

- 4 AY Limited has provided the following performance data for the last two years of trading.

Ratio	Year 1	Year 2
	ended 31 March 2024	ended 31 March 2025
Return on capital employed (ROCE)	10.67%	10.05%
Gross margin	22%	23.5%
Profit margin	11.5%	11.0%
Rate of inventory turnover	9.46 times	11.45 times
Trade payables turnover	34 days	30 days
Trade receivables turnover	32 days	36 days
Liquid (acid test) ratio	1.42:1	0.95:1

All sales and purchases are on credit and are subject to a 30-day credit period.





The directors at AY Limited were concerned that the trade receivables turnover rate had deteriorated and so increased the provision for doubtful debts from 2% to 3% for the year ended 31 March 2025. The trade receivables balances were as follows:

	\$
31 March 2024	346 000
31 March 2025	399 000

REQUIRED

- (b) Write up the provision for doubtful debts account in AY Limited's ledger for the year ended 31 March 2025.

Balance the account and bring down the balance at 1 April 2025.

AY Limited Provision for doubtful debts account

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

[3]

- (c) (i) Explain what is meant by 'a provision for doubtful debts'.

.....
 [1]

- (ii) Name the accounting principle being applied when creating a provision for doubtful debts.

..... [1]





The directors of AY Limited have been considering buying a new piece of equipment costing \$75 000. A machinery supplier has approached them, offering a 15% discount on this equipment if they make an immediate purchase. The supplier has indicated that the purchase would need to be on a cash basis. AY Limited's accountant has suggested that they may be able to finance the purchase of the equipment by delaying payments to their trade payables.

REQUIRED

- (d)** Advise the directors of AY Limited whether or not delaying payments to their trade payables would be a good way to secure the purchase of the equipment. Justify your answer by providing points for and against delaying payments to their trade payables.

[5]

[Total: 20]



Question	Answer								Marks
4(b)	A Limited Provision for doubtful debts account								3
	Date	Details	\$		Date	Details	\$		
					2024 April 1	Balance b/d	6 920	(1)	
	2025 March 31	Balance c/d	11 970		2025 March 31	Income statement	<u>5 050</u>	(1)OF	
			<u>11 970</u>				<u>11 970</u>		
					2025 April 1	Balance b/d	11 970	(1)	
4(c)(i)	It is an estimate of the amount which a business will lose in a financial year because of irrecoverable debts. (1)								1
4(c)(ii)	Prudence (1) OR Matching (1)								1

Question	Answer	Marks
4(d)	In favour of delaying payment to trade payables (Max 3) Able to purchase the equipment at a cheaper price (1) No finance costs (1) No need to source other methods of finance (1) No security required (1) Against delaying payment to trade payables (Max 3) Damage supplier relations / not supply goods (1) Increased interest payments (1) Loss of any cash discounts (1) May not be sufficient cash available to pay for the equipment (1) Other sources of finance available (1) Accept other valid responses Recommendation (1)	5