2023 MJR 4E5N PRELIM PAPER 2

Qi Qi Trading

Q1(a) **Statement of financial performance for the year ended 30 April 2023**

	$	$	
Sales revenue	294,650		
Less Sales returns	11,250		
Net sales revenue		283,400	[1]
Less Cost of sales		78,230	
Gross profit		205,170	[1]OF
Add: Other Income			
Commission income (2150+1200)		3,350	[1]
		208,520	
Less: Other Expenses			
Wages and salaries	20,300		
Motor vehicle expenses (8960-1600)	7,360		[1]
Rent and rates (2500x12)	30,000		[1]
Discount allowed	10,630		
Insurance expense (19800/15 x 12)	15,840		[1]
Depreciation on equipment (20%x80000)	16,000		[1]
Depreciation on motor vehicles (25%x[40000-10000])	7,500		[1]
Impairment loss on trade receivables (6%x46700)	2,802		[1]
		110,432	
Profit for the year		98,088	[1]
			[10]

Qi Qi Trading

Q1(b) **Statement of financial position as at 30 April 2023**

Assets

Non-current assets	Cost	Accumulated Depreciation	Net book value	
Equipment	80,000	28,000	52,000	[1]
Motor vehicles	40,000	17,500	22,500	[1]
	120,000	45,500	74,500	
Current assets				
Trade receivables	46,700			
Less Allowance for impairment of TR	2,802	43,898		[1]
Cash at bank		2,890		
Inventory		36,200		
Prepaid insurance expense (3/15x19,800)		3,960		[1]
Commission income receivable		1,200	88,148	[1]
Total assets			162,648	
Equity and liabilities				
Owner's equity				
Capital (40,470+98,088-[15600+1,600])			121,358	[4]
Current liabilities				
Trade payables		36,290		
Rent and rates expense payable		5,000	41,290	[1]
Total liabilities and equity			162,648	**[10]**
				[20]

2023 MJR 4E5N PRELIM PAPER 2

Q2 Cost of sales is calculated as follows:

(a)

	Units sold	**Cost of sales**	
		$	
	80	20,000	[1]
	130	29,900	[1]
	150	33,000	[1]
	110	26,400	[1]
	470	**109,300**	

(b) Inventory at 31 March 2023 (90 units unsold) = **$22,950** [1]

(c) Rate of inventory turnover = Cost of sales/Average inventory

'= $109,300 OF from (a)

(20,000+22,950)/2 OF from (a)

'= $109,300 / 21,475 = **5.09 times** [1]

(d) The rate of inventory turnover **has worsened** from 9.25 times in 2021 to 7.17 times in 2022 and 5.09 times in 2023. [1]

(e) Decrease in the rate of inventory turnover may be caused by:

(i) **Decrease in sales quantity , possibly due** to high selling price, fall in demand for goods, increased competition

(any one possible reason, 1 mark each)

(ii) **Increase inventory quantity, possibly due** to poor inventory control [1] [2]

(any two of the above or any reasonable alternative, max 2 marks)

(f)(i) Dr Cash at bank $12,100 [1] Cr Sale of non-current asset $12,100 [1] [2]

(f)(ii) Dr Motor vehicles $30,000 [1] Cr Trade payable - Siaw Hung Motoring [1] [2]

(g) Profit for the year would decrease [1] by $3,260 [1] [2]

(h) Materiality theory [1]

[16]

2023 MJR 4E5N PRELIM PAPER 2

Q3

(a)(i) Mark-up on cost = Gross profit / Cost of sales x 100

= [45,000 -15,000] - 18,000 [1] /18,000 x 100

= 12,000 / 18,000 x 100 = **66.67%** [1] [2]

(a)(ii) Gross profit margin = Gross profit / Net sales revenue x 100

= 12,000 / 30,000 x 100 = 4**0.00%** [1]

(a)(iii) Profit margin = Profit / Net sales revenue x 100

= 12,000 - 8,000 [1] / 30,000 x 100 = **13.33%** [1] [2]

(b) The mark-up on cost of Precious Times at 100% is better than that of Great Times at 66.67%. [1] This means Precious Times is able to set a higher selling price on its products .[1]

The gross profit margin of Precious Times at 50% is better than that of Great Times at 40%. [1] This could be due to Precious Times being able to sell its goods at a high mark-up or purchase its goods at a lower cost price than Great Times. [1]

Moreover, the profit margin for Precious Times at 25% is better than that of Great Times at 13.33%. [1] This can mean that Precious Times is better able to manage its expenses as compared to Great Times. [1]

Overall, the Precious Times is more profitable than Great Times.[1]
[max 5 marks] [5]

[10]

2023 MJR 4E5N PRELIM PAPER 2

Q4

(a) On 7 November 2021, Royson Fashion wrote off $5,460 debts owed by Nabillah. [1]

On 30 June 2022, Royson Fashion reviewed its trade receivables and increased the amount of allowance for impairment of trade receivables by$8,190 to $8,960. [1]

(b) Journal

Date	Particulars	Debit ($)	Credit ($)
2023			
Jun-30	Allowance for impairment of trade receivables	1,700	
	Impairment loss on trade receivables		1,700
	[(5%x145,200) - $8,960]		

[2]

(c) According to the prudence theory [1], businesses should choose the accounting treatment that least overstates assets and profits and least understates liabilities and losses. [1] Hence, at the end of every financial period, a business will review its trade receivables and estimates the amount of its trade receivables that will be uncollectible so as not to overstate its expense (impairment loss on trade receivables and asset-trade receivable. [1] [3]

(d) **Decision:** Royson Fashion should grant **Grace Ltd** the longer credit period. [1]

1. Royson Fashion annual sales revenue to Grace Ltd is $45,000 higher than that to Sunny Trading. [1] Hence, Grace Ltd is a larger customer and it is more beneficial to maintain a good business relationship with Grace Ltd. [1]

2. Grace Ltd has been operating its business for 10 years, which is 8 years more than Sunny Trading.[1] Hence, Royson Fashion can be more assured that Grace Ltd is more stable, less likely to close down and can pay its debts.[1]

3. Grace Ltd has a strong and stable customers base who like quality and stylish clothing and accessories.[1] The positive industry outlook will enable Grace Ltd to generate consistent sales and hence she will be better able to pay its debts to Royson Trading. [1]

OR

Decision: Royson Fashion should grant **Sunny Trading** the longer credit period. [1]

1. Sunny Trading operates its business locally while Grace Ltd operates overseas.[1] Thus, it is easier to collect debts from Sunny Trading as there is no potential language problem in the debt collection process; may also mean there are fewer possible delays in receiving payment and/or there is no risk due to currency exchange. [any one, 1 mark]

2. Sunny Trading usually repays its debts faster to Royson Fashion, average 10 days faster compared to Grace Ltd.[1] Hence, Royson Fashion is assured of Sunny Trading's ability to repay its debts / is able to collect cash earlier for its daily operations. [1]

3. The demand for Sunny Trading's clothing and accessories is increasing among its growing youthful customers who has the ability to spend more.[1] The positive industry outlook will enable Sunny Trading to generate higher sales in the future and hence better able to pay its debts to Royson Trading. [1]

[7]

[14]