# AHMAD IBRAHIM SECONDARY SCHOOL
# GCE O-LEVEL PRELIMINARY EXAMINATION 2024

## SECONDARY 4 EXPRESS & 5 NORMAL (ACADEMIC)

| Name: | Class: | Register No.: |
|---|---|---|
| | | |

**PRINCIPLES OF ACCOUNTS** **7087 / 01**
Paper 1 **2024**
**1 hour**

Candidates answer on the Question Paper.

No Additional Materials are required.

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**READ THESE INSTRUCTIONS FIRST**

Write your name, index number and class in the spaces at the top of this page.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams or graphs.
Do not use staples, paper clips, highlighters, glue or correction fluid.

| Question | Marks |
|---|---|
| 1 | |
| 2<br>3 | |
| Total | 40 |

Answer **all** questions.

The number of marks is given in brackets [ ] at the end of each question or part question.



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This paper consists of **8** printed pages.
Answer **all** questions.

1 Ryan provided the following cash at bank account for May 2024.

Cash at bank

| Date | Particulars | Cheque | Debit | Credit | Balance |
|---|---|---|---|---|---|
| 2024 | | | $ | $ | $ |
| May 1 | Balance b/d | | | | 340 Cr |
| 2 | Insurance | | | 230 | 570 Cr |
| 5 | Sales revenue | | 300 | | 270 Cr |
| 7 | Trade receivable, John | | 700 | | 430 Dr |
| 9 | Trade payable, Arron | 001002 | | 760 | 330 Cr |
| 10 | Transport expense | 001003 | | 460 | 790 Cr |
| 11 | Inventory | | 810 | | 20 Dr |
| 15 | Fixtures and fittings | 001004 | | 500 | 480 Cr |
| 16 | Trade receivable, Yen Xi | | 1 900 | | 1420 Dr |
| 28 | Trade payable, Nelson | | | 1 180 | 240 Dr |
| Jun 1 | Balance b/d | | | | 240 Dr |

The following bank statement was received on 3 June 2024.

Bank Statement

| Date | Particulars | Withdrawal | Deposit | Balance |
|---|---|---|---|---|
| 2024 | | $ | $ | $ |
| May 1 | Balance b/d | | | 700 Dr |
| 1 | Cash | | 360 | 340 Dr |
| 3 | Standing order - insurance | 230 | | 570 Dr |
| 7 | Credit transfer - Sam | | 300 | 270 Dr |
| 9 | Cheque no. 701009 | | 700 | 430 Cr |
| 10 | Standing order – rent | 120 | | 310 Cr |
| 12 | Cheque no: 412310 | | 810 | 1120 Cr |
| 13 | Cheque no: 001002 | 670 | | 450 Cr |
| 16 | Cheque no: 001004 | 500 | | 50 Dr |
| 20 | Cheque no. 701009 | 700 | | 750 Dr |
| 21 | Cheque deposit - Asthon | | 740 | 10 Dr |
| 31 | Bank charges | 72 | | 82 Dr |

Additional information
The accountant of the business discovered that the entry on 9 May 2024 was wrong.



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**REQUIRED**

(a) Prepare the adjusted cash at bank account for May 2024. Bring down the balance to the next month.

[6]

(b) Prepare the bank reconciliation statement as at 31 May 2024.



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_____ [4]

(c) State and explain one internal control over cash, other than bank reconciliation.

_____

_____

_____

_____ [2]

**[Total: 12]**

2 Joel is a perfume retailer and uses the First-In-First-Out (FIFO) method of inventory valuation. On 31 May 2024, the inventory of $3 000 is the total cost for 20 bottles of perfume. All transactions were carried with the following terms:

1. All sales were made on cash terms.
2. Due to annual promotion, a trade discount of 10% was given to customers for all sales made in the month of June.
3. Business found a new supplier, Pari-Defuse, and made purchases for the month of June from Pari-Defuse on credit.
4. Pari-Defuse offers business a cash discount of 5% for payment made within 5 days of credit purchases.

