

- 4 Ahmed owns a trading business. He prepares his financial statements to 31 December each year. Ahmed had some unused office space and he decided to use some of this to store inventory and to rent the rest to Bilal.

On 1 January 2023 Bilal started renting the office space from Ahmed. The annual rental charge is \$4800. During 2023 Bilal paid the following amounts of rent into Ahmed’s bank account.

	\$
1 April	3600
30 September	2400

REQUIRED

- (a) Prepare Ahmed’s rent receivable account for the year ended 31 December 2023. Balance the account and bring down the balance at 1 January 2024.

Ahmed
Rent receivable account

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

[3]

Ahmed sold old office equipment for \$1350 on 3 January 2023, on credit to Rahat. The equipment had been purchased for \$3200 on 1 January 2021. Ahmed charges depreciation at 25% per annum using the reducing balance method. He does not charge depreciation in the year of disposal.

REQUIRED

- (b) Prepare the disposal of office equipment account.

Ahmed
Disposal of office equipment account

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

[5]

- (c) Complete the table by placing a tick (✓) to indicate whether each amount of spending on the new inventory storage space is capital expenditure or revenue expenditure.

	\$	Capital expenditure	Revenue expenditure
Painting the walls of the storage area	600		
Shelving for the storage area	2115		
Installation of the shelving	460		
Light fittings for storage area	620		
Light bulbs for storage area	105		

[3]

Ahmed's ledger accounts at 31 December 2023 include the following balances.

	\$
Inventory at 1 January 2023	9000
Receivables	6180
Cash	175
Payables	5500
Bank overdraft	640

Ahmed's inventory at 31 December 2023 was valued at \$12 130. His purchases for the year ended 31 December 2023 were \$97 000.

REQUIRED

- (d) Complete the following table.

ratio	working	answer (to 2 decimal places)
Rate of inventory turnover (times)		
Current ratio		
Liquid (acid test) ratio		

[7]

Ahmed's rate of inventory turnover for 2023 was lower than for 2022.

REQUIRED

(e) Suggest **two** problems which may be caused by Ahmed's lower rate of inventory turnover.

- 1
-
- 2
-

[2]

[Total: 20]

Question	Answer						Marks
4(a)	Ahmed Rent receivable account						3
Date 2023 Dec 31		Details Income statement Balance c/d	\$ 4 800 <u>1 200</u> <u>6 000</u>	Date 2023 Apr 1 Sept 30 2024 Jan 1	Details Bank Bank Balance b/d	\$ } (1) 3 600 } <u>2 400</u> <u>6 000</u> (1) 1 200	

Question	Answer	Marks																														
4(b)	<p>Ahmed Disposal of office equipment account</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Date</th> <th style="width: 30%;">Details</th> <th style="width: 10%;">\$</th> <th style="width: 15%;">Date</th> <th style="width: 30%;">Details</th> <th style="width: 10%;">\$</th> </tr> </thead> <tbody> <tr> <td>2023 Jan 3</td> <td>Office equipment</td> <td style="text-align: right;">(1) 3 200</td> <td>2023 Jan 3</td> <td>Provision for Depreciation (800 + 600)</td> <td style="text-align: right;">(1) 1 400</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Rahat</td> <td style="text-align: right;">(1) 1 350</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>3 200</u></td> <td>Dec 31</td> <td>Income statement</td> <td style="text-align: right;">(1)OF <u>450</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>3 200</u></td> </tr> </tbody> </table> <p>Dates (1)</p> <p>*Calculation of depreciation $3\,200 \times 25\% = 800$ ($3\,200 - 800$) = $2\,400 \times 25\% = 600$</p>	Date	Details	\$	Date	Details	\$	2023 Jan 3	Office equipment	(1) 3 200	2023 Jan 3	Provision for Depreciation (800 + 600)	(1) 1 400					Rahat	(1) 1 350			<u>3 200</u>	Dec 31	Income statement	(1)OF <u>450</u>						<u>3 200</u>	5
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Question	Answer			Marks		
4(d)	ratio	working	answer (to 2 decimal places)	7		
	Rate of inventory turnover (times)	$\frac{(9000 + 97000 - 12130)}{(9000 + 12130) / 2} = \frac{93870}{10565} \text{ (1)}$			8.88 (1)OF	
	Current ratio	$(12\ 130 + 6180 + 175) : (5500 + 640)$ $= 18\ 485 : 6140 \text{ (1) whole formula}$				3.01:1 (1)OF
	Liquid (acid test) ratio	$(6180 + 175) : (5500 + 640)$ $= 6355 : 6140 \text{ (1) whole formula}$				
4(e)	<p>The increased inventory may result in goods deteriorating or becoming obsolete (1) Increase in storage costs (1) Inefficient use of storage space (1) Increase in funds tied up in inventory/may result in bank overdraft/may incur interest charges (1)</p> <p>Accept other valid points Max (2)</p>			2		