## 4Ex5NA Prelim 2022 Solutions Paper 2

1a

Charlie and brothers Pte Ltd						
Statement of financial performance for the year ended 31 March 2021						
	\$		\$			
Consultancy service revenue			131 360	(1)		
Add: Other Income						
Commission income \$(7 000 + 2 500)			9 500	(1)		
Less: Expenses						
Depreciation of motor vehicles \$[(60 000 - 12 000) x 20%]	(9 600)	(1)				
Depreciation of fixtures and fittings \$(8 000 x 10%)	(800)	(1)				
Reversal of Impairment loss on trade receivables \$[1 800 - (33 300 x 4%)]	468	(1)				
Utilities expense	(9 700)	(1)				
Rental expense \$[(24 000/15) x 12]	(19 200)	(1)				
General expenses	(39 800)		(78 632)			
				-		
Profit for the year			62 228	=		

[7]

## Charlie and brothers Pte Ltd Statement of financial position as at ended 31 March 2021

	\$	\$		\$	
	Cost	Accumulated		Net book	
		depreciation		value	
Assets					
Non-current assets					
Motor vehicles	60 000	(21 600)		38 400	(1) OF
Fixtures and fittings	8 000	(3 200)	_	4 800	(1) OF
	68 000	(24 800)	_	43 200	
Current assets					
Trade receivables	33 300				
Less: Allowance for impairment of trade receivables \$(33 300 x 4%)	(1 332) (1)	31 968	(1) OF		
Cash at bank \$(117 240 + (2 x 20 000)]		157 240	(1)		
Prepaid rent \$[(24 000/15) x 3]		4 800	(1)		
Commission income receivable		2 500	(1)	196 508	
					_
Total assets				239 708	_
Shareholder's equity					
Share capital, 60 000 ordinary shares (1) \$[40 000 + (2 x 20 000)]		80 000	(1)		
Retained earnings \$(47 480 + 62 228 - 2 400)		107 308	(1) OF	187 308	
Non-current liabilities					
Long-term borrowings \$(50 000 - 10 000)				40 000	(1)
					``
Current liabilities					
Current portion of long-term borrowings		10 000	(1)		
Dividends pavable $\$(60\ 000\ x\ 0.04)$		2 400	(1)	12 400	
· · · · · · · · · · · · · · · · · · ·			·-/		
Total equity and liabilities				239 708	-
	1			-	=

[Total: 20]

[13]

**2a** According to the matching theory

Equipment need to be depreciated so that the portion of the cost of the non-current asset charged as an expense in a given period is matched against the income in the same given period to determine the profit for that period. (1)

	Journal			_
Date	Particulars	Debit	Credit	
2021		\$	\$	1
Feb 15	Sale of non-current aseet Equipment	40 000	40 000	(1)
Feb 15	Accumulated depreciation of equipment Sale of non-current asset	8 000	8 000	(1)
Feb 15	Cash at bank Sale of non-current asset	28 000	28 000	(1)
Jun 30	Income summary Sale of non-current asset	4 000	4 000	(1)

c Depreciation expense = (Remaining cost - Remaining accumulated depreciation) x 20%

$$= \$[(111\ 000\ -\ 40\ 000)\ -\ (30\ 200\ -\ 8\ 000)] \times 20\%$$
(1)  
$$= \$(71\ 000\ -\ 22\ 200) \times 20\%$$

b

[4]

[2]

(1)

## 2d Decision: To buy the equipment

Accept any three sets of evidence and explanation

<b>Evidence 1:</b> The cost of the equipment is fixed at \$50 000. <b>Explanation 1:</b> The business can safely allocate its cashflow to be used to enhance	(1)
that is needed to purchase the equipment.	(1)
<ul> <li>Evidence 2: The business will not have to pay any interest charges if it takes up a loan with the bank.</li> <li>Explanation 2: This means that once the business has settled the 20% downpayment it can stratch out the remaining 80% of the payment over a few periods and shapped.</li> </ul>	(1)
the cashflow to other more urgent needs within the business.	(1)
<b>Evidence 3:</b> The business can alter the equipment to meet certain specifications. <b>Explanation 3:</b> Making certain alterations to the equipment could help the business in terms of efficiency. For instance, an alteration could be made to save power	(1)
consumption or increase productivity of the equipment.	(1)
<b>Evidence 4:</b> The business can resell the equipment to other customers. <b>Explanation 4:</b> This will enable the business to generate cash from the sale of excess non-current assets. Moreoever, the cash received from the sale of the	(1)
equipment could be used to purchase a new equipment.	(1)
Alternative answer	
Decision: To rent the equipment	(1)
Accept any three sets of evidence and explanation	
<b>Evidence 1:</b> The business pays small amounts of money monthly. Explanation 1: This does not stretch the financial resources of the business enabling the business to concurrently pay the equipment rent and at the same time settle	(1)
other needs within the organisation.	(1)
<b>Evidence 2:</b> Maintenance and repair works are not borne by the business. <b>Explanation 2:</b> The business neither needs to source for its own service providers nor needs to worry about setting money aside for the repair and maintenance of	(1)
the equipment.	(1)
<b>Evidence 3:</b> A maximum of three employees can be trained for free. <b>Explanation 3:</b> The business will not have to source for trainers to train their employees and can be assured that quality training is provided as the trainers	(1)
may be from the rental company.	(1)
<b>Evidence 4:</b> The business will have access to the latest models. <b>Explanation 4:</b> The business will be able to try out the latest models and has an option to change its current model to another model to better suit the business	(1)
needs.	(1)