The following transactions took place for the month ended 30 June 2024.

| | Purchases | |
|---|---|---|
| Date | Quantity | $ |
| 2024 | | |
| Jun 3 | 20 | 3 300 |
| 6 | 20 | 3 100 |
| 10 | 20 | 3 900 |
| 14 | 20 | 3 400 |

| | Sales | |
|---|---|---|
| Date | Quantity | $ (list price) |
| 2024 | | |
| Jun 7 | 20 | 5 500 |
| 15 | 40 | 9 700 |

Date of payment made to Pari-Defuse
for amount owing to date



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June 9

June 13

**REQUIRED**

(a) Calculate the cost of sales for the month of June 2024.

[1]

(b) Calculate the gross profit for the month of June 2024.

[2]

(c) Calculate the ending inventory at 30 June 2024.

[1]

(d) State the double entries for the transaction on 15 June 2024.

[4]

(e) State the amount paid to Pasi-Defuse on 9 June 2024.

[2]

(f) State amount owed to Pasi-Defuse at the end of June 2024.

[1]

(g) Explain how inventory is valued, with the support of an accounting theory.

[2]



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Joel has provided the information about his business rate of inventory for the two years ended 30 June 2023 and 2024.

| 30 June 2023 | 30 June 2024 |
|---|---|
| 23.52 times | 19.81 times |

**REQUIRED**

(h) Calculate the days sales in inventory for the two years ended 30 June 2023 and 2024.

| | 30 June 2023 | 30 June 2024 |
|---|---|---|
| Days sales in inventory | | |

[2]

(i) Comment on the efficiency in inventory management of the business over the two years ended 30 June 2023 and 30 June 2024.

[3]

(j) Give two examples on how Joel could improve the business's efficiency in managing inventory.



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[2]

**[Total: 20]**

3 Glenn runs a trading business that sells bedsheet. The following ledger balances were provided for the financial year ended 30 June 2024

| | $ |
|---|---|
| Trade receivables | 700 |
| Office equipment | 5 400 |
| Trade payables | 1 500 |
| Cash in hand | 120 |
| Rent income receivable | 300 |
| Insurance expense payable | 890 |
| Bank overdraft | 450 |
| Capital (1 July 2023) | 700 |
| Profit for the year | 4 600 |
| Drawings | ?? |

**REQUIRED**

(a) Calculate the amount for drawings, show your workings clearly.

[4]

(b) State the double entry for the transfer of profit for the year ended on 30 June 2024.



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[2]

(c) State two types of non-accounting information a business will consider before deciding whether to grant credit to a customer.

[2]

**[Total: 8]**

**END OF PAPER**



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# AHMAD IBRAHIM SECONDARY SCHOOL
# GCE O-LEVEL PRELIMINARY EXAMINATION 2024

## SECONDARY 4 EXPRESS & 5 NORMAL (ACADEMIC)

| Name: | Class: Register No.: |
|---|---|
| | |

**PRINCIPLES OF ACCOUNTS** **7087 / 02**
Paper 2 **2024**
**2 hours**

Additional Materials: Writing paper

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**READ THESE INSTRUCTIONS FIRST**

Write your name, class and index number on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.
The use of an approved calculator is allowed.

Answer **all** questions.

The business described in this question paper are fictitious.
Start each question on a separate page.
All calculations must be shown adjacent to the answer.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

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This paper consists of **6** printed pages.

**[Turn over**



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Ahmad Ibrahim 2024 Paper 2
Answer **all** questions.

