1 Ross, a sole trader, owns a business selling computer equipment. He prepared the following income statement for the year ended 31 March 2017, which contained errors.

Ross
Income Statement for the year ended 31 March 2017

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>96 520</td>
</tr>
<tr>
<td>Add: Returns outwards</td>
<td>440</td>
</tr>
<tr>
<td>Cost of sales</td>
<td></td>
</tr>
<tr>
<td>Inventory at 31 March 2017</td>
<td>23 400</td>
</tr>
<tr>
<td>Purchases</td>
<td>38 950</td>
</tr>
<tr>
<td>Carriage outwards</td>
<td>1 090</td>
</tr>
<tr>
<td></td>
<td>63 440</td>
</tr>
<tr>
<td>Inventory at 1 April 2016</td>
<td>(21 640)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>55 160</td>
</tr>
<tr>
<td>Less expenses:</td>
<td></td>
</tr>
<tr>
<td>Property rental paid</td>
<td>16 240</td>
</tr>
<tr>
<td>Returns inwards</td>
<td>1 240</td>
</tr>
<tr>
<td>Drawings</td>
<td>8 600</td>
</tr>
<tr>
<td>Heating and lighting</td>
<td>1 940</td>
</tr>
<tr>
<td>Travel expenses</td>
<td>2 060</td>
</tr>
<tr>
<td>General expenses</td>
<td>6 690</td>
</tr>
<tr>
<td>Shop fittings – accumulated depreciation at 31 March 2017</td>
<td>3 320</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>40 090</td>
</tr>
</tbody>
</table>

Additional information

The following notes also need to be taken into account when correcting the income statement.

1 Revenue includes goods sent on a sale or return basis to a customer who has not yet accepted the goods. The goods cost $2500 and had been invoiced for $4000.

2 Depreciation on shop fittings for the year ended 31 March 2017, $1490, had been entered in the books of account.

3 A prepayment of $1160 for property rental paid at 31 March 2017 had been incorrectly entered in the books of account as an accrual.

4 A customer owing Ross $1250 has been declared bankrupt. This debt should have been written off in these accounts, but no entry has yet been made.
REQUIRED

(a) Prepare the corrected income statement for the year ended 31 March 2017.

Ross
Income Statement for the year ended 31 March 2017

[Blank lines]

[Blank lines]
Additional information

Ross provided the following information about his assets and liabilities at 31 March 2017:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accruals</td>
<td>$1960</td>
</tr>
<tr>
<td>Bank loan</td>
<td>$8,580</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>$2,610</td>
</tr>
<tr>
<td>Capital at 1 April 2016</td>
<td>$10,950</td>
</tr>
<tr>
<td>Shop fittings – cost at 31 March 2017</td>
<td>$11,930</td>
</tr>
<tr>
<td>Prepayments</td>
<td>$2,080</td>
</tr>
<tr>
<td>Trade payables</td>
<td>$6,440</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>$12,870</td>
</tr>
</tbody>
</table>

No adjustment had been made to any of these balances in respect of errors discovered in the income statement or notes 1 to 4 on page 2.

Ross introduced capital of $3000 into the business bank account on 31 March 2017. No entries for this have yet been made in the books of account.

One half of the bank loan is repayable in the year ending 31 March 2018. The remainder is due for repayment after that date.

REQUIRED

(b) Prepare the statement of financial position at 31 March 2017 taking account of all relevant information and information from part (a).

Ross

Statement of Financial Position at 31 March 2017


Additional information

At present Ross does not make any provision for doubtful debts.

REQUIRED

(c) Advise Ross whether or not he should create a provision for doubtful debts. Justify your answer.
Trott provided the following information for the year ended 30 April 2017:

<table>
<thead>
<tr>
<th>Description</th>
<th>Add ($)</th>
<th>Less ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales ledger control account balance</td>
<td></td>
<td></td>
<td>93,185</td>
</tr>
<tr>
<td>Sales ledger balances</td>
<td></td>
<td></td>
<td>78,370</td>
</tr>
</tbody>
</table>

The following errors were identified:

1. The sales journal total had been overcast by $30,420.
2. A dishonoured cheque for $9745 had not been entered in the customer's account.
3. Interest charged on an overdue amount, $720, had been completely omitted from the books of account.
4. The sales returns journal had been overcast by $4560.
5. Discount allowed of $1520 had been completely omitted from the books of account.
6. Receipts from credit customers entered in the cash book had been overcast by $18,965.
7. An irrecoverable debt of $1825 had been written off in the sales ledger control account but no entry had been made in the customer's account.

