

- 1 Francesco is a sole trader who runs a small bicycle distribution business. He does not keep full accounting records.

REQUIRED

- (a) State **two** benefits to a sole trader of keeping full accounting records.

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- (b) Explain the accounting treatment at the year-end in the income statement and statement of financial position of:

Prepayments

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Accruals

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Additional information

Francesco provided the following information for the year ended 30 April 2017.

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Opening inventory	16 250
Total sales	82 500
Total purchases	62 750

Mark-up is 25%.

The normal rate of inventory turnover is 5 times. However, it was discovered at the year-end that some inventory had been stolen. No insurance claim has yet been made for this loss.

REQUIRED

- (c) Prepare an extract from the income statement to show gross profit for the year ended 30 April 2017. Show clearly the value of inventory stolen.

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Workings:

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Additional information

The following information has also been provided.

- | 1 | at 1 May
2016
\$ | at 30 April
2017
\$ |
|-------------------|------------------------|---------------------------|
| Trade receivables | 6 875 | 8 250 |
| Trade payables | 5 200 | 6 350 |
| Expenses prepaid | 625 | 775 |
| Expenses owing | 350 | 425 |
- 2 Expenses paid from the bank account amounted to \$9925.
- 3 Rental income received by credit transfer amounted to \$15 700.
- 4 Balance per bank statement at 30 April 2017 of \$4150 was overdrawn.
- 5 Unpresented cheques amounted to \$850.
- 6 Uncredited bankings amounted to \$1975.
- 7 There were no cash transactions. All sales and purchases were on a credit basis.

REQUIRED

- (d) Prepare the bank account for the year ended 30 April 2017. Clearly show the **opening** balance.

Bank account

	\$		\$

Workings:

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- (e) Calculate the charge for total expenses which appeared in the income statement for the year ended 30 April 2017.

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Additional information

Francesco's brother, Marco, runs a similar business. He has calculated the following ratios for his own business:

	30 April 2016	30 April 2017
Current ratio	2.6 : 1	1.2 : 1
Liquid (acid test) ratio	1.4 : 1	0.8 : 1

REQUIRED

- (f) Discuss the liquidity position of Marco's business using only the current and liquid (acid test) ratios.

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- (g) Advise a potential new supplier whether or not to sell goods to Marco on a credit basis. Justify your answer.

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