

1 H plc provided the following information for the year ended 31 December 2025.

	debit \$	credit \$
8% debentures (2033)		40 000
administrative expenses	34 090	
advertising	24 500	
allowance for irrecoverable debts at 1 January 2025		1 560
bank loan interest	12 240	
cash and cash equivalents	16 420	
cost of sales	236 830	
directors' remuneration	64 500	
distribution costs	20 890	
dividends paid	30 000	
inventory at 31 December 2025	36 480	
motor vehicle expenses	15 880	
motor vehicles and equipment at carrying value at 1 January 2025	406 000	
property at cost at 1 January 2025	500 000	
retained earnings at 1 January 2025		156 920
returns inwards	2 770	
revenue		535 630
share capital: ordinary shares of \$0.50 each		600 000
share premium		90 000
trade payables		21 290
trade receivables	44 800	
totals	1 445 400	1 445 400

The following information is also available.

- 1 The valuation of inventory on 31 December 2025 did **not** take account that a credit customer had been sent some goods on a sale or return basis. This had been recorded as a sale. These goods have a selling price of \$9600 and have a gross profit margin of 50%.
- 2 Advertising covers the period from 1 September 2025 to 30 April 2026. Advertising is a distribution cost.
- 3 The allowance for irrecoverable debts should be maintained at 5% of trade receivables. Administrative expenses should be adjusted for any change in the allowance for irrecoverable debts.

- 4 All costs relating to motor vehicles and equipment are allocated: 60% distribution costs, 40% administrative expenses.
- 5 Motor vehicle expenses include \$8000 which should be regarded as capital expenditure. The payment was made on 1 January 2025.
- 6 Motor vehicles and equipment should be depreciated by 15% per annum by using the reducing balance method. No depreciation is charged on property.
- 7 Directors' remuneration is an administrative expense.
- 8 The 8% debentures (2033) were issued on 1 October 2025. Interest on debentures will be paid at six-monthly intervals in arrears.
- 9 The bank loan interest relates to a bank loan which was repaid during 2025.
- 10 Provision should be made for taxation of \$15 700.

(a) Prepare the statement of profit or loss for the year ended 31 December 2025.

H plc
Statement of profit or loss for the year ended 31 December 2025

	\$
revenue	
cost of sales	
gross profit	
distribution costs	
administrative expenses	
profit from operations	
finance costs	
profit before tax	
tax	
profit for the year	

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Workings:

revenue
cost of sales
distribution costs
administrative expenses
finance costs



Additional information

- 1 On 1 December 2025, the directors had made a bonus issue of 2 ordinary shares for every 5 ordinary shares held at this date. The issue had been made so as to maintain reserves in their most flexible form. The bonus issue had **not** yet been recorded in the books of account.
 - 2 On 31 December 2025, it was decided to revalue property at \$650 000.
- (b)** Prepare an extract from the statement of financial position at 31 December 2025 to show the **equity and liabilities sections only**.

H plc
Statement of financial position at 31 December 2025

\$

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



Workings:

[9]

[Turn over



Additional information

The directors wish to improve the company's profitability. They are considering two options.

Option A: extend the range of goods available for sale.

Option B: increase the mark-up on all goods sold by 4%.

- (c) Advise the directors which option they should choose. Justify your choice by discussing the advantages and disadvantages of **each** option.

..... [7]

[Total: 30]

Question	Answer	Marks																																																			
1(a)	Prepare the statement of profit or loss for the year ended 31 December 2025. H plc Statement of profit or loss for the year ended 31 December 2025 <table border="1"> <thead> <tr> <th></th><th>\$</th><th></th></tr> </thead> <tbody> <tr> <td>Revenue W1</td><td>523 260</td><td>(2)</td></tr> <tr> <td>Cost of sales W2</td><td>(232 030)</td><td>(1)</td></tr> <tr> <td>Gross profit</td><td>291 230</td><td></td></tr> <tr> <td>Distribution costs W3</td><td>(75 128)</td><td>(4) OF</td></tr> <tr> <td>Administrative expenses W4</td><td>(126 782)</td><td>(5) OF</td></tr> <tr> <td>Profit from operations</td><td>89 320</td><td></td></tr> <tr> <td>Finance costs W5</td><td>(13 040)</td><td>(1)</td></tr> <tr> <td>Profit before tax</td><td>76 280</td><td></td></tr> <tr> <td>Tax</td><td>(15 700)</td><td></td></tr> <tr> <td>Profit for the year</td><td>60 580</td><td>(1) OF</td></tr> </tbody> </table> Ignore aliens W1 Revenue: \$535 630 – goods on sale or return 9 600 (1) – sales returns \$2 770 = \$523 260 (1) W2 Cost of sales *\$236 830 – goods on sale or return at cost \$4800 = \$232 030 (1) W3 Distribution costs <table border="1"> <thead> <tr> <th></th><th>\$</th><th></th></tr> </thead> <tbody> <tr> <td>As per trial balance</td><td>20 890</td><td></td></tr> <tr> <td>Advertising ($1/2 \times 24\,500$) or (24500 – 12250)</td><td>12 250</td><td>(1)</td></tr> <tr> <td>Motor vehicle expenses (9528 – 4800)</td><td>4 728</td><td>(1)</td></tr> <tr> <td>Depreciation of motor vehicles and equipment*</td><td>37 260</td><td>(1)</td></tr> <tr> <td></td><td>75 128</td><td>(1) OF</td></tr> </tbody> </table> Depreciation \$41 988 = (2) *Depreciation: $(\\$406\,000 + \\$8000) \times 15\%$ gives total \$62 100 60% = \$37 260		\$		Revenue W1	523 260	(2)	Cost of sales W2	(232 030)	(1)	Gross profit	291 230		Distribution costs W3	(75 128)	(4) OF	Administrative expenses W4	(126 782)	(5) OF	Profit from operations	89 320		Finance costs W5	(13 040)	(1)	Profit before tax	76 280		Tax	(15 700)		Profit for the year	60 580	(1) OF		\$		As per trial balance	20 890		Advertising ($1/2 \times 24\,500$) or (24500 – 12250)	12 250	(1)	Motor vehicle expenses (9528 – 4800)	4 728	(1)	Depreciation of motor vehicles and equipment*	37 260	(1)		75 128	(1) OF	14
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1(c)	Advise the directors which option they should choose. Justify your choice by discussing the advantages and disadvantages of <u>each</u> option. Option A: (Max 3) For: May increase sales to existing customers (1) May attract new customers/wider audience (1) Spread risk due to wider range of goods (1) Against: Possible increase in storage costs/ less storage available (1) May have to advertise wider range which will increase expenses (1) Possible reduction in availability of existing range of goods, risking loss of sales (1) Option B (Max 3) For: If demand is maintained profits/revenue will increase (1) Perception that an increase in prices is evidence of higher quality (1) Increase in profit margin (1) Against: May reduce competitiveness leading to loss of sales (1) May lead to a loss of existing customers (1) 4% increase may not improve profitability significantly (1) Accept other valid responses Decision supported with a comment (1)	7

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