

## Answer to 4E5N MYE 2022 P2

### Question 1

(a) Grit Pte Ltd

#### Statement of Financial Performance for the year ended 30 June 2022

	\$	\$
Sales revenue	185,000	
Less Sales returns	(25,700)	
Net Sales revenue		159,300
Less Cost of sales		(84,500)
Gross profit	<b>[1]</b>	74,800
Add Other Income		
Commission income (1150 – 420) <b>[1]</b>	730	
Discount received	310	
Total Other Income		1,040
Total Income		75,840
Less Other Expenses		
Utilities	11,870	
Advertising (6130 – 400) <b>[1]</b>	5,730	
Interest expense (8% X 50000) <b>[1]</b>	4,000	
Rental expense	8,500	
Salaries	22,710	
Depreciation of fixtures and fittings (15% X 42000) <b>[1]</b>	6,300	
Depreciation of office equipment 20% X (78300 – 23000) <b>[1]</b>	11,060	
Reversal of impairment loss on trade receivables		
(6140 – 1500) – 5% X (81500 – 1500) <b>[1]</b>	(640)	
Total expenses		(69,530)
Profit for the year		6,310

[7]

(b) Grit Pte Ltd  
Statement of Financial Position as at 30 June 2022

<u>Assets</u>	\$	\$	\$
	Cost	Accumulated Depreciation	Net Book Value
<u>Non-current Assets</u>		(23,000 + 11,060)	
Office equipment	78,300	(34,060)	44,240 <b>[1]</b>
		(8,360 + 6,300)	
Fixtures and fittings	42,000	(14,660)	27,340 <b>[1]</b>
Total Non-current Assets			71,580
<u>Current Assets</u>			
Inventory		31,640	
Trade receivables (81,500 – 1,500) <b>[1]</b>	80,000		
Less Allowance for impairment of trade receivables (5% X 80,000)	(4,000)		
Net Trade receivables		76,000	<b>[1]</b>
Prepaid advertising (1200/6 X2) <b>[1]</b>		400	
Total Current Assets			108,040
Total Assets			179,620
<u>Equity and Liabilities</u>			
<u>Shareholders' Equity</u>			
Share capital, 180,000 ordinary shares <b>[1]</b>		90,000	
Retained earnings (22,390 – 3,600 <b>[1]</b> + 6,310 <b>[OF 1]</b> )		25,100	
Total Shareholders' Equity			115,100
<u>Non-current Liabilities</u>			
Long term borrowings (50,000 – 10,000) <b>[1]</b>			40,000
<u>Current Liabilities</u>			
Bank overdraft		1,380	
Trade payables		8,120	
Current portion of long term borrowings <b>[1]</b>		10,000	
Commission income received in advance <b>[1]</b>		420	
Interest payable (4,000 – 3,000) <b>[1]</b>		1,000	
Dividends payable (0.02 X 180,000) <b>[1]</b>		3,600	
Total Current Liabilities			24,520
Total Equity and Liabilities			179,620

[13]

Question 2

(a) Cash at bank Account

Date	Particulars	Dr	Cr	Balance
2022		\$	\$	\$
Apr 30	Balance b/d		<b>[1]</b>	5 300 Dr
Apr 30	Trade receivable Yuesni Trading			
	(Dishonoured cheque) <b>[1]</b>		1 800	
Apr 30	Inventory (1010 – 1110) <b>[1]</b>	100		
Apr 30	Commission income <b>[1]</b>	310		
Apr 30	Bank charges <b>[1]</b>		25	3 885 Dr
2022				
May 1	Balance b/d			3 885 Dr

[5]

(b) Bank Reconciliation Statement as at 30 April 2022

	\$	\$
Credit balance as per Bank Statement	<b>[1]</b>	2 385
Add Deposits in transit		
Trade receivable Jo Jo Trading	<b>[1]</b>	2 100
Less Cheques not yet presented		
Utilities (3017)	<b>[1]</b>	(600)
Updated balance as per Cash at Bank Account		3 885

[3]

(c) Any one of the following (1 mark)

- Cheque has expired as it was dated more than 6 months ago
- Cheque is post-dated as the date on the cheque is a future date
- Information on the cheque is not consistent, for example, the amount written in numbers does not match amount written in words (or signature is different from the authorized version in the bank's records)
- Information on cheque is not complete, for example, there is no date (or amount to be paid or signature)
- The payer's bank account does not have sufficient funds to make the payment/the account has been closed/frozen

[1]

(d) Commission income increases profit by \$310 **[1]**  
Bank charges decreases profit by \$25 **[1]**

[2]

[Total: 11]

### Question 3

- (a) A business needs to be liquid so that it can pay its current liabilities and operating expenses **[1]** to ensure that the business can continue its operations smoothly. **[1]**

[2]

- (b)

	2021	2022
Current ratio = Current assets / Current liabilities	$9,270 / 4,120 = 2.25$ <b>[1]</b>	$12,505 / 12,260 = 1.02$ <b>[1]</b>
Quick ratio = (Current assets – Inventory – Prepayments) / Current liabilities	$(9,270 - 2,900 - 250) / 4,120 = 6,120 / 4,120 = 1.49$ <b>[1]</b>	$(12,505 - 4,300 - 120) / 12,260 = 8,085 / 12,260 = 0.66$ <b>[1]</b>

