

- 1 Alana owns and manages a shop with three separate departments selling food, clothing and toys. The following trial balance is available for the year ended 30 April 2012.

	\$ 000	\$ 000
Inventory at 1 May 2011:		
Food	10	
Clothing	12	
Toys	31	
Purchases and sales		
Food	67	250
Clothing	50	150
Toys	57	100
Sales staff wages	80	
Advertising	8	
Heat and light	30	
Insurance	5	
Fixtures and fittings at cost	120	
Provision for depreciation, fixtures and fittings		12
Property	200	
Trade receivables	95	
Bank	55	
Trade payables		40
Capital		<u>268</u>
	<u>820</u>	<u>820</u>

Additional information:

- 1 Inventory at 30 April 2012:

Food	\$ 17 000
Clothing	12 000
Toys	43 000
- 2 The shop has 2 floors with the food department on the ground floor and both the clothing and toys departments taking up equal floor space on the floor above.
- 3 At 30 April 2012:
 - an invoice for advertising amounting to \$2000 remained unpaid;
 - \$6000 had been paid in advance for heating and lighting.
- 4 Expenses are apportioned between departments as follows:

Apportioned on the basis of sales income:

 - sales staff wages; advertising.

Apportioned on the basis of floor area:

 - heat and light; insurance; depreciation.
- 5 Straight line depreciation is charged on fixtures and fittings at 10% per annum.

REQUIRED

- (a)** Prepare, in columnar format, a departmental income statement for the year ended 30 April 2012.

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- (b) Explain how the preparation of a departmental income statement might assist Alana in managing the business.

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- (c) Alana's accountant values some inventory at cost of purchase and some at net realisable value.

Explain these terms to Alana:

- (i) cost of purchase

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- (ii) net realisable value.

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