Peirce Secondary School Principles of Accounts Secondary 4 (Express) Preliminary Examination Paper (2)

1a)

Mad Hatte	er Pte Ltd	
Statement of financial performance	e for the year ended 31 May	2022
Sales revenue Less: Sales returns	\$ 315,210 3.460	\$
Net sales revenue	,	311,750 <mark>ü</mark>
Less: Cost of sales		212,720
Gross profit		99,030 ü
Add: other income		
Rental income [7 200 - 3 000]		4,200 ü
Discount received		<u>420</u> ü
		103,650
Less: expenses		
Commission expense (2 180 - 1 650)	530	ü
Discount allowed	1,456	ü
General expense	350	
Salaries	2,430	
Repairs and maintenance	600	
Depreciation expense on fixtures and fittings (0.1 * 210 000)	21,000	ü
Depreciation expense on office equipment [0.15* (120 000 - 18 000)]	15,300	ü
Interest expense (0.01 * 40 000)	400	ü
		42,066
Profit for the year		<u>61,584</u> ü
	Each ü 1 n	nark Total: 10 marks

	\$	\$	\$	
Assets	Cost	Accumulated depreciation Net book value		
Non-current assets		·		
Fixtures and fittings	210.000	63.000	147.000	
Office equipment	120,000	33,300	86,700	
			233.700 ü	
Current assets				
Trade receivables (9 080 - 1 200)	7.880			
Less: Allowance for impairment of trade receivables (1 362 - 1 080)	282	7.598	ü	
Inventory		5 902		
Prepaid commission		1 650	ü	
		1,000	15 150	
Total assets			248.850	
Equity and liabilities				
Fauity				
Share capital 100 000 ordinary shares			100 000	
Retained earnings $(34\ 0.86\ +\ 61\ 5.84\ -\ 3\ 0.00)$			92 670 ü OF	
Non-current liabilities				
Long-term borrowing			30,000	
			00,000	
Current liabilities				
Trade payables		8 190		
Rental income received in advance		3 000	ü	
Interest expense navable		400	ü	
Current portion of long-term borrowing		10 000	ü	
Dividends payable (0.03*100.000)		3 000	ü	
Bank overdraft (1 710 - 120)		1 590	ü	
Total current liabilities		1,000	26 180	
Total equity and liabilities			248 850 ü	
			<u><u> </u></u>	

Students must balance the statement of financial position correctly to get 1 mark Each \ddot{u}

1 mark

Total: 10 marks

2ai)	Working capital for 31 March 2022 = (155 000 + 85 000) - (11 500 + 4 200 + 2 300) = \$222 000	ü ü	
	Each ü = 1 mark		Total: 2 marks
2aii)	Current ratio for 31 March 2022 = (155 000 + 85 000)/ (11 500 +4 200 + 2 300) = 13.33	ü ü	
	Each ü = 1 mark		Total: 2 marks
2aiii)	Quick ratio for 31 March 2022 = 85 000/ (11 500 + 4 200 + 2 300) = 4.72	ü ü	
	Each ü = 1 mark		Total: 2 marks
2b)	The working capital of the business increased from \$154 900 to \$199 000 as a result of an increase in both trade receivables and inventory which more than offsets the decrease in its cash at bank balance from 2020 to 2021. However, there was an increase	ü	
	in its working capital from \$199 000 in 2021 to \$222 000 in 2022 as a result of a larger increa	se	
	in its current assets over its current liabilities over this period.	ü	
	in addition, its current ratio has worsened from 22.51 in 2020 to 20.72 in 2021 and further to		
	13.33 in 2022. Even though the current ratio for all three years is above the general	ü	

ü

ü

Likewise, its guick ratio improved from 5.67 in 2020 to 6.84 in 2021 before worsening to 4.72 in 2022. The increase in its quick ratio from 2020 to 2021 is due to a significant increase in its ü trade receivables balance from \$35 000 to \$66 000 which more than offsets the increase in its current liabilities. The worsening of its quick ratio from 2021 to 2022 is the result of a larger increase in its current liabilities over its increase in its trade receivables balance from \$66 000 to \$85 000.

