**5** Ahmed is a trader. All his sales and purchases are on credit. Ahmed has provided the following information.

| | $ |
|---|---|
| at 1 April 2025 | |
| inventory | 4 620 |
| trade receivables | 13 800 |
| trade payables | 6 900 |
| bank overdraft | 1 127 |
| for the year ended 31 March 2026 | |
| revenue | 130 844 |
| purchases | 93 460 |
| at 31 March 2026 | |
| inventory | 4 156 |
| trade receivables | 13 920 |
| trade payables | 9 200 |
| bank overdraft | 2 254 |

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**REQUIRED**

**(a)** Complete the following table.

| ratio | workings | answer |
|---|---|---|
| rate of inventory turnover (times) (to **two** decimal places) | | |
| trade receivables turnover (days) (round up to **next** whole day) | | |
| trade payables turnover (days) (round up to **next** whole day) | | |
| current ratio at 31 March 2026 (to **two** decimal places) | | |
| liquid (acid test) ratio at 31 March 2026 (to **two** decimal places) | | |

[11]

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Ahmed had written off irrecoverable debts for the year ended 31 March 2026. He is now considering setting up a provision for doubtful debts.

**REQUIRED**

**(b) (i)** State **one** accounting principle which Ahmed would be following if he set up a provision for doubtful debts.

..... [1]

**(ii)** State **one** reason why Ahmed should set up a provision for doubtful debts (other than to comply with accounting principles).

.....

..... [1]

Ahmed allows his customers 30 days to pay, and his suppliers allow him 30 days to pay.

**REQUIRED**

**(c)** State **two** factors which may cause Ahmed concern.

1 .....

.....

2 .....

.....

[2]

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Ahmed is considering selling the delivery vehicle of his business for cash so that he can pay the trade payables. The disposal proceeds of the delivery vehicle would be $4830.

**REQUIRED**

**(d)** Advise Ahmed whether or not he should sell the delivery vehicle of his business so that he can pay the trade payables. Justify your answer by providing points for **and** against doing this.

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..... [5]

[Total: 20]

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(a)</td><td>
<table>
<tr><th>Ratio</th><th>Workings</th><th>Answer</th></tr>
<tr><td>rate of inventory turnover (times) (to two decimal places)</td><td>$\frac{(4\,620 + 93\,460 - 4\,156)}{(4\,620 + 4\,156)/2}$<br><br>$= \frac{93\,924}{4\,388}$ (1) (1)</td><td>21.40 times (1)OF</td></tr>
<tr><td>trade receivables turnover days (round up to next whole day)</td><td>$\frac{13\,920}{130\,844} \times 365$ (1) whole formula</td><td>39 days (1)OF</td></tr>
<tr><td>trade payables turnover days (round up to next whole day)</td><td>$\frac{9\,200}{93\,460} \times 365$ (1) whole formula</td><td>36 days (1)OF</td></tr>
<tr><td>current ratio (to two decimal places)</td><td>(4 156 + 13 920) : (9 200 + 2 254)<br>= 18 076 : 11 454 (1) whole formula</td><td>1.58:1 (1)OF</td></tr>
<tr><td>liquid (acid-test) ratio (to two decimal places)</td><td>$\frac{13\,920}{11\,454}$ (1) whole formula</td><td>1.22:1 (1) OF</td></tr>
</table>
</td><td>11</td></tr>
<tr><td>5(a)</td><td>Guidance<br>• No marks are awarded if the formula is inversed.<br>• If the response uses the wrong symbol, e.g. 21.40%, no OF answer mark is awarded<br>• The answer does not need ‘times’ or ‘days’ as these are given in the question. However, it does need ‘:1’ in the last two ratios<br>• If the response treats inventories wrong way round, then (0) marks for the numerator but it can get the denominator mark and OF<br>• If the response uses ‘average trade receivables’ and ‘trade payables’, the formula is incorrect so (0) marks for calculation and (0) marks for the answer<br>• If the response includes opening trade receivables and opening trade payables these are to be treated as extraneous items</td><td></td></tr>
</table>

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| Question | Answer | Marks |
|---|---|---|
| 5(b)(i) | Prudence **(1)**<br>**Or**<br>Matching **Or** Accruals **(1)** | **1** |
| 5(b)(ii) | Some trade receivables will not pay their accounts **(1)**<br>Profit will be more accurate **(1)**<br>Current assets/trade receivables will be more accurate **(1)**<br>**Accept other valid points**<br>**Max (1)** | **1** |
| | **Guidance**<br>• 'To have estimate of irrecoverable debts' is a valid response<br>• 'Reduce loss due to irrecoverable debts' is not an acceptable response | |
| 5(c) | Trade receivables are taking an extra nine days (**OF**) / extra days to pay / paying after 30 days / slower to pay **(1)**<br>Late payment by trade receivables could cause cash flow problems **(1)**<br>Increased risk of irrecoverable debts **(1)**<br>Trade payables have to wait an extra six days (**OF**) / taking extra days to pay / paying after 30 days / slower to pay **(1)**<br>Cash discount not available if pay late **(1)**<br>Possibility trade payables charging interest / refusing further supplies **(1)**<br>Relying on trade receivables paying before can pay trade payables **(1)**<br>**Accept other valid points**<br>**Max (2)** | **2** |
| | **Guidance**<br>• The comments are to be relevant to **OF** answer in **5(a)** | |

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| Question | Answer | Marks |
|---|---|---|
| 5(d) | **Points for**<br>Large amount of cash received immediately **(1)**<br>Can pay off some of the outstanding trade payables **(1)**<br>May receive cash discount from trade payables **(1)**<br>Improve relationship with trade payables / will continue to supply **(1)**<br>Reduce interest charged by trade payables **(1)**<br>Motor expenses should decrease **(1)**<br>**Accept other valid points**<br>**Max (3)**<br><br>**Points against**<br>Proceeds of sale are not enough to pay the trade payables in full **(1)**<br>Will not be able deliver goods to customers / may damage relationship with customers **(1)**<br>May incur carriage outwards charges **(1)**<br>External distributor may not be reliable **(1)**<br>This not a permanent solution to cash flow problem **(1)**<br>Trade payables may charge interest **(1)**<br>**Accept other valid points**<br>**Max (3)**<br><br>**Max (4)**<br><br>**Recommendation (1)** | **5** |
| | **Guidance**<br>• Need one point for and one against to be awarded the mark for recommendation<br>• Converse comments are awarded max **(1)** not **(2)** marks | |

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