

5 Stella started in business as a retailer on 1 April 2023. She sells one type of good only. She has not kept a full set of accounting records but has provided the following information.

- 1 Half of Stella’s purchases were on cash terms and half on credit terms. During the year ended 31 March 2024, Stella paid \$34 250 to credit suppliers. On 31 March 2024, she owed \$2960 to credit suppliers.
- 2 Unlike her competitors, Stella made all of her sales for cash. Stella’s mark-up was 32%.
- 3 The following amounts were paid for expenses during the year to 31 March 2024.

	\$	
Rent and insurance	6750	
Wages	8300	
Other expenses	1815	

- 4 At 31 March 2024, \$300 was unpaid for wages and \$500 was paid in advance for rent.
- 5 Insurance is \$2400 per annum. On 1 April 2023, Stella paid \$3000 for insurance for the following 15 months.
- 6 Other expenses included \$120 paid for vases and flowers. One third of these were for Stella’s own home. Stella treats business costs of under \$150 as revenue expenditure.
- 7 Inventory was valued at \$6420 at 31 March 2024.

REQUIRED

(a) Calculate total purchases for the year ended 31 March 2024.

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..... [3]

(d) State:

(i) the accounting principle which Stella is following when she treats payments for small items which may last longer than one year, as revenue expenditure.

.....
..... [1]

(ii) one advantage of following the principle in **5(d)(i)**.

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..... [1]

(e) State **two** advantages of maintaining a full set of double entry accounting records.

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.....
.....
..... [2]

[Total: 20]

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Question	Answer	Marks																																																																		
5(a)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>Payments to credit suppliers</td> <td style="text-align: right;">34 250</td> <td style="text-align: right;">(1)</td> <td style="border: 1px solid black; padding: 5px;">Bank</td> <td style="text-align: right;">\$ 34 250</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Add closing credit suppliers</td> <td style="text-align: right;"><u>2 960</u></td> <td style="text-align: right;">(1)</td> <td style="border: 1px solid black; padding: 5px;">Purchases</td> <td style="text-align: right;">37 210</td> <td></td> </tr> <tr> <td>Credit purchases</td> <td style="text-align: right;">37 210</td> <td></td> <td style="border: 1px solid black; padding: 5px;">Balance c/d</td> <td style="text-align: right;"><u>2 960</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Cash purchases</td> <td style="text-align: right;"><u>37 210</u></td> <td style="text-align: right;">OF</td> <td style="border: 1px solid black; padding: 5px;"></td> <td style="text-align: right;"><u>37 210</u></td> <td></td> </tr> <tr> <td>Total purchases</td> <td style="text-align: right;"><u>74 420</u></td> <td style="text-align: right;">(1)OF</td> <td style="border: 1px solid black; padding: 5px;">Credit purchases</td> <td style="text-align: right;">37 210</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">OR</td> <td style="border: 1px solid black; padding: 5px;">Cash purchases</td> <td style="text-align: right;"><u>37 210</u></td> <td style="text-align: right;">OF</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="border: 1px solid black; padding: 5px;">Total purchases</td> <td style="text-align: right;"><u>74 420</u></td> <td style="text-align: right;">(1)OF</td> </tr> </table>		\$					Payments to credit suppliers	34 250	(1)	Bank	\$ 34 250	(1)	Add closing credit suppliers	<u>2 960</u>	(1)	Purchases	37 210		Credit purchases	37 210		Balance c/d	<u>2 960</u>	(1)	Cash purchases	<u>37 210</u>	OF		<u>37 210</u>		Total purchases	<u>74 420</u>	(1)OF	Credit purchases	37 210				OR	Cash purchases	<u>37 210</u>	OF				Total purchases	<u>74 420</u>	(1)OF	3																		
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5(c)	<p>For: Should increase sales/attract more customers (1) Should lead to higher profit/higher profit margin (1) Competitors may allow credit sales/may help Stella to compete (1) Increase monthly sales to generate growth (1) Accept other valid points Max (3)</p> <p>Against: Money would come into the business more slowly (1) Liquidity may be reduced (1) Irrecoverable debts can occur (1) Increased bookkeeping/a sales ledger would be required (1) Credit control may be required (1) Accept other valid points Max (3)</p> <p>Max (4)</p> <p>Recommendation (1)</p>	5
5(d)(i)	Materiality (1)	1
5(d)(ii)	Time and cost of recording small items outweigh the benefits of treating them as non-current assets (1) Depreciation does not need to be calculated and charged low value non-current assets (1) Max (1)	1

Question	Answer	Marks
5(e)	Full details of the assets, liabilities, revenues and expenses are available (1) The preparation of financial statements is more straightforward (1) The calculation of profit or loss for the year is likely to be more accurate (1) More informed decision-making is possible (1) A greater degree of control over the business activities can be exercised (1) The possibility of fraud is reduced (1) Comparisons with the results of previous years and with other businesses are possible (1) Detailed records are available for reference (1) Information required by a bank or other lender is readily available (1) Accept other valid points Max (2)	2