1 The following balances were extracted from the books of Cape Star Limited on 30 June 2024.

| | $ |
|---|---|
| Share capital, 50 000 ordinary shares | 170 000 |
| Accumulated loss, 1 July 2023 | 6 050 |
| Sales revenue | 280 100 |
| Cost of sales | 105 900 |
| Sales returns | 5 000 |
| Inventory | 67 300 |
| Cash at bank | 35 900 |
| Trade payables | 8 600 |
| Trade receivables | 19 900 |
| Allowance for impairment of trade receivables | 1 600 |
| Motor vehicles | 242 500 |
| Equipment | 60 000 |
| Fixtures and fittings | 22 500 |
| Accumulated depreciation: | |
| Motor vehicles | 82 100 |
| Equipment | 21 000 |
| Fixtures and fittings | 6 600 |
| Commission income | 4 000 |
| Interest on bank deposit | 50 |
| Insurance expense | 9 000 |

Additional information

1 Business paid $405 by cheque to a credit supplier, after receiving a 10% cash discount. This transaction was overlooked.

2 10 000 shares at $0.70 each were issued and paid on 1 May 2024 by cheque. This transaction was not yet recorded.

3 Commission income earned for the financial year was $3 200.

4 Annual insurance of $9 000 was paid on 1 March each year.

5 A credit customer returned goods that cost $300 to the business. However, business had wrongly recorded the amount as $390.

6 During the year, a cheque of $30 000 was received from the sales of all the equipment. No entry was made in the books. No depreciation was charged in the year of sale.

7 Business will depreciate motor vehicles at 25% per annum using the reducing-balance method and fixtures and fittings at 20% per annum using the straight-line method.



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8 One of the trade receivables, Rosine, was declared bankrupt. The debt of $2 960 has yet to be written off. A review of the trade receivables on 30 June 2024 showed that 5% of the balance may not be collectible.

9 A dividend of $0.15 per share was declared on 28 June 2024, payable on 12 July 2024.

**REQUIRED**

(a) Prepare the statement of financial performance for the year ended 30 June 2024. [10]

(b) Prepare the statement of financial position as at 30 June 2024. [10]

**[Total: 20]**

2 Elton runs a retail business. He has provided the following information on 30 April 2023 and 2024.

| | 30 April 2023 | 30 April 2024 |
|---|---|---|
| | $ | $ |
| Inventory | 4 270 | 9 710 |
| Trade receivables | 11 300 | 18 030 |
| Allowance for impairment loss of trade receivables | 2 780 | 3 230 |
| Cash at bank | 8 820 | - |
| Prepaid expenses | 860 | 260 |
| Income receivable in advance | - | 1 090 |
| Trade payables | 10 380 | 9 530 |
| Expenses payable | 560 | 90 |
| Bank overdraft | - | 5 970 |
| Long term borrowing | - | 20 000 |

| | | |
|---|---|---|
| Current ratio | 2.05 | ? |
| Quick ratio | 1.59 | ? |

**REQUIRED**

(a) Explain why liquidity is important to a business. [2]

(b) Calculate to two decimal places the following ratios for the year ended 30 April 2024:
(i) Current ratio [1]
(ii) Quick ratio [1]

(c) Evaluate the change in the liquidity of the business over the two years ended 30 April 2023 and 2024, supporting your answer with appropriate ratios. [4]

Elton was considering the following proposals to improve the liquidity of the business for the year ended 30 April 2024.



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Proposal 1: Pay trade payables of $9 530 using personal funds form Elton.

Proposal 2: Sell inventory worth $5 000 on credit for $7000.

**REQUIRED**

(d) Copy the table and state the effects of current assets and current liabilities from each of the proposal by filling in the table below.

| | Effect on current assets | Effect on current liabilities |
|---|---|---|
| Proposal 1 | | |
| Proposal 2 | | |

[4]

**[Total: 12]**

3 The Fives Ltd runs an ice-cream shop.

On 1 March 2022, the business obtained a 5-year bank loan of $90 000 to purchase a motor vehicle at 10% interest per annum. The partial principal sum of the loan and interest are paid every six months on 31 August and 28 February.

The financial year end of the business is 31 December.