[4]

- (c) Comments on liquidity (1 mark for each comment, maximum 4 marks)

- Current ratio has worsened from 2.25 in 2021 to 1.02 in 2022.
- Current ratio in 2022 is below the general benchmark of 2 indicating that the business has insufficient current assets to pay short-term debts in 2022.
- Quick ratio has worsened from 1.49 in 2021 to 0.66 in 2022.
- Quick ratio in 2022 is below the general benchmark of 1 indicating that the business has insufficient quick assets to pay short-term debts.
- Liquidity may have worsened in 2022 due to the 5% bank loan of \$5,000 which is repayable in 2023 and caused current liabilities to increase in 2022.
- Another reason for the worsening liquidity in 2022 is due to the cash at bank becoming an overdraft of \$1,000 in 2022.
- One reason that has contributed to the worsening quick ratio is the increase in inventory from \$2,900 in 2021 to \$4,300 in 2022.
- One reason for the worsening current and quick ratio in 2022 is due to the increase in trade payable of \$3,840 in 2021 to \$5,940 in 2022.

[4]

- (d) Proposal 1 will improve the liquidity by \$5,000 because the receipt of cash from the sale will increase current assets. **[1]**

The loss on the sale of the motor vehicle of \$3,000 (\$8,000 – 5,000) will reduce profit by \$3,000 as it is an expense. **[1]**

Proposal 2 will not improve the liquidity of the business because the receipt of cash which increases current assets is cancelled out by the increase in current liabilities as the loan is a short-term loan. **[1]**

The loan will incur interest expense which will reduce profit. **[1]**

[4]

[Total: 14]

Question 4

(a) Trade payable Zelah Account

Date	Particulars	Dr	Cr	Balance
2022		\$	\$	\$
Jul 1	Balance b/d			1,500 Cr
Jul 3	Inventory <b>[1]</b>		2,600	
Jul 15	Capital (1500 + 2600) <b>[OF1]</b>	4,100		
Jul 20	Inventory (90% X 6,200) <b>[1]</b>		5,580	
Jul 22	Inventory (90% X 700) <b>[1]</b>	630		
Jul 28	Cash at bank (4,950 X 98%) <b>[1]</b>	4,851		
Jul 28	Discount received (4,950 X 2%) <b>[1]</b>	99		-

[6]

- (b) 20 July 2022 – Invoice received **[1]**  
22 July 2022 – Credit note received **[1]**

[2]

- (c) Jaycel should buy the pots from Rizhar Trading. **[1]**

Any three of the following points:

Rizhar Trading operates in Singapore and the delivery from a local supplier will be more reliable compared to an overseas supplier. **[1]** This will enable Jaycel to be more confident of the pots being delivered on time to satisfy customers' demands and help the business improve its reputation to attract more customers to help the business earn more sales revenue. **[1]**

Rizhar Trading allows pots purchased to be returned within three months whereas pots purchased from Btrice International cannot be returned. **[1]** This will enable Jaycel to return the pots if she finds them unsuitable or damaged and she will not need to incur impairment loss on inventory for pots that may need to be sold at below cost price because they are not attractive to customers or damaged. **[1]**

Rizhar Trading gives a cash discount of 2% for payments made within 7 days. **[1]** This will enable Jaycel to earn discount received as a source of other income if she is able to make the payment within the discount period which will help her earn more profits. **[1]**

Rizhar Trading is a reputable supplier who has been in business for a long time, over two decades. **[1]** This means that Jaycel can trust Rizhar Trading to provide good customer services and deliver quality products to help her run her business operations more smoothly. **[1]**

Or

Jaycel should buy the pots from Btrice International. **[1]**

Any of the three following points:

If Jaycel buys 50 pots from Btrice International, the cost is  $(50 \times \$48) + 400 = \$2,800$  compared to the cost of buying 50 pots from Rizhar Trading which is  $(50 \times \$60) = \$3,000$ . **[1]** There is a cost savings of \$200  $(3,000 - 2,800)$  which will enable Jaycel to earn more profits. **[1]** And if Jaycel buys more than 50 pots, the cost savings will be even more if she buys from Btrice International.

Btrice International does not impose a minimum quantity for purchase whereas Rizhar Trading has a minimum quantity of 50 pots per order. **[1]** If Jaycel buys from Btrice International, she has more flexibility in the quantity for each order and she need not be forced to order at least 50 pots each time. This will help her improve on the efficiency of her inventory management as she can order the quantity that she deems optimal. **[1]**

Btrice International allows Jaycel to owe for 30 days compared to 21 days by Rizhar Trading. **[1]** A longer period of 9 days will help Jaycel with her cash flow as she can owe for a longer period and use her cash for more urgent uses. **[1]**

Btrice International has been trading for three years and has received positive feedback on its products and customer services. **[1]** Jaycel can trust that Btrice International is a reliable supplier and can be relied upon to deliver quality products and provide good customer services to help her run her business operations smoothly. **[1]**

[Total: 15]