2022 4E5NA POA Prelim Paper 1 (Answers)

1 (a) Glenys Shoes Pte Ltd's inventory turnover rate has improved from 21.15 times in 2021 to 27.4 times in 2022 and Didier Solescape Pte Ltd's inventory turnover rate has also improved from 40.6 times in 2021 to 41.7 times in 2022 which means that both businesses are managing inventory more efficiently over the two years. [1]

The inventory turnover rate of Didier Solescape Pte Ltd in 2021 and 2022 are better than that of Glenys Shoes Pte Ltd which indicates that Didier Solescape Pte Ltd is able to turnover its inventory much faster (i.e., sell its inventory faster) than Glenys Shoes Pte Ltd in both years. [1] OR

The inventory turnover rate of Didier Solescape Pte Ltd in 2021 and 2022 are better than that of Glenys Shoes Pte Ltd which indicates that Didier Solescape Pte Ltd is managing its inventory more efficiently ((i.e., sell its inventory faster) than Glenys Shoes Pte Ltd in both years. [1]

Possible reason for Didier Solescape Pte Ltd's better inventory turnover rate:

- Able to sell inventory faster by reducing selling price for slow-moving goods [1]
- Able to sell inventory faster by providing trade discounts to encourage customers to buy in bulk and regularly [1]
- Able to sell inventory faster by attracting more customers through marketing campaigns [1]
- Able to keep sufficient inventory on hand by using technological tools to improve accuracy of predictions about customer demand in order to know when and how much inventory to buy [1]

Possible reason for Glenys Shoes Pte Ltd's worse inventory turnover rate:

- Unable to sell inventory faster by reducing selling price for slow-moving goods [1]
- Unable to sell inventory faster by providing trade discounts to encourage customers to buy in bulk and regularly [1]
- Unable to sell inventory faster by attracting more customers through marketing campaigns [1]
- Unable to keep sufficient inventory on hand by using technological tools to improve accuracy of predictions about customer demand in order to know when and how much inventory to buy [1]

Hence, Didier Solescape Pte Ltd is more effective in managing its inventory as compared to Glenys Shoes Pte Ltd. [1]

Max 4 marks

(b) Offer promotional activities with discounts to sell and reduce inventory holdings [1] or
Keep sufficient inventory by monitoring inventory level closely and replenish only the required amount of inventory [1] or
Sell inventory faster by reducing selling price for slow-moving goods [1] or
Sell inventory faster by providing trade discounts to encourage customers to buy in bulk and regularly [1] or
Sell inventory faster by attracting more customers through marketing campaigns [1] or
Keep sufficient inventory on hand by using technological tools to improve accuracy of predictions about customer demand [1] or
Keep sufficient inventory on hand by using technological tools to know when and how much inventory to buy [1]

Example + strategy
Max 1 mark

[Total: 5]

2 (a) All profits or losses made by a private limited company from the beginning of its operation that have not been distributed to shareholders [1]

(b) Profits distributed to shareholders [1]

(c) Increase in share capital OR increase in number of ordinary shares issued during the financial year [1]

Profit of loss made during the period [1]

Dividends declared OR paid to shareholders [1]

(d) Journal

Date		Debit	Credit
2022		$	$
Apr 30	Cash at bank	3000 [1]	
	Share capital		3000 [1]
	Business issued a further 10 000 shares at $0.30 each. [1]		

(e) Retained earnings

Date		Debit	Credit	Balance
2021		$	$	$
Jul 1	Balance b/d			35 000 Cr [1]
2022				
Jun 30	Dividends (50 000 X 0.02)	1000 [1]		34 000 Cr
Jun 30	Income summary		15 000 [1]	49 000 Cr
Jul 1	Balance b/d			49 000 Cr [1]

[Total: 12]

3 (a) **(i)** Trade receivables

1st pair of answers
Trade receivables are current assets [1]

Trade receivables are resources a business owns or controls that are expected to provide future benefits within one financial year. [1]

2nd pair of answers
Trade receivables are amounts collectible from credit customers. [1]

Trade receivables refer to the amounts owed by customers who buy goods and services from businesses on credit. [1]

Either / Or
Max 2 marks.

(ii) Allowance for impairment of trade receivables

Allowance for impairment of trade receivables is the estimated amount of debts likely to be uncollectible at the end of each financial period. [1] AND

Allowance for impairment of trade receivables is a contra-asset. [1] It is a deduction against trade receivables in the statement of financial position.

Either / Or
Max 2 marks.

(b) Prudence theory [1] or
Matching theory [1]

(c) Journal

Date	Particulars	Debit ($)	Credit ($)
2022			
Apr 30	Allowance for impairment of trade receivables (0.70 X 37 500)	26 250 [1]	
	Cash at bank	11 250 [1]	
	Trade receivable – Charlotte Guardian		37 500 [1]

(d) Journal

Date	Particulars	Debit ($)	Credit ($)
2021			
May 31	Allowance for impairment of trade receivables (91125 – 375) – (15% X 542 500)	9375 [1]	
	Impairment loss on trade receivables		9375 [1]
2022			
May 31	Impairment loss on trade receivables (15% X 690 000) – (81375 – 26250)	48 375 [1]	
	Allowance for impairment of trade receivables		48 375 [1]

(e) Profit for the year = I – Ex

Since <u>expenses</u> in the form of impairment loss on trade receivables <u>increased by $48 375</u> [1], <u>profit for the year decreased by $48 375</u>. [1]

[Total: 14]

4 (a) Fixed amount of money borrowed from bank. [1]

(b) (i) 1 July 2020: Business borrowed bank loan of $200 000. [1]

(ii) 30 June 2021: Business repaid bank loan of $40 000. [1]

(c) Sandra

Statement of financial performance for year ended 31 December 2021

	$
Less: Other expenses	
Interest expense	10 800 [1]

(d) Sandra

Statement of financial position as at 31 December 2021

EQUITY AND LIABILITIES	$
Non-current liabilities	
Long-term borrowings (160 000 – 40 000)	120 000 [1]
Current liabilities	
Current portion of long-term borrowings	40 000 [1]
Interest expense payable	4 800 [1]

(e) Accrual basis of accounting theory [1]
Interest expense that has occurred regardless of whether cash has been paid should be recorded in relevant accounting period. [1]

[Total: 9]