**REQUIRED**

(a) Prepare the bank loan account for the year ended 31 December 2023. [3]

(b) Prepare journal entries to record interest expense for the year ended 31 December 2022, including the closing entry. Narrations are not required. [5]

(c) Calculate the interest expense incurred for the year ended 31 December 2023. [3]

(d) State and explain the accounting theory involved in adjusting expenses incurred at the end of each financial period. [2]

**[Total: 13]**

4 Helen operates a bakery called Helen Bakery.

On 1 October 2023, her business acquired a motor vehicle valued at $80 000 on credit from Motor Ltd. On 1 May 2024, this vehicle was sold on credit to her cousin, Pete, for $60 000.

Business provides depreciation at a rate of 10% per annum on net book value. No depreciation is charged in the year of sale.

Pete paid the business by cheque on 8 May 2024, receiving a cash discount of 5%.



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**REQUIRED**

(a) Explain the valuation method of non-current asset. [1]

(b) State the double entries to record the sale of the motor vehicle including the closing entry. Narrations are not required. [3]

(c) Comment on and explain the suitability of the depreciation method used for the motor vehicle by the business. [1]

(d) State the double entry for the transaction on 8 May 2024. [3]

Helen has seen an increase in her outdoor sales over the years. She is considering adding another motor vehicle to help manage the delivery of goods to her customers. However, she is uncertain about whether to purchase or lease the vehicle.

Below are some factors to consider when making her decision.

| | Buy motor vehicle | Rent motor vehicle |
|---|---|---|
| Initial cost | • Cost = $100 000<br>• Cash down payment:10% | Deposit: $3 000. This amount will be returned at the end of the contract. |
| Other costs | • Business took 5% $90 000 loan for 10 years.<br>• Annual servicing: $2 000<br>• Annual insurance: $1 500 | Monthly rental for $2 500 for 10 years. |
| Condition | New | Has been rented out for the previous year. |
| Other information | • Source and pay for own. servicing and maintenance.<br>• Source for own insurance.<br>• Call insurer in event of accidents.<br>• Possible for modification and printing company name on | • Servicing and maintenance will be arranged by the rental company.<br>• Insurance is included and rental company will handle claims.<br>• Call the rental company's hotline to take care of the motor vehicle in times of accidents. |



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| | | |
|---|---|---|
| | motor vehicle. | • No modification is allowed. |
| Contact flexibility | • Ownership of motor vehicles.<br>• Vehicle can be sold at any time but may incur losses due to depreciation. | • Contract a renew after 3 years. Minimum rental period of 3 years and $4 000 deposit will be forfeited if motor vehicles is returned in less than 3 years. |

**REQUIRED**

(e) If you are Helen, would you choose to buy or rent a motor vehicle? Justify your decision with **three** reasons. [7]

**[Total: 15]**

**End of Paper**



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**POA 7087/01/2024/Answer**

Q1a

Cash at bank

| Date | Partcular | Dr ($) | Cr ($) | Bal ($) | | |
|---|---|---|---|---|---|---|
| 2024 | | | | | | |
| May-31 | Bal b/d | | | 240 | Dr | [1] |
| | Rent | | 120 | 120 | Cr | [1] |
| | trsde receivable, John (dishonoured cheque) | | 700 | 580 | Cr | [1] |
| | bank charges | | 72 | 652 | Cr | [1] |
| | trade receivable, Asthon | 740 | | 88 | Dr | [1] |
| | trade payable, Arron (error) | 90 | | 178 | Dr | [1] |
| | | | | | | |
| Jun-01 | Bal b/d | | | 178 | Dr | |

Q1b Bank reconcilation statement as at 31 May 2024

| | | | |
|---|---|---|---|
| Bal as per bank statement | | -82 | [1] |
| Add deposit in transit | | | |
| Trade receivable, Yen Xi | | 1900 | [1] |
| | | 1818 | |
| less cheque not yet presented | | | |
| Transport expense | 460 | | [1] |
| trade payable, Nelson | 1180 | 1640 | [1] |
| Bal as per cash at bank | | 178 | |

