

2023 4G3 AND 5G2 Prelim Paper 2 Ans

Question 1

(a)

Body Benders Private Limited		
Statement of financial performance for the year ended 31 August 2023		
	\$	\$
Treatment fee revenue		380 385✓
Other income		
Commission income (12520 + 680)		13 200✓
Less: Other expenses		
Rent expense (65000 – 1 000)	64 000✓	
Interest expense (60000 x 4%)	2 400✓	
Wages and salaries	95 600✓	
General expenses	40 880	
Depreciation of equipment [(285000 + 15000 – 102600) x 20%]	39 480✓	
Depreciation of fixtures and fittings (73000 x 10%)	7 300✓	
Impairment loss on trade receivables [(37500 x 2%) – 250]	500✓	(250 160)
Profit for the year		<u>143 425✓OF</u>

✓ Format

[10]

(b)

Body Benders Private Limited
Statement of financial position as at 31 August 2023

	Cost \$	Acc Dep \$	Net Book Value \$
Assets			
<u>Non-current assets</u>			
Equipment	300 000	(142 080)	157 920
Fixtures and fittings	73 000	(21 600)	51 400
			<u>209 320</u>
			✓OF
<u>Current assets</u>			
Cash at bank (40000 – 3450)		36 550✓	
Prepaid rent expense		1 000✓	
Commission income receivable		680✓	
Trade receivables	37 500		
Less: Allowance for impairment of trade receivables	(750)	36 750✓OF	74 980
Total assets			<u>284 300</u>
Equity and liabilities			
<u>Shareholders' equity</u>			
Share capital, 120 000 ordinary shares (200000 + 40000)		240 000	
Less: Accumulated losses (176675 + 2000 – 143425)		(35 250)	204 750
			✓OF
<u>Non-current liabilities</u>			
Long-term borrowings			60 000✓
<u>Current liabilities</u>			
Trade payables (3750 + 15000)		18 750✓	
Interest expense payable (2400 – 1600)		800✓	19 550
Total equity and liabilities			<u>284 300</u>

✓ Format

[10]

Question 2

(a)(i)

Cash at bank account				
Date	Particulars	Dr	Cr	Balance
2023		\$	\$	\$
Jul 31	Balance b/d			2 180 Cr
31	Trade receivable – Malin	960√		1 220 Cr
31	Trade receivable – Nila (Dishonoured cheque)		500√	1 720 Cr
Aug 1	Balance b/d			1 720 Cr

Marks are given only for entries with the correct particulars and amount
√ Dates, format and obtaining final answer of \$1720Cr.

[3]

(b)

Ariqah Bank reconciliation statement as at 31 July 2023	
	\$
Balance as per bank statement	9 400
Add: Deposit in transit	
Sales revenue	880√
Less: Cheque not yet presented	
Rent expense	(3 000)√
Less: Bank error (Ariqah)	(9 000)√
Adjusted balance as per cash at bank account	(1 720)

Marks are given only for entries with the correct description and amount
√ Format and obtaining final answer of \$1720.

[4]

(c) Current liabilities

[1]

(d) Any two of the following:

- Cheque has expired (*dated six months or more ago*).
- Cheque is post-dated (*cheque is written for a future date*).
- Information on the cheque is inconsistent. For example, amount written in numbers does not match amount written in words, or the signature is different from the authorised version in the bank's records.
- Information on the cheque is incomplete. For example, there is no date, amount to be paid or signature on the cheque.
- Insufficient funds in the payer's bank account.

[2]

(e) No effect.√ The two adjustments related to Malin and Nila do not affect any income or expense accounts.√

[2]

(f) Any one of the following:

1. Segregation of duties
2. Custody of cash
3. Authorisation

Separate cash handling and cash recording duties among different employees so that no single person has control over the entire cash process.

Secure cash and cheques in a locked storage.

Obtain proper approvals for all payments from authorised personnel.

