# PHSS 2022 4E Prelim Paper 2 SOLUTIONS

## Question 1

(a)

Mack Donald Statement of Financial Performance for the year ended 30 November 2021		
	\$	\$
Sales revenue	43 224	
Less: Sales returns	(433)	
Net sales revenue		42 791
Less: Cost of sales		(21 280)
Gross Profit		✓21 511
Add: Other Income		
Discount received	✓ 510	
Rent income (4 867 + 3 000)	✓ 7 867	
		8 377
Less: Expenses		
Salaries expense (5 664 – 472*)	✓ 5 192	
Maintenance expense	✓ 10 000	
Depreciation – Property ((110 000 – 20 000) / 100)	<b>√</b> 900	
Depreciation - Office equipment ((30 000 – 2925) X 5%)	✓ 1 425	
Impairment loss on trade receivables	✔70	
Interest expense (50 000 X 3% X 6/12^)	✔750	
		(18 337)
Profit for the year		11 551
	· ·	[9

\* 5 664 / 12 = 472

<sup>^</sup>The bank loan is taken on 1 June 2021, therefore interest is owing only for 6 months (1 June 2021 to 30 November 2021).

(b)

Mack Donald Statement of Eingneigl Regition as at 20 November 2021					
Statement of Financial Position as at 50 November 2021					
Assets	Ψ	Ψ	Ψ		
Non-Current Assets	Cost	Accumulated	Net Book		
		Depreciation	Value		
Property (120 000 - 10 000)	110 000	(10 800)	<b>√</b> 99 200		
Office Equipment	30 000	(2 925)	<b>v</b> 27 075		
			12 6275		
Current Assets					
Trade receivables (15 400 – 400)	15 000				
Allowance for impairment of trade receivables (480 -400 + 70)	(150)				
Net trade receivables		✓ 14 850			
Cash at bank		<b>√</b> 3 422			
Inventory		✓ 24 228			
Rent income receivable		✓ 3 000			
Prepaid salaries		<b>✓</b> 472			
			45 928		
Total Assets			172 247		
Equity and Liabilities					
Owner's Equity					
Capital (101 963 - 2 000 + 11 551)			✓ 111 514		
Non-Current Liabilities					
Long-term borrowings			<b>√</b> 50 000		
Current Liabilities					
Trade payables		<b>√</b> 9 983			
Interest expense payable		<b>√</b> 750			
			10 733		
Total Equity and Liabilities			172 247		
		•	[11]		

# **Question 2**

## (a)

The Cash at bank account will be debited by \$30 000 $\checkmark$ , and the share capital account will be credited by \$30 000 $\checkmark$ .

[2]

# (b)

Retained Earnings				
Date	Particulars	DR \$	CR \$	Balance \$
2021				
Aug 1	Balance b/d			🖌 33 780 CR
2022				
<mark>Jul 31</mark>	Dividends (70 000 shares X \$0.20)	<b>v</b> 14 000		19 780 CR
Jul 31	Income summary		<b>v</b> 12 120	31 900 CR
Aug 1	Balance b/d			🖌 31 900 CR
				[4]

# (c) Accept any other reasonable answers

Private Limited Company	Sole Proprietorship
Harland should keep Kay FC Pte Ltd as a	Harland should convert Kay FC Pte Ltd into
private limited company. (Stand) 🖌	a sole proprietorship. (Stand) 🖌
Harland would like to pass the business on	Harland would like to make business
to his three children (Evidence)	decisions quickly (Evidence)
It is easier to transfer ownership of shares	A sole proprietorship will allow Harland to
to three different children in a private limited	have full control over business decisions as
company as compared to a sole	he will be the sole owner. He will not need
proprietorship. (Explanation) 🗸	to answer to other shareholders.
	(Explanation) 🗸
Harland would like to ensure that his	Harland would like to reduce reporting
	requirements. (Evidence) 🗸
	A sole proprietorship has less complex
A private limited company has limited	reporting requirements as compared to a
liability, which prevents creditors from taking	private limited company. (Explanation) ✓
Harland's personal assets should the	
business go bankrupt as compared to a	
sole proprietorship which has unlimited	
liability. (Explanation) 🗸	
Harland is thinking of expanding the number	Harland would like to make drawings
	expenses (Evidence)
It will be easier for Harland to find funding	A sole proprietorship allows Harland to
by issuing new shares to shareholders	make drawings whenever Harland needs
unlike a sole proprietorship where Harland	the money, while a private limited company
may have to borrow from a bank. (Harland	would require Harland to only receive
has more potential sources of funding.	dividends when they are declared for all
(Explanation) 🗸	snarenoiders. (Explanation) 🖌