Q1c

| | |
|---|---|
| **Segregation of duties** | Separate cash handling and cash recording duties among different employees so that no single person has control over the entrie cash process. |
| **Custody of cash** | Secure cash and cheques in a locked storage. |
| **Authorisation** | Obtain proper approvals for all payments from authorised personnel by having at least two persons to review and approve all payments. |
| **Bank reconciliation** | Compare the business' records with the bank's records to identify items that caused the difference between the ending balances in the cash at bank account and the bank statement. |

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| | | | | |
|---|---|---|---|---|
| Q2a | Cost of sales = $3000 + $6400 = | | $9,400 | [1] |
| Q2b | Gross profit = $5500 (0.9)+ $9700(0.9) - $9400 | | | |
| | = $13680 [1] - $9400 | | | |
| | = $4280 [1] | | | |
| Q2c | Endng Inventory = | $7,300 | | [1] |
| Q2d | Dr | Cash at bank | 8730 | [1] - DE |
| | Cr | Sales revenue | 8730 | [1] - amt |
| | Dr | Cost of sales | 6400 | [1] - DE |
| | Cr | inventory | 6400 | [1] - amt |
| Q2e | $3300 + 95%($3100) = | | 6245 | [2] |
| Q2f | $3 400 | | | [1] |
| Q2g | Inventory is valued at the lower of cost or net realisable value [1] in line with the Prudence theory [1] states that the accounting treatment chosen should be the one that least overstates assets and profits and least understates liabilities and losses. | | | |
| Q2h | 30/6/2023 = | 15.52 days | | [1] |
| | 30/6/2024 = | 18.43 days | | [1] |
| Q2i | The rate of inventory turnover has worsened from 23.52 times in 2023 to 19.81 times in 2024[1]. This means that the business is managing inventory less efficiently over the two years[1]. This can also be seen from the worsening days-sales-in-inventory. It has increased from 15.52 days in 2023 to 18.43 days in 2024. | | | |
| Q2j | - Decrease selling price for slow moving inventory<br>- Offer trade discounts to encourage customers to buy in bulk<br>- Improve marketing strategies in boast the sales<br>- Use of technolgoy to help business to predict demand of inventory to prevent over and under-stock of goods. | | | |

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| | | | |
|---|---|---|---|
| Q3a | | | |
| | Total asset = 700+5 400 + 120+300 = | 6520 | [1] |
| | Total liabilties = 1500+890+450 = | 2840 | [1] |
| | Equity = 6520 -2840 | 3680 | [1] |
| | Equity = 700 + 4600 - Drawings = 3680 | | |
| | Drawings = 700 + 4600 - 3680 = | 1620 | [1] |
| | | | |
| 3b | Dr Income summary 4600 | | [1] |
| | Cr Capital 4600 | | [1] |
| | | | |
| 3c | · specific industry outlook of the customer is in. | | |
| | · economic outlook | | |
| | · reputation of customers | | |
| | · new customers' history of repayment | | |
| | | | |
| | any two [2] | | |

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**POA 7087/02/2024/Answers**

**Question 1**

Cape Star

Statement of financial performance for the year ended

| | | | |
|---|---|---|---|
| Sales revenue | | 280100 | |
| less sales returns | | 5000 | |
| Net sales revenue | | 275100 | |
| less cost of sales (+90) | | 105990 | [1] |
| Gross profit | | 169110 | |
| | | | |
| add other income | | | |
| commission income | 3200 | | [1] |
| interest on bank deposit | 50 | | [1] |
| discount received | 45 | 3295 | [1] |
| | | | |
| Less expenses | | | |
| Insurance expenses | 3000 | | [1] |
| Depreciation of motor vehicles | 40100 | | [1] |
| Depreciation of fixtures and fittings | 4500 | | [1] |
| impairment loss on Trade receivables | 2207 | | [1] |
| loss on sales of non-curent asset | 9000 | 58807 | [1] |
| Profit for the year | | 113598 | |