[2]

[Total: 14]

Question 3

(a)

	2022	2023
Profit for the year = Ending retained earnings – Beginning retained earnings + Dividends declared	Profit for the year = 50 000 – 28 000 = \$22 000✓	Profit for the year = 70 000 – 50 000 + (300 000 x 0.04) = \$32 000✓
Gross profit = Profit for the year + Total operating expenses	Gross profit = 22 000 + 28 000 = \$50 000	Gross profit = 32 000 + 35 000 = \$67 000
Cost of sales $= \frac{\text{Gross profit}}{\text{Mark-up on cost}} \times 100$	Cost of sales $= \frac{50\,000}{25} \times 100$ = \$200 000✓	Cost of sales $= \frac{67\,000}{25} \times 100$ = \$268 000✓
Net sales revenue = Cost of sales + Gross profit	Net sales revenue = 200 000 + 50 000 = \$250 000	Net sales revenue = 268 000 + 67 000 = \$335 000
Profit margin $= \frac{\text{Profit for the year}}{\text{Sales revenue}} \times 100$	Profit margin $= \frac{22\,000}{250\,000} \times 100$ = 8.8%✓	Profit margin $= \frac{32\,000}{335\,000} \times 100$ = 9.55%✓

[6]

(b) YBox Pte Ltd's mark-up on cost is maintained at 25% over the three years. The ability of the company to generate profit from buying and selling goods is consistent over the three-year period.✓

The company's profit margin improved from 8% in 2021 to 8.8% in 2022 to 9.55% in 2023.✓ Over the same period, the ability of the company to generate overall profit after taking into consideration both trading profit and operating expenses has improved.✓

This indicates that the company has become more efficient at controlling its expenses to generate net sales revenue over the three years.✓

[4]

(c)

	2022	2023
Average equity $= \frac{\text{Beginning equity} + \text{Ending equity}}{2}$	Average equity $= \frac{100\,000 + 280\,000 + 100\,000 + 50\,000}{2}$ = \$139 000	Average equity $= \frac{100\,000 + 50\,000 + 300\,000 + 70\,000}{2}$ = \$260 000
Return on equity $= \frac{\text{Profit for the year}}{\text{Average equity}} \times 100$	Return on equity $= \frac{22\,000}{139\,000} \times 100$ = 15.83%✓	Return on equity $= \frac{32\,000}{260\,000} \times 100$ = 12.31%✓

[2]

(d) Marcus should not continue investing in YBox Pte Ltd. The company's return on equity has decreased from 16.84% in 2021 to 15.83% in 2022 to 12.31% in 2023.✓ The ability of the business to generate profit using the equity invested by its shareholders is on a decreasing trend over the three years.✓

[2]

[Total: 14]

Question 4

- (a) Accounting is an information system that provides accounting information for stakeholders to make informed decisions regarding the management of resources and performance of businesses. ✓ [1]
- (b) Accountants are stewards of businesses who manage the resources of the businesses on behalf of the owners. ✓ They set up the accounting information system to provide relevant and timely information and insights to stakeholders for decision-making. ✓ [2]
- (c) Without professional ethics, accountants may mislead users of the financial information they prepared into making poor decisions. ✓ An example of an action that an ethical accountant will not do is *(any one of the following)* preparing accounting records that contain false information, accepting a gift or preferential treatment, preparing false information due to the threat of dismissal etc *(accept any reasonable answers)*. ✓ [2]

(d)

Ernie should set up a limited liability partnership. ✓

- E1 Joshua can contribute \$500 000 as capital and lend Ernie another \$500 000 at no interest for his part of capital. ✓
- D1 Ernie can save on interest by not taking a loan from the bank. In addition, the business can have immediate access to twice the amount of the originally intended capital. ✓
- E2 The partnership will offer both interior design artwork and renovation services while the sole proprietorship will only provide interior design artwork services. ✓
- D2 Partnership can offer more services and hence has more potential bringing in higher revenue for Ernie. ✓
- E3 When a limited liability partnership incurs debts and losses, the partners are not personally liable for them. In the case of a sole proprietorship, the owner is obliged to pay for them using his personal assets. ✓
- D3 Setting up a limited liability partnership will ensure that Ernie does not lose his personal assets if the business incurs debts and losses. ✓

OR

Ernie should set up a sole proprietorship. ✓

- E1 Ernie feels uneasy about having to discuss with a business partner on how he wants the business to be run. ✓
- D1 If he is the sole owner of the business, he will have absolute control over the running of the business. ✓
- E2 Ernie dislikes formalities and procedures. ✓
- D2 By setting up a sole proprietorship, Ernie will have minimal administrative duties to adhere to as compared to the case of setting up a limited liability partnership. ✓
- E3 Ernie wants to have flexibility of discontinuing the business if it does not work out. ✓
- D3 He can easily discontinue the business by deregistering it or transferring the ownership to another person in the case of a sole proprietorship. If he were to set up limited liability partnership with Joshua, he will have to seek his partner's agreement if he wants to terminate his ownership or transfer it to another person. ✓

[7]

[Total: 12]