

1 Suyin owns a small retail business. She has not maintained full accounting records.

REQUIRED

(a) State **two** reasons why the owner of a small business may decide not to maintain full accounting records.

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[2]

Additional information

Suyin has been informed that the accounting concepts of matching and prudence must be followed when preparing financial statements.

REQUIRED

(b) Explain how these accounting concepts are applied when a business prepares financial statements.

Matching

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Prudence

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[4]

Additional information

Suyin has provided the following information.

- 1 On 1 August 2019 the business's assets and liabilities included:

	\$
Fittings and equipment at valuation	18 500
Inventory	11 440
Other payables: shop rent	510
Other receivables: insurance	290
Trade payables	3 970

- 2 Summary of bank statements for the year ended 31 July 2020.

	\$
Receipts	
Cash sales banked	79 480
Proceeds from the sale of equipment (net book value \$490)	550
Payments	
Drawings	24 070
Shop rent	3 580
General expenses	16 810
Carriage inwards	610
Insurance	2 950
Trade payables (after deducting 2.5% cash discounts)	46 800

- 3 Cash account for the year ended 31 July 2020.

	\$		\$
Balance b/d	420	Bank	79 480
Cash sales	96 000	Wages	15 430
		Purchases	1 320
		Balance c/d	190
	<u>96 420</u>		<u>96 420</u>
Balance b/d	190		

- 4 During the year ended 31 July 2020

Goods had been returned to suppliers, \$1280.
All sales were made on a cash basis.

- 5 At 31 July 2020

Suppliers were owed \$4560.
Inventory was valued at \$18720.
Fittings and equipment was valued at \$15860.

REQUIRED

(c) Calculate **total** purchases for the year ended 31 July 2020.

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..... [5]

(d) Prepare the income statement for the year ended 31 July 2020.

Workings:

Suyin
Income statement for the year ended 31 July 2020

[illegible]

Additional information

Suyin has the opportunity to move her business to a busier location. The following information is available.

- 1 The rent of the new shop premises will be three times the current annual charge.
- 2 Annual sales could be increased by 10% on the figure for the year ended 31 July 2020.
- 3 She intends to achieve a gross margin of 60%.
- 4 She will need to apply for a bank loan of \$16 000 at 8% per annum interest to cover the costs of changing location. The loan will be repayable over a two-year period.
- 5 Discounts received will no longer be available.
- 6 All other expenses will remain unchanged and there will be no sources of additional income.

REQUIRED

- (e) Calculate how much profit per annum will be made if Suyin moves her business to the new location.

	\$
Revised gross profit	
Revised profit for the year	

[4]

