Preliminary Examination 2022 Sec 4E5N P2 Answer Key

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Stephen

Statement of Financial Performance for the year ended 31 August 2022

		\$	\$
Accounting fee revenue	#		246 752
Other income			
Discount received	#[1]		690
Less: Other Expenses			
Rent expense (44 000 + 4 000)	[1]	48 000	
Wages (99 000 – 1 900)	[1]	97 100	
Utilities expense (5 141 -360)	[1]	4 781	
Interest on loan (30 000 X 3% X 8/12)	[1]	600	
Depreciation of motor vehicles [10% X (75 000 – 14 250)]	[1]	6 075	
Depreciation of equipment (25% X 250 000)	[1]	62 500	
Impairment loss on trade receivables [5%X(48 600-1800) – (250 – 1000)]	[1]	3 090	222 146
Profit for the year	# [10F]		25 296

[9]

Stephen Statement of Financial Position as at 31 August 2022

Assets	\$	\$	\$
Non-current assets	Cost	Accumulated Depreciation	Net book values
Motor vehicle (14 250 + 6 075)	75 000	20 325	[1] 54 675
Equipment (125 000 + 62 500)	250 000	187 500	[1] 62 500
			117 175
Current assets			
Trade receivables (48 600 – 1 800)	[1] 46 800		
Less: Allowance for impairment of trade receivables (5% X 46 800)	[1OF] 2 340	44 460	
Prepaid wages		[1] 1 900	46 360
Total assets			163 535
Equity and Liabilities			
Owner's Equity			
Capital (103 099 + 25 296 - [1] 360)		[10F]	128 035
Non-current liabilities			
Long-term borrowings (4/5 X 30 000)	#		24 000
Current liabilities			
Bank overdraft (2 200 -800)	[1]	1 400	
Rent payable	[1]	4 000	
Interest payable (600-500)	[1]	100	
Current portion of long-term borrowings (1/5 X 30 000)	# [1]	6 000	11 500
Total equity and liabilities			163 535

[11]

2(a)				
			Ace Technology (AT)	Best Global (BG)
	(i)	Current ratio	(59 500+20 780+900) / (10 000+25 800+1 500)	(16 200+18 800+700+2 600) / 19 000
		[Current assets / Current liabilities]	= 81 180/ 37 300	= 38 300/ 19 000
			= 2.18 [1]	= 2.02 [1]
	(ii)	Quick Ratio	20 780 /	(18 800 + 700) / 19 000
		[(Current assets – Inventory – Prepayments) / Current liabilities]	(10 000+25 800+1 500)	= 19 500/ 19 000
			= 20 780/ 37 300	- 1.03 [1]
			= 0.56 [1]	- 1.00[1]
			1	

2(b) [Any 6- 6 marks]

- The current ratio 2.18 of Ace Technology (AT) is better than Best Global (BG) of 2.02.
- However, the quick ratio 0.56 of AT is worse than BG of 1.03. [1]
- The worse quick ratio of AT is due to the following reasons:
 - ✓ trade payables of AT \$25 800 is higher than BG \$19 000. [1]
 - ✓ the \$10 000 current portion of long-term borrowing of AT.[1]
- The quick ratio of AT is below benchmark of 1 as the result of too much current assets tied up in inventory (\$59 500 out of \$81 180). [1]
- AT has low cash holding as supported by the bank overdraft of \$1 500 and AT might be unable to pay immediate debts and operating expenses on time. [1]
- Overall, liquidity of AT is worse than BG. [1]
- **2(c)** [Any 2- 2 marks]
 - Rich bank should approve the loan requested from Best Global because it has better liquidity position than Ace Technology. [1]
 - Best Global's better quick ratio 1.03 or positive bank balance [1]
 - Suggest Best Global has sufficient cash to pay its current debts on time. [1]
- **2(d)** Profitability measures the ability of a business to generate profit or excess income to cover its expenses. [1]
- **2(e)** [Any one of the following 1 mark]
 - Mark-up on cost
 - Gross profit margin
 - Profit margin [1]
 - Return on equity

[1]

