

1 Hamza owns a retail business with a financial year end of 31 December.

On 31 December 2022 inventory was valued at \$15 330. However, this figure included 30 damaged items which had a cost price of \$32 each. Of the damaged items, 23 will be scrapped with no value. The remaining 7 items will require repairs costing a total of \$126 before being sold at the normal price of \$48 each.

REQUIRED

(a) Explain, with reference to an accounting concept, how damaged inventory should be valued.

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..... [2]

(b) Calculate the corrected valuation of inventory at 31 December 2022.

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..... [4]

Additional information

The following information has been extracted from the books of account at 31 December 2022.

	Dr	Cr
	\$	\$
Administrative expenses	14 380	
Carriage inwards	1 720	
Carriage outwards	3 860	
Discounts	840	620
Furniture and equipment		
Cost	36 000	
Provision for depreciation		11 800
Inventory at 1 January 2022	16 780	
Insurance	4 320	
Purchases	182 770	
Rent payable	17 000	
Returns	5 460	4 810
Revenue		299 490
Trade receivables	18 460	
Wages	37 330	

At 31 December 2022:

- 1 No record had been made of goods taken by the owner for his own use, cost \$550.
- 2 The balance of \$760 on a credit customer's account is to be written off as irrecoverable.
- 3 An allowance for irrecoverable debts of 5% is to be created based on the amount outstanding from credit customers.
- 4 Rent of \$5100 is paid at the end of every three months. Rent for the three months ending 31 January 2023 is accrued.
- 5 The policy is to depreciate furniture and equipment by 20% per annum using the straight-line method on a month-by-month basis. However, the furniture and equipment account includes equipment purchased during the year that cost \$6500 and on which depreciation of \$650 has not yet been charged.

REQUIRED

- (c)** Prepare the statement of profit or loss for the year ended 31 December 2022. the space provided on **page 5** for your workings.

Hamza
Statement of profit or loss for the year ended 31 December 2022

[illegible]

Workings:

[15]

(d) State the double entry required to record goods withdrawn by an owner for personal use.

Debit:

Credit:

[2]

Additional information

Hamza is concerned that the performance of the business has declined in recent months. He is considering two options to increase the gross profit of the business.

Option A: Purchase goods from a different supplier who is prepared to offer a large trade discount. Hamza would need to order in bulk, but less frequently than now.

Option B: Increase selling prices and increase monthly expenditure on advertising.

REQUIRED

- (e) Advise Hamza which option he should choose. Justify your answer by considering **both** financial and non-financial factors.

[7]