

- 1 Lee, a sole trader, provided the following information from his books of account on 30 April 2019.

	\$
Bank overdraft	11 240
Capital	50 000
Carriage inwards	670
Drawings	24 060
Inventory at 1 May 2018	12 500
3% Loan	20 000
Loan interest	50
Motor vehicles	
Cost	32 000
Provision for depreciation	8 000
Office equipment	
Cost	4 600
Provision for depreciation	2 400
Other operating costs	61 990
Provision for doubtful debts at 1 May 2018	2 850
Purchases	97 370
Revenue	165 000
Trade receivables	47 890
Trade payables	21 640

The following information is also available.

- 1 An invoice from a supplier dated 28 April 2019 for goods costing \$940 had not been recorded in the books of account. These goods were unsold at the year-end.
- 2 Inventory was counted at 30 April 2019 and was valued at cost, \$21 340.
- 3 Revenue included goods sold in April 2019 to a credit customer for \$3200 on a sale or return basis. These goods were invoiced with a mark-up of 60% and were returned by customer on 5 May 2019.
- 4 During the year, Lee took goods with a cost of \$250 for his own use.
- 5 The 3% loan was taken out on 1 August 2018 and is repayable in 5 annual instalments starting on 1 August 2019.
- 6 A debt of \$690 was considered to be irrecoverable and was to be written off.
- 7 The provision for doubtful debts was to be maintained at 5% of the trade receivables.
- 8 A computer for office use bought on credit on 1 July 2018 costing \$1200 had been debited to the purchases account.
- 9 Depreciation is to be provided as follows:

Motor vehicles	25% per annum using the reducing balance method
Office equipment	10% per annum using the straight-line method

A full year's depreciation is charged in the year of purchase.

REQUIRED

- (a)** Prepare Lee's income statement for the year ended 30 April 2019. Use the space on the next page for your workings.

[illegible]

Workings:

[13]

(b) Prepare the following as they would appear in Lee's statement of financial position at 30 April 2019.

(i) Current assets

[4]

[4]

(ii) Current liabilities

[4]

[4]

(c) State **two** benefits and **two** drawbacks of operating as a sole trader.

Benefit 1

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Benefit 2

.....

Drawback 1

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Drawback 2

.....

[4]

Additional information

Lee's friend Marvin has offered to contribute \$50 000 to repay Lee's business loan and to provide additional working capital.

Marvin has suggested two options.

Option 1: m a limited company

Lee would issue 125 000 ordinary shares of \$1 each. Marvin would subscribe for 50 000 of these shares. Lee and Marvin will become directors of the company and will be paid an annual salary. They plan to declare dividends of 6% per annum.

Option 2: m a partnership

Marvin would introduce capital of \$50 000 on which he would receive annual interest of 6%. He would require a 30% share of the future profits for the year.

REQUIRED

(d) Advise Lee which option he should choose. Justify your answer.

[5]