

OUTRAM SECONDARY SCHOOL
POA 4E5N PRELIM EXAM PAPER 1 2022
MARK SCHEME

Question 1

(a)

Cash at bank account				
2022		Dr (\$)	Cr (\$)	Bal (\$)
Jul 31	Balance b/d			8 030 DR
Jul 31	Utilities		170 [1]	7 860 DR
Jul 31	Equipment (error)	80 [1]		7 940 DR
Jul 31	Trade receivable, Anyang (Dis Chq)		2 220 [1]	5 720 DR
Jul 31	Bank charges		60 [1]	5 660 DR
Aug 1	Balance b/d			5 660 DR [1]

[5m]

(b)

Busan			
Bank reconciliation statement as at 31 July 2022			
	\$		\$
Balance as per bank statement			6 110 [½]
LESS: Cheques not yet presented [½]			
Trade payable, Sejong Trading (cheque 334363)		(450) [1]	
Adjusted balance as per cash at bank account			5 660 [1]

[3m]

(c)

The business refers to money kept with the bank as an asset.

[1]

The bank refers to the money that the business keeps with the bank as a liability.

[1]

[2m]

[Total: 10m]

Question 2

(a)

Trade receivables collection period (days) = $\frac{\text{Average net trade receivables}}{\text{Net credit sales revenue}} \times 365 \text{ days}$

	31 August 2021	31 August 2022
Workings	$\frac{(12000+16000) \div 2}{178000} \times 365 \text{ days [1]}$	$\frac{(16000+22000) \div 2}{198000} \times 365 \text{ days [1]}$
Trade receivables collection period (days)	28.71 days [1]	35.03 days [1]

[4m]

(b)

1	Itaewon's trade receivables collection period has worsened from 28.71 days in 2021 to 35.03 days in 2022.	[1]	1 mark per suitable comment to a maximum of 3 marks.
2	This shows that the business is taking a longer time to collect payment from its credit customers this year as compared to last year.	[1]	
3	More significantly, the trade receivables collection period of 35.03 days on 31 August 2022 has exceeded the credit terms of the business of 30 days.	[1]	
4	By taking a longer than usual period to collect payment from its credit customers, Itaewon would have lesser cash, causing its liquidity position to worsen.	[1]	
5	Hence, Itaewon has become much less efficient at managing its trade receivables over the three years.	[1]	

[3m]

(c)

1	Improve billing efficiency by send out invoices as quickly as possible after completion of work and stating payment terms clearly.	[1]	1 mark per suitable reason to a maximum of 2 marks.
2	Incentivise early payments by offering customers discounts or rewards for early payment of invoices.	[1]	
3	Take initial deposits or make progress bills to customers. A percentage of the total quote (20%, 50%) is to be paid prior to commencing work or at agreed stages throughout the job.	[1]	
4	Foster positive customer relationships through quality and timely work, and maintaining regular communication with customers.	[1]	
5	Invest in software systems that monitors unpaid accounts and automatically send reminders, or assign a dedicated person to make phone calls for payments due.	[1]	
6	Engage customers proactively. Do not leave overdue payments for a long period of time. Make calls as soon as payment is overdue.	[1]	

[2m]

(d)

Sources of non-accounting information			
1	Economic outlook When the economy is not doing well, most businesses will be adversely affected and the customer would be less likely to be able to repay his or her debts.	[1]	1 mark per suitable source to a maximum of 2 marks.
2	Industry outlook When the industry is booming, customer will more likely be able to repay his or her debts.	[1]	
3	Reputation of customers Positive reviews about the business can indicate the good reputation of a business. A customer with a good reputation is usually known for providing quality goods and services.	[1]	
4	Repayment history When a customer has a good track record of making prompt payments, the business is more assured of his or her ability to repay debts.	[1]	

[2m]

(e) Prudence theory [1]

[1m]

[Total: 12m]

Question 3

(a) (i) Rental income received in advance

The entry on 31 December 2021 is to adjust **\$6 000** [1]
of **rental income received in advance but not yet earned this year.** [1]

(ii) Income summary

The amount of **rental income to be reported in the statement of financial performance** [1]
is **\$36 000.** [1]

[4m]

(b)

	Overstated	Understated	No effect	
Profit for the year	√			[1]
Current assets			√	[1]
Current liabilities		√		[1]

[3m]

(c)

Accrual basis of accounting/Accrual theory. [1]

OR

Matching theory. [1]

[1m]

[Total: 8m]

Question 4

- (a) (i) On 4 June 2022, the business purchased goods worth \$4500 on credit from Hongik. [1]
(ii) On 9 June 2022, the business sold goods costing \$3 800. [1]
(iii) On 15 June 2022, the owner took out some goods costing \$1200 for personal use. [1]
(iii) On 24 June 2022, the business returned goods costing \$300 purchased previously by cash. [1]

[4m]

- (b) Amount of impairment loss on inventory expense
= \$3000 - \$2910
= \$ 90 [1]

[1m]

- (c) Objectivity theory [1] requires all transactions recorded to be supported by verifiable evidence.