greater increase in its current liabilities over current assets.

benchmark of 2, the business has become less liquid over this period as a result of a

Each ü = 1 mark

Accept any other plausible answers

Total: 6 marks

Firstly, the business can improve its liquidity by issuing more shares to raise additional capital ü 2c) in the form of cash from existing owners or potential investors to pay its credit suppliers. ü In addition, the business can review its credit policy to ensure that its credit customers pay on time or does not default on payment. For instance, sell on credit only to customers who have ü a good credit history. ü The business can also manage its cash outflow by reducing significant operating expenses. ü For instance, it can move to a location with cheaper rental. ü Lastly, the business can negotiate for better credit terms from suppliers. For instance, it can ü ask suppliers for a longer credit period and higher cash discounts. ü

Each ü = 1 mark Accept any other plausible answers

Total: 8 marks

3a) According to the accounting entity concept, the owner and business are two different legal entities so all ü transactions must be recorded from the point of view of the business. ü

E	ach ü = 1 m	nark						Total: 2 marks
3b)			Drawings account					
	<u>Date</u>	Particulars	Dr	<u>Cr</u>	<u>Balance</u>			
	2020		\$	\$	\$			
	Jun 18	Inventory	58			58 Dr	ü	
	2021	-						
	Feb 20	Cash in hand	960			1018 Dr	ü	
	Apr 30	Capital		1,018		-	ü	
E	ach ü = 1 m	nark						Total: 3 marks
3c)			Capital account					
	<u>Date</u>	Particulars	Dr	<u>Cr</u>	<u>Balance</u>			
	2020		\$	\$	\$			
	May 1	Balance b/d				65,800 Cr		
	2021							
	Apr 30	Drawings	1,018			64,782 Cr	ü	
		Income summary		15,320		80,102 Cr	ü	
	May 1	Balance b/d				80,102 Cr		
	2022							
	Jan 24	Office equipment		1,670		81,772 Cr	ü	
	Apr 30	Income summary	4,310			77,462 Cr	ü	
	May 1	Balance b/d				77,462 Cr		

Each ü = 1 mark

Total: 4 marks

4a)	Final amount to be recorded = 0.9 * 2 000 = \$1 800	ü ü
	Each ü = 1 mark	Total: 2 marks
4b)	The purpose of giving trade discounts is to encourage customers to purchase in bulk.	ü
	Each ü = 1 mark	Total: 1 mark
4c)	Cash discount	ü
	Each ü = 1 mark	Total: 1 mark
4d)	The business should buy Kobe beef. This is because the gross profit per 100g is \$2 more than that of Omi beef. This will result in higher net profit which the business can revest for expansion plans in further. Besides, Kobe beef is popular both overseas and among locals since it is the healthiest choice amongst all types of wagyu beef. This means that the business can save on advertising to raise customer awareness since there is already a ready market for this type of bee Lastly, Kobe beef can be eaten in more ways as compared to Omi beef therefore it is able to provide customers a greater variety of consumption methods without having to purcase another type of beef. This translates into greater cost savings and convenience for consumers which can help to increase sales revenue and profits for the business in the long run.	ü ü ü ü ü
	<u>Or</u>	
	The business should buy Omi beef. This is because Omi beef has a longer shelf life of 3 more days as compared to that of Kobe beef which would allow the business more allowance of time to sell before it expires and minimise any impairment loss on inventory as a result of expiring before it can be sold. Moreover, Omi beef is still relatively unknown in the local market therefore although the business may need to spend on advertising to raise customer awareness, there is more room for sales since local consumers are likely to purchase due to its novelty. Lastly, Omi beef is cheaper than Kobe beef so its budget friendly price is likely to appeal to a larger market as compared to the latter. This would translate into more sales revenue and profits for the business in the long run if it is well received.	ü ü ü ü ü