**Question 20 (47 marks)**

1. Prepare all entries to adjust the Allowance for Doubtful Debts ledger to its new balance. Balance the ledger account and show all workings. **(6 marks)**

**Workings**

Bad Debts = 880 **(1)** + 200 **(1)** = $1,080

Allowance closing balance = (26,000 **(1)** – 200 **(1)**) x 2% **(1)** = $516

**Allowance for Doubtful Debts**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2018  June 30 | Bad Debts | 1,080 **(2)** | 2017  July 1 | Balance | 600 **(1)** |
|  | Balance C/D | 516 **(3)** | 2018  June 30 | *Doubtful Debts* | *996* |
|  |  |  |  |  |  |
|  |  | **$1,596** |  |  | **$1,596** |
|  |  |  | 2018  July 1 | Balance B/D | 516 |

1. What is the difference between a bad debt and a doubtful debt? **(3 marks)**

* A doubtful debt is a debtor balance that is thought unlikely to be recovered due to the length of time it is overdue, but there still could be some chance. **(1)**
* A bad debt is a debt that will definitely not be received because the debtor has filed for bankruptcy or has notified you that they will not repay. **(1)**
* DD is subjective as it is an estimate, whereas bad debts are determined with 100% accuracy. **(1)**

**Workings**

Depreciation Fixtures & Fittings = 37,400 **(1)** x 10% **(1)**

= $3,740

Depreciation Office Computer = 30% **(1)** x (7,000 **(1)** – 2,000 **(1)**)

= $1,500

Insurance Expense = 59,800 **(1)** – 9,800 **(1)**

= $50,000

Sales Wages Expense = 390,000 **(1)** + 6,400 **(1)**

= $396,400

Prepaid Advertising = 26,400 **(1)** – 24,000 **(1)**

= $2,400

|  |  |  |
| --- | --- | --- |
|  | **Showroom (80%)** | **Office (20%)** |
| **Electricity $12,000** | $9,600(1) | $2,400(1) |
| **Rent $72,000** | $57,600(1) | $14,400(1) |

1. Prepare a fully classified Income Statement for Silver Plus Appliances for the year ending 30 June 2018. **(26 marks)**

**Income Statement**

**for the year ending 30 June 2018**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sales |  | 1,916,000 |  | **(1)** |
| Less: Sales Returns |  | 13,200 |  | **(1)** |
| Discount Allowed |  | 6,800 |  | **(1)** |
| *Net sales* |  |  | 1,896,000 |  |
| Less: Cost of Sales |  | 1,107,000 |  | **(1)** |
| Discount Received |  | 19,600 |  | **(1)** |
| *Total cost of sales* |  |  | 1,087,400 |  |
| Gross Profit |  |  | 808,600 | **(1)** |
| **Add: Other Income** |  |  |  |  |
| Gain on Sale of Asset |  |  | 5,000 | **(1)** |
|  |  |  | 813,600 |  |
| **Less: Operating Expenses** |  |  |  |  |
| **Selling & Distribution** |  |  |  |  |
| Advertising | 24,000 |  |  | **(1)** |
| Electricity | 9,600 |  |  | **(1)** |
| Rent | 57,600 |  |  | **(1)** |
| Depreciation – Fixtures & Fittings | 3,740 |  |  | **(2)** |
| Doubtful Debts | 996 |  |  | **(1)** |
| Sales Wages | 396,400 | 492,336 |  | **(2)** |
| **General & Administration** |  |  |  |  |
| Office Salaries | 185,600 |  |  | **(1)** |
| Postage and Stationery | 1,600 |  |  | **(1)** |
| Insurance | 50,000 |  |  | **(2)** |
| Electricity | 2,400 |  |  | **(1)** |
| Rent | 14,400 |  |  | **(1)** |
| Depreciation – Office Computer | 1,500 |  |  | **(3)** |
| Telephone - Office | 6,400 | 261,900 |  | **(1)** |
| **Financial Expenses** |  |  |  |  |
| Interest Expense |  | 29,200 | 783,436 | **(1)** |
| **Profit** |  |  | **$30,164** |  |

1. Prepare a Statement of Financial Position extract as at 30 June 2018 showing the Current Assets and Current Liabilities sections **only**. **(12 marks)**

**Statement of Financial Position (Extract)**

**as at 30 June 2018**

|  |  |  |  |
| --- | --- | --- | --- |
| **Current Assets** |  |  |  |
| Cash in Hand |  | 800 | **(1)** |
| Accounts Receivable *(26,000 – 200)* | 25,800 |  | **(2)** |
| Less: Allowance for Doubtful Debts | 516 | 25,284 | **(1)** |
| Inventory |  | 82,000 | **(1)** |
| Prepaid Advertising |  | 2,400 | **(2)** |
| Prepaid Insurance |  | 9,800 | **(1)** |
| *Total Current Assets* |  | 120,284 |  |
| **Current Liabilities** |  |  |  |
| Bank Overdraft |  | 50,540 | **(1)** |
| Accounts Payable |  | 65,080 | **(1)** |
| Accrued Sales Wages |  | 6,400 | **(1)** |
| *Total Current Liabilities* |  | 122,020 |  |

**+1 mark for totals**