Cape Star

Statement of financial position for the year ended

| Asset | $ | $ | $ | |
|---|---|---|---|---|
| Non-current asset | Cost | Acc dep | NBV | |
| Motor vehicles | 242500 | 122200 | 120300 | |
| Fixtures and fiiting | 22500 | 11100 | 11400 | |
| | | | 131700 | [1] |
| current asset | | | | |
| trade receivables (-2960) | 16940 | | | [1] |
| less allownce for imp of TR | 847 | 16093 | | |

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| | | | | | | |
|---|---|---|---|---|---|---|
| Inventory (-90) | | 67210 | | [1] | | |
| Cash at bank (-405+7000+30000) | | 72495 | | [3] | | |
| prepaid insurance | | 6000 | 161798 | | | |
| | | | 293498 | | | |
| Equity and liabilities | | | | | | |
| Shareholder's Equity | | | | | | |
| Share capital(60 000 Ordinary shares)(+7000) | | 177000 | | | | |
| Add retained earning ( - 6050-9000+113598) | | 98548 | 275548 | [2] (for -6090, -9000) | | |
| | | | | | | |
| Current liabilities | | | | | | |
| Trade payables (-450) | | 8150 | | [1] | | |
| commission income received in advance | | 800 | | [1] | | |
| dividend payable | | 9000 | 17950 | [1] | | |
| | | | 293498 | | | |

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2a. A business needs to be liquid so that it can pay its current liabilities and operating expenses **[1]** to ensure that the business can continue its operations smoothly.**[1]**

| | | | |
|---|---|---|---|
| 2b. | Current asset (2024) = | 24770 | |
| | Crrent liabilties (2024) = | 16,680 | |
| | quick asset (2024) = | 14800 | |
| | current ratio = | 1.49 | [1] |
| | quick ratio = | 0.89 | [1] |

2c Current ratio has worsened from 2.05 in 2023 to 1.49 in 2024.
Current ratio in 2024 is below the general benchmark of 2 indicating that the business has insufficient current assets to pay short-term debts in 2024. [1]

Quick ratio has worsened from 1.59 in 2023 to 0.89 in 2024.
Quick ratio in 2024 is below the general benchmark of 1 indicating that the business has insufficient quick assets to pay short-term debts. [1]

The worsening in current ratio in 2024 is due to the cash at bank $8820 in 2023 becoming an overdraft of $5 970 in 2024. [1]

One reason that has contributed to the worsening quick ratio is the increase in inventory from $4 270 in 2023 to $9 710 in 2024. [1]

In conclusion the liquidity of the business has worsen in 2024 compared to 2023.

2d

| | Effect on current asset | Effect on current liabilities | |
|---|---|---|---|
| Proposal 1 | no effect | decrease by $9530 | [2] |
| Proposal 2 | increased by $2000 | no effect | [2] |

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3a Bank loan

| Date | Partcular | Dr ($) | Cr ($) | Bal ($) | | |
|---|---|---|---|---|---|---|
| 2023 | | | | | | |
| Jan-01 | Bal b/d | | | 81000 | Cr | [1] |
| Feb-28 | Cash at bank | 9000 | | 72000 | Cr | [1] |
| Aug-31 | Cash at bank | 9000 | | 63000 | Cr | [1] |
| 2024 | | | | | | |
| Jan-01 | Bal b/d | | | 63000 | Cr | |

3b Journal

| Date | Particular | Dr ($) | Cr ($) | | |
|---|---|---|---|---|---|
| 2022 | | | | | |
| Aug-31 | interest expnese (10% x 90000 x 6/12) | 4500 | | [1] | |
| | cash at bank | | 4500 | [1] DE | |
| Dec-31 | interest expenses (10% x 81000 x 4/12) | 2700 | | [1] | |
| | interest expenses payable | | 2700 | [1] DE | |
| Dec-31 | income summary | 7200 | | [1] OF | |
| | interest expenses | | 7200 | | |