- **3(a)** Ali Hub sold goods to customer and received \$620 in the cash at bank. **OR** Ali Hub received cheque \$620 from customer for goods sold.
- **3(b)** Updated cash at bank balance = $5830[\frac{1}{2}] 4600[\frac{1}{2}] 20[\frac{1}{2}] = $1210 Dr[\frac{1}{2}]$

3(c)

Bank reconciliation statement at 31 August 2022		
		\$
Credit balance as per bank statement [1/2]		
Add: Deposits in transit*		
Sales revenue [1]		620
Less: Cheque not yet presented* [1]		
Dennis Mart [1]		380
Debit balance as per adjusted cash at bank account		1 210

[4]

[1]

[2]

- **3(d)** Any one of the following [1]
 - It is prepared by the business to explain the differences, between the cash at bank account balance and the bank statement balance due to timing differences.
 - To identify any errors in the cash at bank or the bank statement.
 - To deter fraud
- **3(e)** Any one of the following [1]
 - Segregation of duties
 - Custody of cash
 - Authorisation of payments

3(f) Any two of the following [2]

- Cheque has expired.
- Cheque is post-dated.
- Inconsistent information on cheque e.g. signature on the cheque does not tally with the authorised signature recorded with the bank.
- Information on cheque is not complete e.g. no date.
- Payers' bank account does not have enough money.

[Total: 11]

4(a)

- (i) Star Mart purchased \$2 000 fixtures and fittings on credit. [1]
- (ii) Star Mart obtained a loan from bank to purchase \$5 000 fixtures and fittings. [1]
- **4(b)** Loss on sales of fixtures and fittings = (\$8 000 \$3 750) [1] \$ 2600) = \$1 650 [1]
- 4(c) Depreciation is the allocation of cost of non-current assets over its useful life. [1]
- 4(d) Any one of the following [1]
 - Obsolescence
 - Wear and tear
 - Usage
 - Legal limits
- 4(e) Land is a limited resource and it is not subjected to wear and tear. [1]
- 4(f) Consistency theory [1]

4 (g) 1 mark for Decision

2 marks for each pairs of basic statement and development

Up to 3 basic statement and development

	Decision	[1]	Star Mart should buy the cabinets from Shoppa.
1	Basic statement	[1]	No additional charges for returns to Shoppa but Tabao requires Star Mart to bear the delivery cost of \$100.
	Development	[1]	Star Mart does not need to incur additional cost if there are defects on the cabinets. This cost savings may help Star Mart to have more cash available for other operating expenses. OR
			Free exchange policy provides assurance of the quality of products from Shoppa.
2	Basic statement	[1]	Shoppa has been in business for more than 16 years which is longer than Tabao's 3 years.
	Development	[1]	Shoppa is more established and probably a reputable business that can provide quality cabinets for Star Mart.
3	Basic statement	[1]	Shoppa covers a 2 year warranty which is longer than the 6 month warranty covers by Tabao.
	Development	[1]	The longer warranty period helps reduce the potential repairs and maintenance expenses incurred by Star Mart which would improve its profitability.

[7]

	Decision	[1]	Star Mart should buy the cabinets from Tabao.
1	Basic statement	[1]	Tabao sells each of its cabinets at \$150 cheaper than Shoppa. Or Star Mart is buying 12 cabinets and the total purchase will be \$3 000 compared to \$4 800 charged by Shoppa.
	Development	[1]	The cost savings will allow Star Mart to have more cash for other business needs.
2	Basic statement	[1]	Tabao allows a longer return period of 21 days compared to 7 days for Shoppa.
	Development	[1]	This gives Star Mart a greater assurance of product quality.
3	Basic statement	[1]	Tabao provides a longer credit term of 30 days compared to 7 days for Shoppa.
	Development	[1]	A longer credit term gives Star Mart a greater flexibility in managing its cash flow and allow the business to avail its cash for other business needs.
4	Basic statement	[1]	Tabao has many positive reviews from customers.
	Development	[1]	Even though Tabao has only been in business for 3 years, the many positive online reviews provide assurance that the cabinets sold are of good quality.

[7]