[Total: 15]

[7]

3ai	On 1 January 2021, the \$500 of interest expense incurred for the year ended 31 December 2020		
	but not paid yet was reversed and included into the year 2021's interest expense account.	(1)	
aii	On 30 September 2021, the business issued a cheque of \$2 000 to pay for interest expense.	(1)	[2]
b	Interest rate per annum = \$(2 000 / 50 000) x 100		
	= 4%		
	Alternative answer: Interact rate per appum = $\xi[(500, (0.25), (50,000]) \times 100$		
	= 4%	(1)	[1]
		(-)	[-]
с	Interest expense payable as at 31 December 2021 = \$(40 000 x 4% x 3/12)	(2)	
	= \$400		
	Amount transferred to income summary = \$1 500 + \$400		
	= \$1 900	(1)	[3]
	*1 mark for showing \$40,000 x 4%		
	*1 mark for showing \$3/12		
d	Accept any <b>two</b> of the following answers		
	> For a bank loan, the business borrows a fixed amount of money and the cash is		
	transferred to the cash at bank account.	(1)	
	However, for a bank overdraft, the business withdraws more than what it has		
	deposited into the bank account up to the limit agreed between the business and bank.	(1)	
	> For a bank loan, business makes regular cash payments in equal instalments.	(1)	
	within the year whenever it comes in to reduce the overdraft	(1)	
	> Bank loans are classified in the statement of financial position under non-current	(1)	
	liabilities as 'long-term borrowings'.	(1)	
	While bank overdraft is classified in the statement of financial position under	. ,	
	current liabilities.	(1)	[2]
е	\$30 000		[1]
£			
T	Klinton Pte Lta Statement of financial position as at 21 December 2021 (ovtract)		
	ŚŚŚ		
	Current liabilities		
	Rental income received in advance (1) \$(36 000 - 30 000) 6 000 (1)		[2]
g	Integrity	(1)	
	Objectivity	(1)	[2]
			[Total: 13]

4a	The gross profit margin of Hill Pte Ltd of 18% is worse than the gross profit margin of View Pte Ltd of 25%.	(1)	
	The profit margin of Hill Pte Ltd of 12% is better than the profit margin of	( )	
	View Pte Ltd of 8%.	(1)	
	Accept any <b>two</b> of the following or reasonable alternatives		
	> This could mean that View Pte Ltd's goods are in more demand as compared to Hill Pte Ltd's goods as shown by its better gross profit margins.	(1)	
	> This could mean that View Pte Ltd is able to sell its goods at higher mark-up prices as compared to Hill Pte Ltd as shown by its better gross profit margins.	(1)	
	> Hill Pte Ltd's is more efficient in managing its operating expenses compared to View Pte Ltd.	(1)	[4]
b	Rate of inventory turnover = Cost of sales / Average inventory		
	Hill Pte Ltd = \$(9 000 / 2 500)		
	= 3.60 times	(1)	
	View Pte Ltd = \$(7 500 / 1 600)		
	= 4.69 times	(1)	[2]
с	The rate of inventory turnover of 4.69 times for View Pte Ltd is better than the rate		
	of inventory turnover of 3.60 times for Hill Pte Ltd	(1)	
	This means that View Pte Ltd is replenishing its goods at a much faster rate as		
	compared to Hill Pte Ltd indicating that View Pte Ltd's products could be more		
	in demand and View Pte Ltd is managing its inventory better.	(1)	[2]
d	Accept any <b>two</b> of the following answers		
	> Sell goods at higher prices	(1)	
	> Buy goods at lower cost price	(1)	
	> Sublet excess space to another business to earn rental income	(1)	
	> Make prompt payments for credit purchases to take advantage of cash discounts	(1)	
	> Reduce the use of electrical appliances to lower utilities expense.	(1)	
	> Negotiate lower rent	(1)	
	> Capitalise on technology to reduce costs and manpower	(1)	[2]
e	Accept any <b>two</b> of the following answers		
	> Shareholders	(1)	
	> Competitors in the same industry	(1)	
	> Suppliers	(1)	
	> Customers	(1)	
	> Government	(1)	
	> Lenders	(1)	
	> Employees	(1)	
	> Managers	(1)	[2]