3c interest for year 2023

| | | | |
|---|---|---|---|
| 1 jan to 28 Feb = 10%(81000) x 2/12 | 1350 | | [1] |
| 1 Mar to 31 Aug = 10%(72000) x 6/12 | 3600 | | [1] |
| 1 Sep to 31 Dec = 10%(63000) x 4/12 | 2100 | | [1] |

3d Accourding to accrual basis of accounting [1], income earned and expenses incurred should be recognized and recorded regardless of whether money is received or paid.[1]

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| | | |
|---|---|---|
| 4a | non-current asset is valued at cost less accumulated depreciation. | [1] |
| | | |
| 4b | Dr Sales of non-current asset $8 0000 | [1] |
| | Cr motor vehicles $80 000 | |
| | | |
| | Dr Other receivable, Pete $60 000 | [1] |
| | Cr Sales of non-current asset $60 000 | |
| | | |
| | Dr Income summary $20 000 | [1] |
| | Cr Sales of non-current asset $20 000 | |
| | | |
| 4c | Yes, it is suitable to use reducing balance method to depreciation the motor vehicles because it is used more in its earlier years and less as the non-current asset get older as it becomes less efficient. | [1] |
| | | |
| 4d | Dr Cash at bank 57000 | [1] |
| | Dr Discount allowed 3000 | [1] |
| | Cr Other receivable, Pete 60000 | [1] |
| | | |
| | | |
| | | |
| 4b | | |
| Decision | **Buy** motor vehicles [1] | |
| | | |
| Evidence 1 | The annual spending on loan repayment, interest, servicing and insurance of $17 000 (= $90 000/10 + $4 500 + $3 500) is $13 000 lesser when buying a MV than renting one at $30 000 per year.<br>Or<br>Total cost for five years<br>Buying = $90 000 + $45 000(interest) + 10 x (3500) = $170 000<br>Renting = $2 500 x 12 months x 5 years = $300 000<br><br>$30000 - $170 000 = $130 000<br>The business will save $130 000 over ten years if it buys the van. | |

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| | |
|---|---|
| Support 1 | The cost savings can be used to pay for other operating expenses e.g. utilities and salaries. |
| | |
| Evidence 2 | Buying a delivery van will enable the business to use a brand new delivery van. |
| Support 2 | A new delivery van is less likely to break down or need major repair and is likely to come with warranty, enabling business to save on repair cost.<br><br>OR<br><br>As a new delivery van is less likely to break down, there would be minimal disruption to business operations due to the van's breakdown. |
| | |
| Evidence 3 | There is flexibility for the business to include its name on the van. |
| Support 3 | This serves as a form of advertisement and enables the business to promote its brand, potentially reducing advertisement expenses on other modes of advertisement. |
| | |
| Decision | **Rent** motor van [1] |
| Evidence 1 | There will be $8 000 less upfront payment/ deposit when renting a van as compared to buying it.<br><br>Upfront payment<br>Buying = $10 000<br>Renting = $3 000 |
| Support 1 | This will free up cash for the business to pay for its day-to-day expenses. Hence, renting puts less strain on the business' cash flow and it need not take up short-term loan. |
| | |
| Evidence 2 | It will be possible for business to switch to other newer models of van when renewing the contract. |
| Support 2 | This provides more flexibility for the business to choose a motor vehicle that suits its changing needs in generating income. |
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| Evidence 3 | The motor vehicle will be managed by the rental company in times of accident. | |
| Support 3 | This will spare the business from the need to spend time going through the administrative procedures when accidents happen and the business can focus on its operations. | |
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| Evidence 4 | Servicing and maintenance will be arranged by the rental company. | |
| Support 4 | Hence, the business need not be concerned about the upkeep of the van and can focus on its business operations. It can be assured that there will be no additional cash outflow on the repairs and maintenance of the van. | |

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