

1 Anwar retails computer accessories direct from his shop premises.

The following balances were in his books of account on 30 September 2025.

	£
5% bank loan	10 000
Advertising expenses	3 100
Allowance for irrecoverable debts	200
Bank loan interest paid	350
Bank overdraft	7 250
Capital	60 000
Cash	950
Disposal account	400 Dr
Drawings	12 000
Electricity and water	1 900
Inventory – 1 October 2024	13 400
Manager's salary	11 800
Non-current assets (at cost)	
Premises	80 000
Computers and equipment	50 000
Fixtures and fittings	14 000
Premises running expenses	9 500
Non-current assets (provisions for depreciation)	
Premises	18 000
Computers and equipment	38 000
Fixtures and fittings	10 000
Purchase returns	1 750
Purchases	73 000
Revenue	140 000
Shop assistants' wages	11 900
Sundry expenses	4 200
Telephone and broadband	1 300
Trade payables	9 400
Trade receivables	6 800

Additional information at 30 September 2025

- (1) Inventory, £12 150
- (2) Advertising expenses include £1 800 for a campaign running from 1 June 2025 to 30 November 2025.
- (3) Shop assistants' wages, £700, are accrued.

- (4) The 5% bank loan was taken out on 1 October 2024. One quarter is repayable on 1 October of each year for the next four years from 1 October 2025.
- (5) A legal claim from a customer who was injured in the shop has been made. A provision for the sum of £2 500 is to be created to cover the possible cost of the claim.
- (6) Depreciation is charged on all non-current assets owned at the end of the year as follows.
 - Premises at the rate of 2% per annum on cost
 - Computers and equipment at the rate of 25% per annum using the reducing balance method
 - Fixtures and fittings at the rate of 15% per annum using the straight-line method.
- (7) A debt for £300 is considered irrecoverable. The allowance for irrecoverable debts is to be maintained on all remaining debts at a rate of 4% of trade receivables.

Required

- (a) Prepare the:
 - (i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2025 (18)
 - (ii) Statement of Financial Position at 30 September 2025. (17)

Anwar believes that there is a great deal of shoplifting (theft) from his shop. He is considering installing a security system that requires a security tag to be placed on each item and an alarm system that sounds if items are removed from the shop without payment.

Anwar estimates that goods costing £8 500 are lost each year through shoplifting (theft).

The costs of the security system are as follows.

- (1) Purchase of security equipment for £12 000. The security equipment will have a life of six years, at the end of which it will have no residual value. Anwar will depreciate the security equipment using the straight-line method.
- (2) Installation of the security equipment will cost £3 000
- (3) A five-year contract for annual maintenance will cost £2 000 per annum.
- (4) Placing security tags on all items for sale will take 10 hours per month of **each** of the two shop assistants' time. The shop assistants are paid at the rate of £5 per hour.

Required

(b) Calculate the annual:

(i) cost of operating the proposed security system

(5)

(ii) saving or deficit of operating the proposed security system.

(3)

Anwar is reviewing the future of the business. He is considering closing the shop and making all sales online, cash with order.

(c) Evaluate the possible change of the business to sales online, cash with order.

(12)

(Total for Question 1 = 55 marks)

- 4 Rahman buys and sells goods on credit. His summarised Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2019 is shown below:

Rahman		
Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2019		
	£	£
Revenue		240 000
Inventory 1 October 2018	15 000	
Purchases	<u>160 000</u>	
	175 000	
Inventory 30 September 2019	<u>(35 000)</u>	
Cost of sales		<u>(140 000)</u>
Gross profit		100 000
Wages	70 000	
Depreciation	10 000	
Bank loan interest	1 000	
General expenses	<u>17 000</u>	
		<u>(98 000)</u>
Profit for the year		<u><u>2 000</u></u>

Additional information

- (1) Purchases are all on credit.
- (2) The owner has a fixed capital of £40 000
- (3) Rahman has a five year bank loan of £10 000, taken out on 1 October 2018. The bank loan is repayable in five annual instalments paid on 30 September.
- (4) Trade payables were £15 000 on 30 September 2019.
- (5) Assume 365 days in the year.

Required

- (a) Explain the difference between **profit** and **profitability**.

(4)

- (b) Calculate, for the year ended 30 September 2019, the:

- gross profit as a percentage of revenue
- net profit for the year as a percentage of revenue
- return on capital employed
- trade payables payment period.

(8)

Rahman is considering changing his business strategy and selling more expensive goods in the following year ending 30 September 2020. He has prepared the following projections.

- (1) The mark-up will be 50%.
- (2) Revenue will be £360 000
- (3) Purchases are all on credit.
- (4) Inventory at 30 September 2020 will be £50 000
- (5) Wage costs will rise by 10%.
- (6) Depreciation and general expenses will remain unchanged.
- (7) An additional five year bank loan of £10 000 will be required. This will be taken out on 1 October 2019 and will be repayable in five equal instalments on 30 September each year.
- (8) The total bank loan interest for the year will be £2 000

Required

- (c) Prepare the Projected Statement of Profit or Loss and Other Comprehensive Income for the year ending 30 September 2020. (6)
- (d) Calculate, for the year ending 30 September 2020, the projected:
 - net profit for the year as a percentage of revenue
 - return on capital employed. (4)
- (e) Calculate the value of the trade payables at 30 September 2020 if Rahman is to achieve a trade payables payment period of 30 days. (2)
- (f) Evaluate the use of considering **only financial factors** when judging the success of a business. (6)

(Total for Question 4 = 30 marks)