1 Ahmed is a sole trader. He does not maintain full accounting records. He provided the following information for the year ended 30 June 2024.

1 Payments and receipts during the year included the following:

	$
Carriage outwards	1 040
Cash sales	5 200
Electricity charges paid	1 920
General expenses paid	3 600
Motor expenses paid	4 250
Payments to credit suppliers	61 240
Receipts from credit customers	102 600
Rent paid	16 800

2 All purchases are made on credit.

3 Assets and liabilities included the following:

	At 30 June	
	2023 $	**2024** $
8% bank loan	–	3 000
Allowance for irrecoverable debts	1 055	?
Inventory	12 640	?
Other payables: Rent accrued Electricity	600 130	– 90
Other receivables: Rent prepaid	–	1 800
Trade payables	8 800	6 300
Trade receivables	21 100	18 500

4 Inventory at 30 June 2024 was valued at $15 880. This included damaged items costing $960 that will be sold for $1100 after repairs costing $340.

5 During the year Ahmed took goods costing $420 for his own use.

6 An irrecoverable debt of $300 is to be written off.

7 Ahmed wished to maintain the allowance for irrecoverable debts at the same rate as in the previous year.

8 The 8% bank loan was taken out on 1 April 2024. No interest has yet been paid.

9 Ahmed started the business on 1 July 2022. On that date he purchased a motor vehicle for $24 000 and fixtures and fittings for $3200. No other non-current assets have been purchased since that date.

10 Depreciation is to be provided as follows:
Motor vehicle: 20% per annum reducing balance method
Fixtures and fittings: 10% per annum straight-line method.

11 Motor expenses paid included $1140 for motor insurance for the twelve months to 31 August 2024.

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(a) Prepare the statement of profit or loss for the year ended 30 June 2024. Use the space provided on **page 4** to show your workings.

Ahmed
Statement of profit or loss for the year ended 30 June 2024

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Workings:

Revenue
Cost of sales
Rent
Electricity charges
Motor expenses
Depreciation
Other workings

[17]

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(b) Explain, with reference to an accounting concept, why adjustments **5**, **6** and **11** on **page 2** were to be made to the financial statements.

Adjustment	
5 Goods for own use	Concept .....
	Explanation ....
6 Irrecoverable debt	Concept .....
	Explanation ....
11 Motor insurance	Concept .....
	Explanation ....

[6]

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Additional information

Ahmed has been offered the opportunity to purchase larger premises for $85 000 which would allow him to increase the sales revenue of the business. As he does not have sufficient personal funds to make the purchase, he is considering two options.

Option 1

Apply for a bank loan to cover the whole purchase price. The bank loan would be repayable over ten years and interest would be payable at 8% per annum.

Option 2

Ahmed's brother has offered to join the business as an equal sharing partner. He would introduce all of the cash required to complete the purchase in exchange for a 50% share of future profits.

(c) Advise Ahmed whether he should go ahead with either of these options. Justify your advice by discussing **both** financial and non-financial factors.

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[Total: 30]

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Question	Answer	Marks
1(a)	**Prepare the statement of profit or loss for the year ended 30 June 2024.**	**17**

Ahmed
Statement of profit or loss for the year ended 30 June 2024

		$		$	
Revenue	**W1**			105 200	**(3)OF**
Cost of sales					
Opening inventory		12 640			
Purchases	**W2**	58 740	**(1)**		
Goods for own use		(420)	**(1)**		
		70 960			
Closing inventory	**W3**	(15 680)	**(1)**	55 280	**(1)OF**
Gross profit				49 920	**(1)OF**
Decrease in allowance for irrecoverable debts	**W4**			145	**(1)**
				50 065	
Expenses					
General expenses		3 600			
Carriage outwards		1 040	**(1)**		
Rent	**W5**	14 400	**(1)**		
Electricity	**W6**	1 880	**(1)**		
Motor expenses	**W7**	4 060	**(1)**		
Irrecoverable debts		300	**(1)**		
Bank interest	**W8**	60	**(1)**		
Depreciation	**W9**	4 160	**(1)**	29 500	
Profit for the year				20 565	**(1)OF**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>
<table>
<tr><td>W1 – Revenue</td><td>(102 600 – 21 100 + 18 500) (1) + 5 200 (1) = $105 200 (1)OF</td></tr>
<tr><td>W2 – Purchases</td><td>(61 240 + 6 300 – 8 800) = $58 740 (1)</td></tr>
<tr><td>W3 – Closing inventory</td><td>15 880 – (960 – 760) = $15 680 (1)</td></tr>
<tr><td>W4 – Allowance for irrecoverable debts</td><td>18 500 – 300 = 18 200 × 5% = 910 – 1055 = $(145) (1)</td></tr>
<tr><td>W5 – Rent</td><td>16 800 – 600 – 1800 = $14 400 (1)</td></tr>
<tr><td>W6 – Electricity</td><td>1 920 – 130 + 90 = $1 880 (1)</td></tr>
<tr><td>W7 – Motor expenses</td><td>4 250 – 190 = $4 060 (1)</td></tr>
<tr><td>W8 – Bank interest</td><td>3 000 × 8% = 240 × 3/12 = $60 (1)</td></tr>
<tr><td>W9 – Depreciation</td><td>24 000 – 4 800 = 19 200 × 20% = 3 840 + 3 200 × 10% = $4 160 (1)</td></tr>
</table>
</td><td></td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>

Explain, with reference to an accounting concept, why adjustments were to be made to the financial statements in respect of these items.

<table>
<tr><th colspan="2">Item</th><th></th></tr>
<tr><td>5</td><td>Goods for own use</td><td>Concept
Business entity (1)</td></tr>
<tr><td colspan="2"></td><td>Explanation
The cost of goods taken by Ahmed for his own use should be charged to his drawings as they are separate from the business expenditure (1)</td></tr>
<tr><td>6</td><td>Irrecoverable debt</td><td>Concept
Prudence (1)</td></tr>
<tr><td colspan="2"></td><td>Explanation
The anticipated loss by writing off the debt as irrecoverable avoids overstating the profit for the year/trade receivables (1)</td></tr>
<tr><td>11</td><td>Motor insurance</td><td>Concept
Matching / Accruals (1)</td></tr>
<tr><td colspan="2"></td><td>Explanation
To match the expenditure of the insurance with the benefits of the same accounting period (1)</td></tr>
</table>

Accept other valid responses.

</td><td>6</td></tr>
</table>

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Question	Answer	Marks
1(c)	**Advise Ahmed whether he should go ahead with either of these options. Justify your advice by discussing <u>both</u> financial and non- financial factors.** **Option 1 (Bank loan)** • Interest payments would reduce profits for the next ten years. **(1)** • Would the bank agree to providing further loan capital? **(1)** • Would the new premises result in the necessary increase in turnover? **(1)** • Would the bank require security? **(1)** **Option 2 (Partnership)** • Will provide necessary capital to avoid long-term liability. **(1)** • Would have to forgo half of future profits. **(1)** • Will Ahmed's brother add any additional skills/knowledge to the business? **(1)** • Will the partnership cause friction between the brothers? **(1)** **Max 6 for comments** **Decision supported with a comment (1)** **Accept other valid responses**	**7**

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