1 Addo is a trader who only sells on credit.

His trade receivables at 1 April 2024 were as follows:

	$
Nuru	920
Mahia	1145
Ava	1378
Rachel	215
	3658

During April 2024, the following transactions took place:

April   2   Sold goods to Ava, list price $150, less 6% trade discount

9   Received telephone transfer from Ava, $689

12   Sold goods to Nuru, $165

13   Received cheque, $627, from Mahia, in full settlement of an invoice for $660

19   Received $760 from Nuru by electronic transfer. Nuru had deducted 5% cash discount

20   Nuru returned goods $30

21   Sold goods to Mahia, list price $480, trade discount 5%, cash discount 5% if invoice paid within 30 days

30   Rachel has become bankrupt and Addo decides to write off the amount owing from her, as irrecoverable

REQUIRED

(a) Prepare the sales journal for April 2024.
Total the sales journal and indicate the ledger account to which the total would be posted.

Addo
Sales journal

Date	Details	$	$
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....

[3]

(b) Prepare the journal entry to write off the amount owing by Rachel. A narrative **is** required.

Addo
Journal

Date	Details	$	$
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....

[3]

(c) Calculate:

(i) the total amount of money which Addo received from trade receivables during April 2024.

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.... [1]

(ii) the total amount of cash discount which Addo allowed in April 2024.

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.... [2]

4

(d) Prepare Addo's sales ledger control account for April 2024.

Addo
Sales ledger control account

Date	Details	$	Date	Details	$
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

[6]

Addo is considering changing his credit terms. He would introduce more credit checks on new customers and would increase cash discount to 7½% for payment within 30 days.

REQUIRED

(e) Advise Addo whether or not he should make these changes to his credit terms. Justify your answer by providing **two** advantages and **two** disadvantages of changing his credit terms.

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.... [5]

[Total: 20]

Question	Answer	Marks
1(a)	**Addo** **Sales journal** <table><tr><td>Date</td><td>Details</td><td>$</td><td></td></tr><tr><td>2024 Apr 2 12 21 30</td><td>Ava (150 – 9) Nuru Mahia (480 – 24) Transfer to sales account</td><td>141 165 456 <u>762</u></td><td>**(1)** **(1)** **(1)OF**</td></tr></table>	**3**
1(b)	**Addo** **Journal** <table><tr><td>Date</td><td>Details</td><td>Debit $</td><td>Credit $</td></tr><tr><td>2024 April 30</td><td>Irrecoverable debts **(1)** Rachel **(1)** Amount due from Rachel written off as irrecoverable **(1)**</td><td>215</td><td> 215</td></tr></table>	**3**
1(c)(i)	Total amount received = $689 +$627 + $760 = $2 076 **(1)**	**1**
1(c)(ii)	Total cash discount = $40**(1)** + $33 = $73 **(1)OF**	**2**

Question	Answer	Marks
1(d)	**Addo** **Sales ledger control account**<table><tr><td>Date</td><td>Details</td><td>$</td><td>Date</td><td>Details</td><td>$</td></tr><tr><td>2024 April 1 30</td><td>Balance b/d Sales **(1)OF**</td><td>3 658 762</td><td>2024 April 30</td><td>Sales returns **(1)** Bank **(1)OF** Discount allowed **(1)OF** Irrecoverable debts **(1)** Balance c/d</td><td>30 2 076 73 215 2 026</td></tr><tr><td></td><td></td><td>4 420</td><td></td><td></td><td>4 420</td></tr><tr><td>May 1</td><td>Balance b/d **(1)OF**</td><td>2 026</td><td></td><td></td><td></td></tr></table>	6
1(e)	**Advantages** Increased cash discount may encourage new customers/existing customers to buy more/increase sales **(1)** More customers may pay early because of extra discount/improve liquidity **(1)** Irrecoverable debts may be reduced **(1)** Increased credit check indicates ability to pay **(1)** **Accept other valid points** **Max (2)** **Disadvantages** More credit checks would take more time/cost more money **(1)** Less money coming in from sales **(1)** No guarantee that customers will pay early **(1)** Less profit on each sale/profit for the year will be reduced/expenses increased if give cash discount **(1)** No guarantee that there will not be any irrecoverable debts **(1)** **Accept other valid points** **Max (2)** **Recommendation (1)**	5