

1 Mima is the owner of a wholesale business, Mima Supplies.

During the year ended 31 December 2022 the business owned the following delivery vehicles.

	Date of purchase	Cost \$
Vehicle A	1 January 2019	28 000
Vehicle B	1 January 2020	30 000
Vehicle C	1 July 2022	32 000

Delivery vehicles are depreciated at 25% per annum using the straight-line method on a month-by-month basis. No depreciation is provided in the year of sale.

Vehicle A was sold for \$5200 on 30 June 2022.

REQUIRED

(a) Calculate the profit or loss on the disposal of Vehicle A.

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(b) Calculate the total depreciation charge on delivery vehicles for the year ended 31 December 2022.

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Additional information

Mima has also supplied the following information for the year ended 31 December 2022.

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Advertising	6 580
Allowance for irrecoverable debts at 1 January 2022	1 390
Cost of sales	483 900
Furniture and equipment at 1 January 2022	
Cost	36 800
Provision for depreciation	18 200
Insurance	7 380
Interest receivable	1 200
Rent of warehouse	33 480
Returns inwards	4 420
Revenue	726 310
Vehicle running costs	8 580
Wages	63 480

- 2 Advertising includes the cost of a six-month campaign, \$4200, which began on 1 September 2022.
- 3 The value of inventory at 31 December 2022 was understated by \$4940 when calculating the cost of sales of \$483 900.
- 4 Six months' interest at 10% per annum was received on a bank deposit of \$24 000. The deposit was made on 1 March 2022. The next receipt of interest took place on 28 February 2023.
- 5 The allowance for irrecoverable debts is to be maintained at 5% of trade receivables. At 31 December 2022, trade receivables totalled \$31 300.
- 6 Depreciation is to be provided on furniture and equipment at 15% per annum using the reducing balance method of depreciation.
- 7 Wages, \$1620, were accrued at 31 December 2022.

REQUIRED

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

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

[illegible]

Workings:

[13]

- (d) Explain the importance of making an allowance for irrecoverable debts in a business's financial statements.

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Additional information

Mima would like to assess her business's liquidity position at 31 December 2022.

REQUIRED

- (e) Identify **two** ratios which could be used to assess a business's liquidity position.

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2 [2]

Additional information

Mima has noticed that her business's rate of inventory turnover has decreased since last year. She is considering two options to increase the rate of inventory turnover.

Option A: reduce inventory levels.

Option B: reduce selling prices by 2% and increase the annual advertising budget by 5%.

REQUIRED

- (f) Advise Mima which option she should choose. Justify your choice by considering **both** options.

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