#### **Question 3**

(a)
(i)
GP Margin = GP/NSR
= (24 600 - 1 400 - 15 400) / (24 600 - 1 400)
= 33.62% ✓

Therefore, Mark-up on cost = GP/COS = 1/3 = 33.33% ✓

(iii)

Profit Margin = P / NSR = ((24 600 − 1 400 − 15 400) − 2 800) / (24 600 − 1 400) = 21.55% ✓

(iv)
ROE = P / Avg Equity
= ((24 600 - 1 400 - 15 400) - 2 800) / 34 000
= 14.71%✓

[4]

#### (b) Any of the following (✓ each)

Double U Trading is more profitable than AN Trading. (no marks for stand)

Double U Trading's profit margin of 14.71% was better than AN Trading's profit margin of 10.00%. ✓

This was likely due to Double U Trading being better at managing its expenses compared to AN Trading, hence improving profit. ✓

Double U Trading's gross profit margin of 33.33% is better than AN Trading's gross profit margin of 25.00%. ✓

This was likely due to Double U Trading being able to command a higher selling price for its products, resulting in a better proportion of sales revenue.

Double U Trading's mark-up on cost of 50.65% was better than AN Trading's 33.33%. ✔

This was likely due to Double U Trading being able to secure a cheaper supplier, resulting in a lower proportion of cost of sales. ✓

[4]

(c) AN Trading is the better investment. 🗸

AN Trading's return on equity of 22.22% was better than Double U Trading's 14.71%. This indicates that AN Trading was able to generate a higher proportion of profits in comparison to the equity of the business. ✓

(d) Days sales in inventory = Avg Inventory / COS X 365

= 7600 / 15400 X 365

= 180.13 days

**Note:** Students should not take the inverse of the rate of inventory turnover (i.e. 1 / 2.03 X 365) in this case. The rate is rounded-off, so taking the inverse and multiplying by 365 will exacerbate the effect of rounding off. The inverse relationship only works if the rate of inventory turnover is an exact figure.

#### (e)

AN Trading was better at inventory management as compared to Double U Trading. (no marks for stand)

AN Trading's rate of inventory turnover of 2.21 times was better than Double U Trading's 2.02 times. ✓

AN Trading's days sales in inventory of 165.46 days was better than Double U Trading's 180.13 days. ✓

This was likely due to AN Trading practicing better inventory management techniques such as just-in-time inventory management, which avoids overstocking of inventory. ✓

[2]

[1]

#### **Question 4**

#### (a)

Journal			
Date	Particulars	DR \$	CR \$
2021			
Jan 1	Interest expense payable	<b>✓</b> 750	
	Interest expense		<b>√</b> 750
Mar 31	Interest expense	✓ 1 000	
	Cash at bank		✓ 1 000
Dec 31	Income summary	<b>√</b> 925	
	Interest expense		<b>√</b> 925
Dec 31	Interest expense	<b>✓</b> 675	
	Interest expense payable		<b>✓</b> 675
			[8]

## (b)

Pop Eyes Trading			
Statement of Financial Performance for the year ended 31 December 2021			
(extract) 🗸			
	\$	\$	
Less: Expenses			
Interest expense	<b>√</b> 925		
		[3]	

#### (C)

According to the accrual basis of accounting, expenses must be recorded when they are incurred, regardless of when cash is paid. ✓ Hence interest expense payable is recorded to ensure that interest expense is recorded in the proper period. ✓

#### OR

Based on the matching theory, expenses must be matched to the period in which they are incurred, regardless of when cash is paid. ✓ Hence interest expense payable is recorded to ensure that interest expense is recorded in the proper period. ✓