

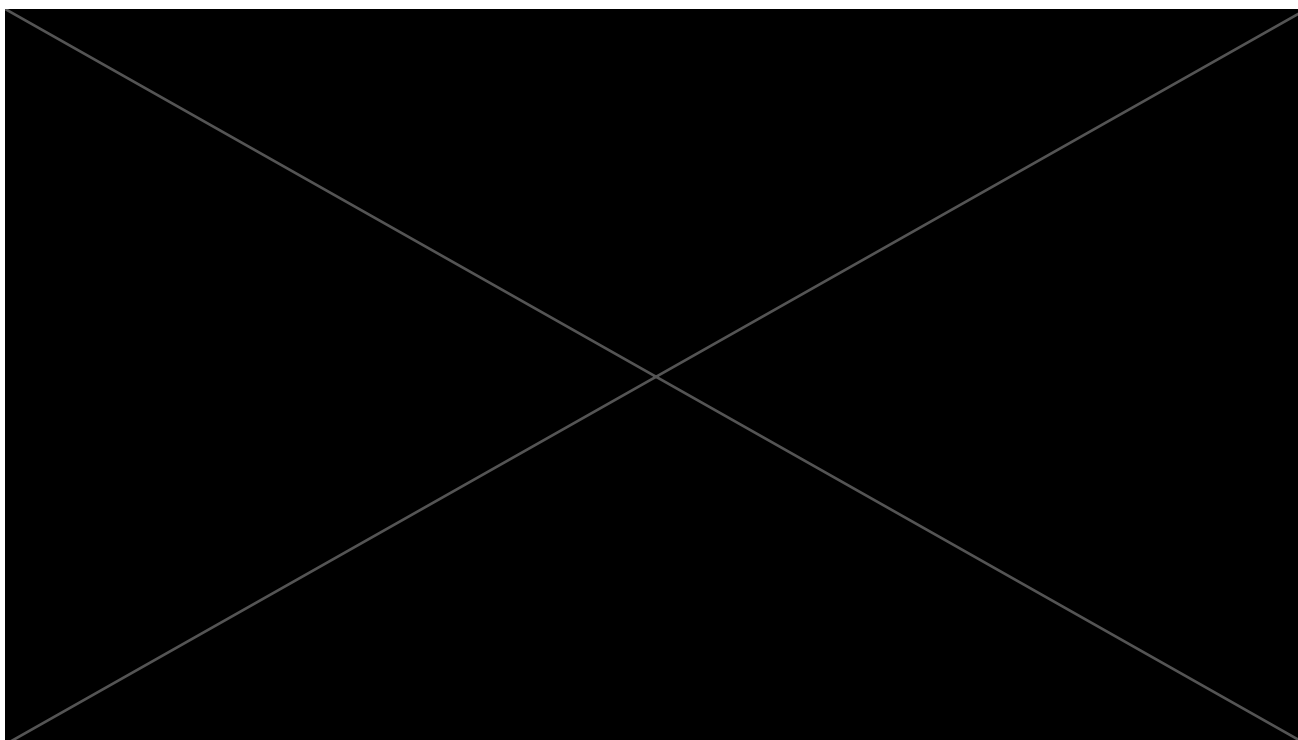
- 3 Rushil is a trader and has provided his statement of financial position at 30 September 2025.

	\$	\$
Non-current assets		220 000
Current assets		
Inventory	34 000	
Trade receivables	44 000	
Other receivables	6 500	
Cash	<u>8 400</u>	<u>92 900</u>
		<u>312 900</u>
Capital and liabilities		
Capital – opening balance	199 100	
Profit for the year	<u>36 000</u>	
	235 100	
Less: Drawings	<u>12 000</u>	223 100
Non-current liabilities		
Long-term bank loan	49 000	49 000
Current liabilities		
Trade payables	31 000	
Bank	<u>9 800</u>	<u>40 800</u>
		<u>312 900</u>

Rushil has provided the following additional information:

- 1 Inventory at 1 October 2024 was \$30 000.
- 2 The profit for the year in his statement of financial position was after having deducted loan interest charges of \$2450.
- 3 For the year ended 30 September 2025:
 - sales totalled \$482 000 (\$387 000 were on credit; the remainder were cash sales)
 - purchases totalled \$310 000 (all on credit).





Included in Rushil's closing inventory valuation were some items that had been damaged. These were included at a reduced value.

REQUIRED

(c) (i) State why the inventory was included at a reduced value.

.....
 [1]

(ii) Name the accounting principle that is being applied.

.....
 [1]

(iii) Complete the table by indicating with a tick (✓) the effect on Rushil's gross profit of including his damaged inventory at a reduced value.

effect on Rushil's gross profit

increase decrease

[1]





Rushil is concerned that his credit customers are taking too long to pay him. He is considering allowing a 2.5% cash discount on all credit sales if paid within 21 days.

REQUIRED

- (d)** Advise Rushil whether or not he should allow his credit customers a cash discount if they make payment to him within 21 days. Justify your answer with arguments for and against Rushil allowing his credit customers a cash discount if they make payment to him within 21 days.

..... [5]

[Total: 20]



Question	Answer	Marks						
3(c)(i)	Inventory should be valued at the lower of cost or net realisable value (1)	1						
3(c)(ii)	Prudence (1)	1						
3(c)(iii)	<table><tr><td colspan="2">Effect on Rushil’s gross profit</td></tr><tr><td>Increase</td><td>Decrease</td></tr><tr><td></td><td>✓ (1)</td></tr></table>	Effect on Rushil’s gross profit		Increase	Decrease		✓ (1)	1
Effect on Rushil’s gross profit								
Increase	Decrease							
	✓ (1)							

Question	Answer	Marks
3(d)	Arguments for offering a cash discount Max 3 May improve cash flow/money available to use within the business/encourage customers to pay quicker (1) May improve relationship with customer/improve customer loyalty (1) May improve sales/attract more customers (1) May reduce irrecoverable debts (1) Arguments against offering a cash discount Max 3 Increase expenses/reduce profit for year/reduce profit margin (1) Less cash received on each sale (1) No guarantee customers will pay in the time specified (1) Does not necessarily reduce irrecoverable debts (1) May be time consuming to monitor (1) Book-keeping more time-consuming (1) Customer deduction of 2.5% discount, but they may not pay within the required timescale (1) Accept other valid responses Recommendation (1)	5