

- 1 Ismail opened a retail business on 1 January 2019 with the following assets and liabilities.

	\$	
Bank	7 500	Debit
Non-current assets	18 500	
Bank loan (repayable 2022)	4 200	

Ismail prepared a draft income statement for the year ended 31 December 2019. However, this contained errors.

Draft income statement for the year ended 31 December 2019

	\$	\$
Revenue		274 500
Cost of sales		(182 360)
		<u>92 140</u>
Add discounts received		<u>820</u>
Gross profit		92 960
Add bank loan		<u>4 200</u>
		<u>97 160</u>
Less expenses		
Carriage inwards	1 020	
Drawings	18 740	
General expenses	22 280	
Insurance	1 730	
Rent	20 250	
Loan interest	<u>210</u>	
		<u>(64 230)</u>
Profit for the year		<u>32 930</u>

The following had not been accounted for.

- 1 Ismail had taken goods for his own use. These goods cost \$420 and had a selling price of \$630.
- 2 Carriage inwards included capital expenditure of \$400 on non-current assets which had been paid on 18 January 2019.
- 3 Depreciation on all non-current assets is to be provided at 20% per annum on cost. A full year's depreciation is charged in the year of purchase.
- 4 The amount shown for insurance included \$720 for the six-month period ending 30 April 2020.
- 5 At 31 December 2019 trade receivables totalled \$14 800. A customer who owed \$600 had been declared bankrupt. Ismail decided to write off this account. He also decided to create a provision for doubtful debts of 5% of trade receivables at the year end.
- 6 Interest on the bank loan is charged at 10% per annum.

REQUIRED

- (a) Prepare the corrected income statement for the year ended 31 December 2019.

Ismail
Income statement for the year ended 31 December 2019

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Workings:

(b) Calculate the balance on Ismail's capital account at 31 December 2019.

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Additional information

Ismail would like to expand his business. He will need additional finance of \$25 000. He is considering two options to raise this amount:

option 1: apply for a bank loan

option 2: form a partnership with Seema, a friend. Seema would expect profits and losses to be shared equally.

REQUIRED

(c) Advise Ismail which of these options he should choose. Justify your answer.

[7]

Additional information

Ismail sees benefits in keeping a full set of accounting records.

REQUIRED

(d) State **four** benefits to a business of keeping a full set of accounting records.

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- 3
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