



## Additional information

The following trial balance has been extracted from the books of account at 31 March 2016:

	Debit \$	Credit \$
6% Bank loan (repayable 2019)		12 000
Advertising expenses	3 480	
Bank account		4 260
Capital account		145 190
Carriage outwards	810	
Discount allowed	1 250	
Drawings	32 700	
Fixtures and fittings – cost	68 100	
Fixtures and fittings – provision for depreciation		26 500
Insurance	1 090	
Interest paid	950	
Inventory at 1 April 2015	56 800	
Motor expenses	6 460	
Motor vehicles – cost	49 600	
Motor vehicles – provision for depreciation		18 800
Property rental	11 050	
Provision for doubtful debts at 1 April 2015		580
Purchases	239 470	
Returns outwards		410
Revenue		294 200
Other operating expenses	4 690	
Trade payables		21 660
Trade receivables	34 920	
Wages	<u>12 230</u>	
	<u>523 600</u>	<u>523 600</u>

The following information is also available:

- 1 Interest on the bank loan had been paid up to 31 December 2015.
- 2 Huan's depreciation policy is as follows:

Motor vehicles are to be depreciated at 25% per annum using the straight-line method. Depreciation is to be charged on a month-by-month basis.

Fixtures and fittings are to be depreciated at 15% per annum using the reducing balance method.
- 3 Huan sold a motor vehicle for \$11 000 on 31 March 2016. The vehicle had cost \$18 720 on 1 July 2014. No entries for this sale had been made in the books of account.
- 4 Property rental included a payment of \$5850 covering the period 1 December 2015 to 31 August 2016.
- 5 Advertising expenses included a charge of \$200 relating to advertising planned for September 2016.
- 6 A customer who had owed Huan \$420 at the year end had been declared bankrupt.
- 7 Huan wishes to maintain a provision for doubtful debts of 2% of trade receivables.

## REQUIRED

- (b)** Prepare an income statement for Huan for the year ended 31 March 2016.

Huan

Income statement for the year ended 31 March 2016

[illegible]

[13]

### Additional information

All of Huan's sales and purchases are made on a credit basis. He feels that his accounting records could be improved by preparation of control accounts.

## REQUIRED

(c) State **three** benefits and **one** limitation of preparing a sales ledger control account.

## Benefits

1

2

3

### Limitation

1 .....

(d) Calculate the following ratios at 31 March 2016:

(i) operating expenses to revenue (to **two** decimal places) .....

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(ii) inventory turnover (days) .....

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..... [4]

### Additional information

Huan's sister Carla operates a bakery business. Both operating expenses to revenue ratio and inventory turnover (days) ratio are lower for Carla's business.

### REQUIRED

(e) Suggest **one** possible reason for the difference in **each** ratio:

(i) operating expenses to revenue .....

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(ii) inventory turnover (days) .....

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..... [4]