4E5N PRELIMS 2022 PAPER 2

1(a)

TYH Trading

Statement of financial performance for the year ended 31 July 2022

	$	$	
Sales revenue		289 400	
Less: sales returns		10 000	
Net sales revenue		279 400	**1**
Less: cost of sales		180 500	
Gross profit		98 900	**1**
Other income			
Commission income	5 200		
Less: other expense			
Rent expense (12/16 X 19200)	14 400		**1**
Salaries expense	28 900		
Advertising expense (+700)	4 700		**1**
Interest expense (5% X 20000)	1 000		**1**
Depreciation of fixtures and fittings (60000-4000)/10	5 800		**1**
Depreciation of motor vehicles 10% X (90000-34000)	5 600		**1**
Reversal of Impairment loss on trade receivables 395-(900-500)	(5)		**1**
Impairment loss on inventory (8400-7000)	1 400	61795	**1**
Profit for the year		42305	**1**

1(b)

TYH Trading
Statement of financial position as at 31 July 2022

Assets	Cost	Accumulated depreciation	Net book value	
Non-current assets	$	$	$	
Fixtures and fittings	60 000	17 400	42 600	**1**
Motor vehicles	90 000	39 600	50 400	**1**
			93 000	
Current assets				
Inventory		7 000		**1**
Trade receivables (-500)	7 900			**1**
Less: allowance for impairment of trade receivables	395	7 505		**1**
Prepaid rent		4 800		**1**
Cash at bank		6 200	25 505	
Total assets			118 505	
Equity and Liabilities				
Owner's equity				
Capital			89 755	**2**
51950+42305-4500				
Non-current liabilities				
Long term borrowings			20 000	
Current liabilities				
Trade payables		7 850		
Advertising payable		700		**1**
Interest payable		200	8 750	**1**
Total equity and liabilities			118 505	

2(a) **i.** Cost of sales = 4000 + 5000 + 5600 + 7 500 = $22 100 **[1]**

ii. Ending inventory = 6200 + 3000 = 9 200 **[1]**

iii. Gross profit = 50100 – 22100 = $28 000 **[1]**

iv. Rate of inventory turnover = 22100 / 6600 = 3.35 times **[1]**

v. Days sales in inventory = (6600 / 22100) X 365 = 109 days **[1]**

2(b) The rate of inventory turnover has worsened from 5.50 times in 2022 to 3.35 times in 2022. **[1]**

The days sales of inventory has worsened from 85.15 days in 2021 to 109 days in 2022. **[1]**

This means that the business is selling their goods at a slower rate in 2022. **[1]**

The business is becoming less efficient at managing their inventory over the years. **[1]**

2(c) Reduce selling price of slow-moving goods **[1]**
Give trade discounts to encourage bulk purchases **[1]**

2(d) The business is selling goods at a slower rate which could mean that they are generating less sales. **[1]** This would cause profitability to worsen**. [1]**

2(e) Gross profit margin, profit margin, mark-up on cost, return on equity. **[any 2]**

3(a)

Motor vehicles

Date	Particulars	Debit	Credit	Balance
2021		$	$	$
Jul 1	Balance b/d **[1]**			120 000 Dr
2022				
Mar 3	Sale of non-current asset **[1]**		50 000	
Apr 1	Cash at bank **[1]**	60 000		
Jul 1	Balance b/d **[1]**			130 000 Cr

3(b) Depreciation 30 June 2020 = 10% X 50 000 = 5000
Depreciation 30 June 2021 = 10% X (50000-5000) = 4500
Accumulated depreciation = 5 000 + 4 500 = 9 500

Net book value of NCA sold = 50000 – 9 500 =40 500 **[1]**
Selling price of NCA = $35 000

Loss on sale = 40 500 – 35 000 = $5 500 **[1]**

3(c) Depreciation of new NCA = 10% X 60 000 = 6000 **[1]**

Depreciation of remaining NCA = 10% X (70 000 – 11 750) =5 825 **[1]**

Depreciation 30 June 2022 = 6 000 + 5 825 = 11 825 **[1]**

3(d) Wear and tear, obsolescence, legal limits, usage [**any 2]**

3(e) Financial information is only material to the business if it affects decision making. **[1]**
The cost of the carpets is not material compared to the average profit made for the past five years. **[1]**
Hence, the carpets should be classified as revenue expenditure **[1]**

4(a)
- The owner has absolute control over the business.
- The owner keeps all the profits.
- Minimal administrative duties to adhere to.
  [any 2]

4(b)
- Banks are less likely to grant a loan due to a lack of personal assets as collateral. **[1]**
- If the business incurs debts and losses, the owner is obliged to pay them using their personal assets. **[1]**

4(c)

Decision	Puvana should **buy** the van.
Reason 1	The cost to buy the van is $450 000 cheaper than renting a van for 10 years. Cost to buy van = $150 000 Cost to rent for 10 years = 5000 X 12 X 10 = $600 000
Explanation 1	This would lower her expenses over the years as she does not need to incur rental expenses, and this would result in higher profit.
Reason 2	The van is brand new.
Explanation 2	A new van would be more efficient and the likelihood of the van breaking down and requiring frequent repairs would be lower. This would minimise the disruptions to the business's operations.
Reason 3	Customisation of the van is allowed.
Explanation 3	Puvana would be able to customise her van to suit her business's needs. This would make delivery of goods more efficient.

Decision	Puvana should **rent** the van.
Reason 1	The upfront cost to rent a van is $10 000 cheaper than buying a van. Cost to rent per month = $ 5000 Down payment to buy = $15000
Explanation 1	Puvana would have more cash available to pay for other operating expenses and to set up her business.
Reason 2	Service and maintenance are included as part of rental contract.
Explanation 2	Puvana would not have to incur additional cost to pay for servicing and maintenance which would lower her expenses. This would result in higher profit.
Reason 3	The lease period of 1 year is shorter than owning the delivery van for 10 years.
Explanation 3	Puvana could negotiate for better contract terms after one year and rent a different van to better suit her business's needs / if she is unsatisfied with the current van.

	Or Puvana may switch to a different rental company if she is unsatisfied with the services of the current rental company.