2 Ramla has calculated her draft profit figure for the year ended 28 February 2023. Adjustments in Ramla's ledger accounts have still to be made for the following items.

1 An amount of $99 owed to Ramla by Mai is to be written off as irrecoverable.

2 Fixtures and fittings, $875, were purchased on credit from Padma.

3 A loan repayment, $500, had been incorrectly recorded as loan interest.

4 Rent paid, $350, had been recorded as $530.

5 Drawings, $120, had been debited to the wages account.

REQUIRED

(a) Prepare the journal entries required for items 1–5. Narratives are **not** required.

Ramla
Journal

Item number	Details	Debit $	Credit $
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
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....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....

[10]

(b) Complete the following table by entering the amount of each adjustment required to calculate Ramla's adjusted profit. If an item has no effect on profit, enter zero (0) in the 'no effect on profit' box.

Item	Increase in profit $	Decrease in profit $	No effect on profit	Profit $
Draft profit				11 650
1				
2				
3				
4				
5				
Adjusted profit				

[6]

(c) Explain

(i) how the journal for item 1 complies with the prudence principle.

....

....

....

.... [2]

(ii) how the journal for item 5 complies with the business entity principle.

....

....

....

.... [2]

[Total: 20]

Question	Answer	Marks
2(a)	Ramla Journal	**10**

Item number	Details	Debit $	Credit $
1	Irrecoverable debts Mai	99 **(1)**	 99 **(1)**
2	Fixtures and fittings Padma	875 **(1)**	 875 **(1)**
3	Loan Loan interest	500 **(1)**	 500 **(1)**
4	Bank / cash Rent	180 **(1)**	 180 **(1)**
5	Drawings Wages	120 **(1)**	 120 **(1)**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>
<table>
<tr><th>Item</th><th>Increase in profit $</th><th>Decrease in profit $</th><th>No effect on profit</th><th>Profit $</th></tr>
<tr><td>Draft profit</td><td></td><td></td><td></td><td>11 650</td></tr>
<tr><td>1</td><td></td><td>99 (1)</td><td></td><td></td></tr>
<tr><td>2</td><td></td><td></td><td>0 (1)</td><td></td></tr>
<tr><td>3</td><td>500 (1)</td><td></td><td></td><td></td></tr>
<tr><td>4</td><td>180 (1)</td><td></td><td></td><td></td></tr>
<tr><td>5</td><td>120 (1)</td><td></td><td></td><td></td></tr>
<tr><td>Adjusted profit</td><td>800</td><td>99</td><td>0</td><td>12 351 (1)OF</td></tr>
</table>
</td><td>6</td></tr>
<tr><td>2(c)(i)</td><td>The prudence principle states that profits and assets are not overstated / losses and liabilities are not understated (1)
Irrecoverable debts should be written off to ensure that profits / assets are not overstated / not understate loss (1)</td><td>2</td></tr>
<tr><td>2(c)(ii)</td><td>The business entity principle states that the business is regarded as being completely separate from the owner of the business (1)
OR
The business entity principle states that transactions should be recorded from the point of view of the business (1)

Drawings should be recorded correctly to ensure that profits are not understated / capital overstated (1)</td><td>2</td></tr>
</table>