

- 1 Patel, a sole trader, does not keep proper books of account. He provided the following information.

	1 January 2014	31 December 2014
	\$	\$
Land and buildings at cost	50 000	50 000
Fixtures and fittings at valuation	6 000	4 500
Motor vehicles at net book value	7 600	?
Trade payables	16 750	14 900
Trade receivables	14 670	13 690
Wages owing	1 200	1 400
Inventory	21 750	22 450
Cash in hand	800	950
Rent in advance	1 000	?

Summary of Patel's bank account for the year showed the following.

Receipts	\$	Payments	\$
Balance b/d	16 980	Payments to credit suppliers	109 620
Receipts from credit customers	156 420	Wages	22 670
Cash sales	20 700	Rent	19 000
Proceeds from sale of motor vehicle	1 500	Electricity	8 650
		General expenses	4 750
		Purchase of new motor vehicle	16 400
		Balance c/d	<u>14 510</u>
	<u>195 600</u>		<u>195 600</u>

Additional information

- Before banking his receipts from cash sales Patel took \$400 per month for his personal drawings. All other payments were made from the bank.
- During the year he took goods costing \$2600 for his own use.
- Patel depreciates his vehicles at 20% per annum using the reducing balance method. A full year's depreciation is charged in the year of purchase. No depreciation is provided in the year of sale.
- The vehicle sold had a net book value at 1 January 2014 of \$2880.
- A customer has been declared bankrupt and will not pay \$750 owing. The amount was included in the trade receivables at 31 December 2014.
- In addition Patel has decided to create a provision for doubtful debts of 5%.
- The rent payable is \$16 000 per annum.

REQUIRED

(a) Prepare Patel's income statement for the year ended 31 December 2014.

[15]

[illegible]

[9]

Additional information

Patel wishes to expand his business and is undecided about taking out a five year loan or asking the bank for an overdraft.

REQUIRED

(c) State **one** advantage and **one** disadvantage of **each** option.

Five year loan

Advantage

Disadvantage

Bank overdraft

Advantage

Disadvantage