

1 Khin is a retailer.

The following balances have been extracted from his books of account at 31 January 2022.

	\$
Advertising	4 900
Carriage inwards	2 140
Carriage outwards	1 730
Furniture and equipment at cost	18 900
Furniture and equipment provision for depreciation at 1 February 2021	7 300
General expenses	13 450
Inventory at 1 February 2021	12 310
Irrecoverable debts	670
Loss on disposal of delivery vehicle	1 350
Premises at cost	360 000
Premises provision for depreciation at 1 February 2021	21 600
Provision for doubtful debts at 1 February 2021	840
Purchases	118 220
Rent receivable	7 000
Revenue	197 300
Trade receivables	15 580
Wages and salaries	34 640

The following information is also available at 31 January 2022.

- 1 Closing inventory was valued at \$13 480.
- 2 No record had been made of goods taken for own use by Khin, \$910.
- 3 An irrecoverable debt of \$380 is to be written off.
- 4 The provision for doubtful debts is to be maintained at 5% of trade receivables.
- 5 Advertising includes a payment of \$3 250 for a campaign which will last from 1 December 2021 to 30 April 2022.
- 6 Rent receivable is \$500 per month.
- 7 Wages, \$1 440, are outstanding.
- 8 Khin sold his business's only delivery vehicle in January 2022 resulting in the loss of \$1 350 shown in the balances at 31 January 2022.
- 9 The business's depreciation policy is as follows:
 - i Premises to be depreciated by 2% per annum using the straight-line method.
 - ii Furniture and equipment to be depreciated by 15% using the reducing balance method.

REQUIRED

- (a) Prepare the income statement for the year ended 31 January 2022. the space provided on **page 4** for your workings.

Khin
Income statement for the year ended 31 January 2022

This image shows a single page of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Workings:

[15]

Additional information

There was no opening balance on the rent receivable account at 1 February 2021.

REQUIRED

(b) Prepare the rent receivable account for the year ended 31 January 2022.

Rent receivable account

	\$		\$

[2]

- (c) Prepare a journal entry to record the adjustment to the provision for doubtful debts account at 31 January 2022. A narrative is **not** required.

Journal

	Dr \$	Cr \$

[2]

Additional information

Khin intends to purchase a new delivery vehicle. He is not sure whether the delivery vehicle should be depreciated using the straight-line method or reducing balance method of depreciation.

REQUIRED

- (d) Explain the reason for recording depreciation in a business's income statement.

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..... [2]

- (e) State **one** benefit of using each of the following methods of depreciation.

- (i) Straight-line

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..... [1]

- (ii) Reducing balance

.....

..... [1]

Additional information

Khin is concerned about a decline in the business's profitability. He is considering two options.

Option 1: decrease the amount spent on advertising whilst also reducing the selling price by a small amount.

Option 2: purchase goods from cheaper suppliers.

REQUIRED

(f) Advise Khin which option he should choose. Justify your advice by discussing **both** options.

[7]