1 Frosty Slushies has a financial year end on 31 March 2024. The following ledger account has been prepared.

Sale of equipment				
Date	Particulars	Debit $	Credit $	Balance $
2024				
Mar 31	Equipment	20 000		20 000 Dr
	Accumulated depreciation of equipment		3 800	16 200 Dr
	Other receivable-Freezie		24 500	8 300 Cr
	Income summary	8 300		-

REQUIRED

(a) Interpret each of the following entries in the sale of equipment account.

(i) Equipment

……...

……..[1]

(ii) Accumulated depreciation of equipment

……..…….

……..[1]

(iii) Other receivable- Freezie

……..…….

……..[1]

(b) State the effect and amount of the sale of equipment on the following:

(i) Non-current assets

……..……[1]

(ii) Profit for the year

……..……[1]

(c) Define ‘depreciation’.

……..…….

……..……[1]

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(d) Name and explain an accounting theory why Frosty Slushies needs to provide for depreciation on its non-current assets.

Name……

Explanation…….

……..

……..[2]

(e) State **two** non-accounting information a business should consider when deciding to purchase a non-current asset.

……..…….

……..……[2]

[Total : 10]

[Turn over

2 Evermore Gym took up a $150 000 loan from Infinity Bank at an interest rate of 2% per annum on 1 May 2022 and the amount was deposited in the business' bank account. The loan is to be repaid equally over 5 years.

The loan and interest expense are repayable every year on 30 April 2023.The financial year of Evermore Gym ends on 31 December.

REQUIRED

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(a) Prepare the journal entry to record the borrowing on 1 May 2022. Narration is **not** required.

Journal

Date	Particulars	Debit $	Credit $

[2]

(b) Calculate the interest expense and the interest expense payable for the **two** years ended 31 December 2022 and 2023. Show all the workings clearly.

31 December	Interest expense	Interest expense payable
2022		
2023		

[4]

(c) State the effect on profit if interest expense was **not** adjusted on 31 December 2023.

……[1]

(d) Name **one** stakeholder other than banks and lenders, who would be interested in the financial performance of the business. Give a reason for your answer.

Stakeholder……

Reason…… [2]

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[Total: 9]

[Turn over

3 On 1 June 2023, Minion Private Limited provided the following information. The financial year for the business ends on every 31 May.

	$
Share capital, 150 000 ordinary shares	300 000
Retained earnings	54 000

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On 20 August 2023, the business issued 20 000 ordinary shares at $2 each.

The business declared a dividend of $0.10 per share to be paid on 15 June 2024 and made a profit of $25 300 for the year ended 31 May 2024.

REQUIRED

(a) Define the following terms:

(i) Share capital

…..……

……..……[1]

(ii) Retained earnings

…..……

……..……[1]

(b) Prepare the journal entry to record the transaction on 20 August 2023. A narration is **not** required.

Journal

Date	Particulars	Debit $	Credit $

[2]

(c) Prepare the retained earnings account for the year ended 31 May 2024.

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Retained earnings account

……...

……...

……...

……...

……...

……...

……..

……...[3]

(d) Complete the table by placing a tick (√) to show the effect on retained earnings for the following items. When there is no effect, tick (√) the "No effect" column.

		Increase $	Decrease $	No effect $
(i)	Dividends			
(ii)	Issuance of additional shares			
(iii)	Profit for the year			

[3]

[Total: 10]

[Turn over

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4 Linda runs a business selling healthy smoothies. She has provided the following information as at 31 December 2022 and 31 December 2023.

	2022	2023
	$	$
Inventory	12 500	9 200
Trade receivables	14 500	16 300
Cash at bank	5 000	-
Prepaid salaries	3 200	2 100
Long-term borrowing	5 000	4 000
Bank overdraft	-	2 000
Equipment (net book value)	35 000	10 000
Current portion of long-term borrowing		1 000
Trade payables	11 800	12 200
Current ratio	2.98	?
Quick ratio	1.65	?

REQUIRED

(a) Define 'liquidity'.

……

……..[1]

(b) Calculate the current ratio as at 31 December 2023. Show your answer to **two** decimal place.

…….....

……..... [1]

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(c) Calculate the quick ratio as at 31 December 2023. Show your answer to **two** decimal place.

……

……[1]

(d) Evaluate the change in the liquidity of Linda's business between 31 December 2022 and 31 December 2023. Use the information provided and your answer to part **(b)** and **(c)**.

……

……

……

……

……

……

……

……

……

……

……

……

……

……[5]

(e) Suggest **two** ways Linda could improve the liquidity of her business.

……

……

……

……[2]

[Turn over

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(f) Other than liquidity ratios, name **one** profitability ratio that Linda's business can use to evaluate its performance.

……..... [1]

[Total: 11]

END OF PAPER

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