the year			20 180	
			135 973	
Less drawings			19 260	
			116 713	**(1)**
Non-current liability				
Loan			12 000	**(1)**
Current liabilities				
Trade payables		5 125		
Other payables		1 000		**(1)**
Bank overdraft		4 900	11 025	**(1)OF**
			139 738	

Question	Answer	Marks
4(d)	**Advantages** May be able to sell to customers in a wider area/to customers without own transport/customer convenience **(1)** May increase gross profit/gross profit margin **(1)** The delivery vehicle may be used to advertise the business **(1)** Improved ability to compete with other traders **(1)** The business currently has no vehicles/new vehicle may have other uses (e.g. collecting purchases) **(1)** **Max (2)** **Disadvantages** Has a bank overdraft and a loan already so it may be difficult to obtain finance to buy the vehicle **(1)** Must consider extra costs (fuel, insurance/depreciation/driver's wages **(1)** Any increase in sales/gross profit needs to be at least sufficient to cover the vehicle running costs **(1)** The vehicle would have a limited useful life and would then need to be replaced **(1)** Some customers/potential customers may be unwilling to pay the delivery charge/may switch to other suppliers **(1)** **Max (2)** **Accept other valid points** **Recommendation (1)**	5
4(e)	Revenue receipts are amounts received by a business from its usual <u>trading activities</u> **(1)**	1