3 Zahra and Panya are the shareholders and directors of Q Limited. The company directors of Q Limited have provided the following trial balance.

Q Limited
Trial Balance at 31 January 2024

	Debit	Credit
	$	$
Revenue		78 000
Purchases	38 200	
Rent and insurance	10 600	
Directors' salaries	19 000	
General expenses	3 420	
Advertising	5 400	
Dividends paid	2 500	
Fittings at cost	18 000	
Provision for depreciation of fittings		5 400
Inventory at 1 February 2023	2 950	
Cash at bank	915	
Trade payables		2 288
Ordinary share capital		13 000
Retained earnings		2 297
	100 985	100 985

Additional information

1 Inventory at 31 January 2024 was valued at $4720.

2 Depreciation on fittings is to be charged at 10% per annum using the straight-line method.

3 Payment for advertising, $75, is outstanding at 31 January 2024.

4 No dividends were outstanding at 31 January 2024.

REQUIRED

(a) Prepare the income statement for Q Limited for the year ended 31 January 2024.

Q Limited
Income statement for the year ended 31 January 2024

	$	$
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[6]

(b) Calculate the retained earnings at 31 January 2024.

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.... [3]

(c) Prepare the statement of financial position for Q Limited at 31 January 2024.

Q Limited
Statement of financial position at 31 January 2024

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[6]

Zahra and Panya would like to expand the company and increase sales. In order to do this they are considering increasing the amount spent on advertising by 100%.

(d) Advise Zahra and Panya whether or not they should go ahead with the 100% increase in the amount spent on advertising. Justify your answer by providing **two** points in favour and **two** points against this increase.

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.... [5]

[Total: 20]

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>
Q Limited
Income statement for the year ended 31 January 2024
<table>
<tr><td></td><td></td><td>$</td><td></td><td>$</td><td></td></tr>
<tr><td>Revenue</td><td></td><td></td><td></td><td>78 000</td><td></td></tr>
<tr><td>Less:</td><td>Cost of sales</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Opening inventory</td><td>2 950</td><td></td><td></td><td></td></tr>
<tr><td></td><td>Purchases</td><td>38 200</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>41 150</td><td></td><td></td><td></td></tr>
<tr><td></td><td>Less Closing inventory</td><td>4 720</td><td></td><td>36 430</td><td>(1)</td></tr>
<tr><td>Gross profit</td><td></td><td></td><td></td><td>41 570</td><td>(1)OF</td></tr>
<tr><td>Less Rent and insurance</td><td></td><td>10 600</td><td>}</td><td></td><td></td></tr>
<tr><td>Directors’ salaries</td><td></td><td>19 000</td><td>}(1)</td><td></td><td></td></tr>
<tr><td>General expenses</td><td></td><td>3 420</td><td>}</td><td></td><td></td></tr>
<tr><td>Advertising (5 400 + 75)</td><td></td><td>5 475</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Depreciation of fittings (10% × 18 000)</td><td></td><td>1 800</td><td>(1)</td><td>40 295</td><td></td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td></td><td>1 275</td><td>(1)OF</td></tr>
</table>
</td><td>6</td></tr>
<tr><td>3(b)</td><td>
<table>
<tr><td>Retained earnings:</td><td>$</td><td></td></tr>
<tr><td>Opening balance</td><td>2 297</td><td></td></tr>
<tr><td>Profit for the year</td><td>1 275</td><td>(1)OF</td></tr>
<tr><td></td><td>3 572</td><td></td></tr>
<tr><td>Less Dividend paid</td><td>(2 500)</td><td>(1)</td></tr>
<tr><td>Closing balance</td><td>1 072</td><td>(1)OF</td></tr>
</table>
</td><td>3</td></tr>
</table>

Question	Answer	Marks
3(c)	Q Limited Statement of financial position at 31 January 2024	6

	$	$		$	
Non-current assets	Cost	Accumulated depreciation		Net book value	
Fittings	18 000	7 200	**(1)OF**	10 800	**(1)OF**
Current assets					
Inventory		4 720			
Bank		915		5 635	**(1)**
				16 435	
Equity and Liabilities					
Ordinary share capital				13 000	
Retained earnings				1 072	**(1)OF**
				14 072	
Current liabilities					
Trade payables		2 288			
Other payables		75	**(1)**	2 363	**(1)OF**
				16 435	

Question	Answer	Marks
3(d)	**For** May increase sales/result in more customers **(1)** May help reduce the level of inventory **(1)** May benefit future years **(1)** Increase in gross profit more than the extra cost of advertising may increase profit for the year **(1)** **Accept other valid points** **Max (2)** **Against** May not be able to afford the increase in advertising costs **(1)** May need to borrow money for increased advertising costs (and borrowing would incur interest) **(1)** There is no guarantee that sales would increase **(1)** Profit may reduce/may result in a loss/expenses will increase because of extra advertising **(1)** **Accept other valid points** **Max (2)** **Recommendation (1)**	**5**