

Answer all questions.

- 1 The following balances were extracted from the books of Strike Law Firm at 31 May 2022.

	\$
Equipment at cost	60 000
Fixtures and fittings at cost	39 500
Premises at cost	96 000
Accumulated depreciation of equipment	24 000
Accumulated depreciation of fixtures and fittings	6 200
Lawyer fees revenue	136 680
Bank loan, repayable 31 December 2025	15 000
Cash at bank	18 000
Cash in hand	7 800
Capital at 1 April 2019	80 000
Drawings	1 900
Discount allowed	1 040
Rent income	7 200
Trade receivables	12 000
Allowance for impairment of trade receivables	100
Utilities	3 340
Salaries	29 600

Additional information

- 1 Rent income included an amount of \$1 200 which was for 3 months from 1 April 2022 to 30 June 2022.
- 2 \$3 400 of salaries were still owing at 31 May 2022.
- 3 \$820 cash payment for utilities was wrongly credited to the cash at bank account.
- 4 Strike Law Firm reviewed its debtors and decided that 3% of the trade receivables may not be collectible.
- 5 Depreciation is to be charged on the equipment at 40% per annum using the reducing-balance method.
- 6 Fixtures and fittings have a scrap value of \$8 500 and useful life of 10 years.
- 7 No depreciation is to be charged on the premises.
- 8 One-third of the bank loan is due for repayment on 31 December 2022.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 31 May 2022. [7]
- (b) Prepare the statement of financial position as at 31 May 2022. [13]

[Total: 20]

- 2 The following information are extracted from the books of Fresh Sanitizers and Clorocks Wipes as at 31 March 2022.

	Fresh Sanitizers \$	Clorocks Wipes \$
<u>Current assets</u>		
Inventory	37 450	11 000
Trade receivables	10 360	9 290
Prepaid expenses	6 170	2 430
Cash at bank	–	5 780
	<hr/> 53 980	<hr/> 28 500
<u>Current liabilities</u>		
Current portion of long-term borrowings	8 800	–
Trade payables	4 920	7 860
Income received in advance	1 370	2 050
Bank overdraft	2 640	–
	<hr/> 17 730	<hr/> 9 910
Current ratio	3.04 : 1	? (a)
Quick ratio	0.47 : 1	? (b)

REQUIRED

- Calculate the current ratio of Clorocks Wipes at 31 March 2022. Show **all** workings. Round off your answers to 2 decimal places. [1]
- Calculate the quick ratio of Clorocks Wipes at 31 March 2022. Show **all** workings. Round off your answers to 2 decimal places. [2]
- Compare the current ratio of Fresh Sanitizers and Clorocks Wipes. Suggest reasons for the difference in current ratio between the two businesses. [4]
- Compare the quick ratio of Fresh Sanitizers and Clorocks Wipes. Suggest reasons for the difference in quick ratio between the two businesses. [4]
- State **one** consequence of having a poor liquidity ratio. [1]
- Suggest **one** method to improve the liquidity of a business. [1]

[Total: 13]

- 3 Aeki is a furniture retailer and uses the First-In-First-Out (FIFO) method of inventory valuation. The following transactions took place for the month ended 30 June 2022.

Date	Inventory purchased	
	Quantity	Cost \$
2022		
Jun 5	10	1 900
13	10	2 200
20	20	3 900

Date	Inventory sold	
	Quantity	Selling price \$
Jun 7	10	5 000
25	20	9 700

Additional information

- On 1 June 2022, Aeki had 10 units of furniture with a cost price of \$1 600.
- On 30 June 2022, Aeki's ending inventory has a net realizable value of \$3 500.

REQUIRED

- Calculate the cost of sales for the month of June 2022. [3]
- Calculate the gross profit earned by Aeki for the month of June 2022. [2]
- State the basis of how Aeki should value their ending inventory. [1]
- Calculate the impairment loss of inventory at 30 June 2022. [2]

Aeki decides to bring in another set of furniture to provide more variety for their customers. Aeki is considering between the following options:

	Rectangular wooden table	Round marble table
Cost price per table	\$150	\$480
Gross profit margin	30%	50%
Features	<ul style="list-style-type: none"> • Easy to assemble • Suitable for large group dining as the table can be extended • Comes in two different sizes 	<ul style="list-style-type: none"> • Difficult to assemble • Durable and sturdy • Looks classy and luxurious • Only one size is available
Customers' preference	Popular with younger families as they tend to have many gatherings with families and friends.	Popular with Chinese customers with elderly family members due to fengshui ¹ reasons. The elderly members are willing to pay a premium for these tables.

REQUIRED

- (e) Recommend which table Aeki should bring into the business. Give **three** reasons for your choice. [7]

[Total: 15]

¹ Fengshui is an ancient Chinese belief that the way your house is built or the way that you arrange objects affects your success, health, and happiness.

- 4 On 1 October 2020, EYS Trading took up a bank loan of \$40 000. The loan is to be repaid equally over four years. Interest is charged at 5% per annum.

The loan instalment and interest are to be repaid on 30 September every year, starting from 30 September 2021 until 30 September 2024.

EYS Trading has a financial year-end on 31 December.

REQUIRED

- (a) State **one** difference between bank loan and bank overdraft. [2]

- (b) Prepare the journal entry to record the borrowing on 1 October 2020. Narration is **not** required. [2]

- (c) Copy the following table onto your answer sheet.

Calculate the interest expense and the interest expense payable for the **two** years ended 31 December 2020 and 2021. Show all workings clearly. [5]

Year ended 31 December	Interest expense \$	Interest expense payable \$
2020		
2021		

- (d) Prepare an extract of the statement of financial position as at 31 December 2021, showing only the liabilities' sections. [3]

[Total: 12]