

- 1 Ross, a sole trader, owns a business selling computer equipment. He prepared the following income statement for the year ended 31 March 2017, which contained errors.

Ross
Income Statement for the year ended 31 March 2017

| | \$ | \$ |
|---|-----------------|---------------|
| Revenue | | 96 520 |
| Add: Returns outwards | | <u>440</u> |
| | | 96 960 |
| Cost of sales | | |
| Inventory at 31 March 2017 | 23 400 | |
| Purchases | 38 950 | |
| Carriage outwards | <u>1 090</u> | |
| | 63 440 | |
| Inventory at 1 April 2016 | <u>(21 640)</u> | <u>41 800</u> |
| Gross profit | | 55 160 |
| Less expenses: | | |
| Property rental paid | 16 240 | |
| Returns inwards | 1 240 | |
| Drawings | 8 600 | |
| Heating and lighting | 1 940 | |
| Travel expenses | 2 060 | |
| General expenses | 6 690 | |
| Shop fittings – accumulated depreciation at 31 March 2017 | <u>3 320</u> | |
| | | <u>40 090</u> |
| Profit for the year | | <u>15 070</u> |

Additional information

The following notes also need to be taken into account when correcting the income statement.

- 1 Revenue includes goods sent on a sale or return basis to a customer who has not yet accepted the goods. The goods cost \$2500 and had been invoiced for \$4000.
- 2 Depreciation on shop fittings for the year ended 31 March 2017, \$1490, had been entered in the books of account.
- 3 A prepayment of \$1160 for property rental paid at 31 March 2017 had been incorrectly entered in the books of account as an accrual.
- 4 A customer owing Ross \$1250 has been declared bankrupt. This debt should have been written off in these accounts, but no entry has yet been made.

REQUIRED

- (a)** Prepare the **corrected** income statement for the year ended 31 March 2017.

Ross
Income Statement for the year ended 31 March 2017

This image shows a full page of a document template. It consists of a series of horizontal dashed lines spaced evenly down the page, providing a guide for handwriting or typing. The lines are light gray and extend across the entire width of the page. There is no text or other content on the page.

Additional information

Ross provided the following information about his assets and liabilities at 31 March 2017:

| | |
|---------------------------------------|--------|
| | \$ |
| Accruals | 1 960 |
| Bank loan | 8 580 |
| Bank overdraft | 2 610 |
| Capital at 1 April 2016 | 10 950 |
| Shop fittings – cost at 31 March 2017 | 11 930 |
| Prepayments | 2 080 |
| Trade payables | 6 440 |
| Trade receivables | 12 870 |

No adjustment had been made to any of these balances in respect of errors discovered in the income statement or notes 1 to 4 on page 2.

Ross introduced capital of \$3000 into the business bank account on 31 March 2017. No entries for this have yet been made in the books of account.

One half of the bank loan is repayable in the year ending 31 March 2018. The remainder is due for repayment after that date.

REQUIRED

- (b)** Prepare the statement of financial position at 31 March 2017 taking account of all relevant information and information from part **(a)**.

Ross
Statement of Financial Position at 31 March 2017

This image shows a full page of white paper with horizontal dashed lines, typical of primary school writing paper. The lines are evenly spaced and run across the entire width of the page. There are no margins, text, or other markings present.

[13]

Additional information

At present Ross does not make any provision for doubtful debts.

REQUIRED

- (c)** Advise Ross whether or not he should create a provision for doubtful debts. Justify your answer.

[4]