REQUIRED

(a) Complete the following tables to update the sales ledger control account balance and the sales ledger balances at 30 April 2017.
## Sales ledger balances

<table>
<thead>
<tr>
<th>Description</th>
<th>Add ($)</th>
<th>Less ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td></td>
<td></td>
<td>78,370</td>
</tr>
</tbody>
</table>

(b) State **four** advantages to a business of preparing a sales ledger control account.

1. ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................

2. ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................

3. ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................

4. ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................

[Total: 15]
3 K Limited has been trading for many years and prepares financial statements annually to 30 April. It had the following balances at 1 May 2016:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and equipment</td>
<td>84,695</td>
<td></td>
</tr>
<tr>
<td>at cost</td>
<td></td>
<td>32,855</td>
</tr>
<tr>
<td>provision for depreciation</td>
<td></td>
<td>32,855</td>
</tr>
</tbody>
</table>

On 1 February 2017, the company bought new equipment, $12,785, and the cost of installing this equipment was $1,595.

On 31 December 2016 the company sold a motor vehicle which had cost $14,850 on 1 August 2015. The proceeds of $8,900 were paid by cheque.

The company’s depreciation policy is as follows:

- Plant and equipment: 20% on cost per annum
- Motor vehicles: 25% reducing balance per annum

Depreciation is charged on a month-by-month basis.

**REQUIRED**

(a) (i) Calculate the depreciation charge for plant and equipment for the year ended 30 April 2017. Workings **must** be shown.

(ii) Prepare the motor vehicle disposal account for the year ended 30 April 2017. Workings **must** be shown.
(b) Explain two accounting concepts which are being applied when depreciation is provided.

1. .................................................................

2. .................................................................

[4]

Additional information

K Limited is considering purchasing additional plant and equipment costing $30,000. This could be financed by one of the following:

Bank loan
Issue of ordinary shares

REQUIRED

(c) Advise the directors which method of finance they should choose. Justify your answer.

[5]

[Total: 15]
J Limited manufactures a single product, a leather suitcase. The following forecast information is available.

<table>
<thead>
<tr>
<th>Costs per unit</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>15</td>
</tr>
<tr>
<td>Direct labour</td>
<td>8</td>
</tr>
<tr>
<td>Variable production overheads</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed costs per month</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>1450</td>
</tr>
<tr>
<td>Rent and rates</td>
<td>650</td>
</tr>
<tr>
<td>Advertising</td>
<td>1000</td>
</tr>
<tr>
<td>Other fixed costs</td>
<td>1100</td>
</tr>
</tbody>
</table>

The directors calculate the selling price by adding a mark-up of 80% on to the variable costs.

The company has orders to supply 240 suitcases per month. This involves working at 75% capacity.

**REQUIRED**

(a) State **two** benefits and **two** limitations of break-even analysis.

**Benefits**

1. ............................................................................................................................................... 
2. ............................................................................................................................................... 

**Limitations**

1. ............................................................................................................................................... 
2. ............................................................................................................................................... 

[4]

(b) Calculate the break-even point in **units** per month.

........................................................................................................................................ 
........................................................................................................................................ 
........................................................................................................................................ 
........................................................................................................................................ 
........................................................................................................................................ 
........................................................................................................................................ 
........................................................................................................................................ 
........................................................................................................................................ 

[3]
(c) Calculate the **monthly** margin of safety

(i) in units: .................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
................................................................................................................................. [2]

(ii) in revenue. .................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
................................................................................................................................. [2]

(d) Calculate the **maximum** monthly profit if the company is working at 100% capacity.
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
.................................................................................................................................
................................................................................................................................. [3]
Additional information

The directors have been approached by Bart, a retailer, who requires a regular monthly order of 150 suitcases. Bart is offering to pay $42 per suitcase.

The directors are aware that this order will take production over the current capacity and the following would result:

1. All suitcases over the current maximum production capacity would incur an additional $2 per unit direct labour cost to allow for overtime payments.

2. Additional storage facilities would have to be found at a monthly rental of $200.

The directors are also concerned that the target annual profit set by them of $30,000 is not being achieved.

They have decided to increase by 10% the selling price of all production except the new contract. They also plan to increase the advertising expenditure by $500 per month and are confident that monthly sales to existing customers will remain at 240 suitcases per month.

REQUIRED

(e) Prepare a statement, in marginal cost format, to show J Limited’s maximum forecast total profit per month if the directors accept the new contract.
(f) Advise the directors whether or not they should accept the new contract with Bart and increase the selling price. Justify your answer by explaining two benefits and two limitations.

Advice


Benefits

1


2


Limitations

1


2


[g] State three financial benefits of a system of budgetary control.

1


2


3


[Total: 30]