An invoice is the document that serves as the evidence for credit purchase of goods and services [1].

[2m]

(d)

General Journal				
2022	Particulars	Debit (\$)	Credit (\$)	
Jun 30	Trade receivable, Simchon	2000		[1]
	Trade receivable, Simchon		2000	[1]

[2m]

- (e) No effect [1]

[1m]

[Total: 10m]

OUTRAM SECONDARY SCHOOL
POA 4E5N PRELIM EXAM PAPER 2 2022
MARK SCHEME

Question 1

(a)

Incheon Limited				
Statement financial performance for the year ended 30 June 2022				
	\$		\$	
Sales revenue	171 330			
Less Sales returns	(9 850)			
Net sales revenue	161 480	[1]		
Less Cost of sales	(74 150)			
Gross profit			87 330	[1]
Other Income				
Commission income	1 540			
Discount received	2 600		4 140	[1]
Total income			91 470	
LESS: Other Expenses				
Depreciation of Motor vehicles [10%x48000-4800]	4 320	[1]		
Interest expense (3%x30000)	900			
Stationery (4870-800)	4 070	[1]		
Impairment loss on trade receivables [(5%x35400)-300]	1 470	[1]		
Utilities expense	15 400			
Wages and salaries	54 000	[1]	(80 160)	
Profit for the year			11 310	

[8m]

(b)

Incheon Limited Statement of financial position as at 30 June 2022			
	\$ Cost	\$ Accumulated depreciation	\$ Net book value
ASSETS			
Non-current assets			
Property	50 000		50 000
Motor vehicles	48 000	(9 120) [1]	38 880
	98 000	(9 120)	88 880 [1]
Current assets			
Inventory		15 600	
Trade receivables	35 400		
Less: Allowance for impairment of trade receivables	(1 770) [1]		
		33 630	
Unused / Prepaid stationery		800 [1]	
			50 030
Total Assets			138 910
EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital, 50 000 ordinary shares		50 000	
Retained earnings (25600+11310 [1of] 5000 [1])		81 910	
Total Equity			81 910
Non-current liabilities			
Long term borrowings (75% x 30000)		22 500 [1]	
			22 500
Current liabilities			
Trade payables		13 890	
Bank overdraft (Short-term borrowings)		3 400 [1]	
Wages and salaries payable (54000-49890)		4 110 [1]	
Interest expenses payable (900-300)		600 [1]	
Dividends payable (0.1x50000)		5 000 [1]	
Current portion of long-term borrowings		7 500 [1]	
			34 500
Total Equity and Liabilities			138 910

[12m]

[Total: 20m]

Question 2

(a)

General Journal				
2022	Particulars	Debit (\$)	Credit (\$)	
May 5	Cost of sales	1800		[1]
	Inventory		1800	[1]
	Trade receivable, Namsan	2250		[1]
	Sales revenue (90% x 2500)		2250	[1]
May 18	Cash at bank (98% x 2250)	2205		[1]
	Trade receivable, Namsan		2205	[1]
	Discount allowed (2% x 2250)	45		[1]
	Trade receivable, Namsan		45	[1]

[8m]

- (b) The business offers a trade discount to encourage customer patronage, or loyalty, and for them to buy in bulk. [1] [1m]
- (c) The business offers a cash discount to credit customers to encourage early /prompt payment. [1] [1m]
- (d) Applying the prudence theory, [1]
Inventory is valued at lower of cost or net realizable value to ensure that inventory is not overstated. [1] [2m]

[Total: 12m]

Question 3

(a)

Make a Decision	Decision A		Decision B	
Make a choice and state your decision clearly.	Purchase the van.	[1]	Lease the van.	[1]
Supporting Evidence & Explanation	Any Three Points 3 x 2m	[6]	Any Three Points 3 x 2m	[6]
	<u>Cost savings</u> The total cost of buying the van = \$8000 (down payment) + \$86400 (instalments) + 6 000 (modification) = \$100400. Assuming the life span of the van is ten years, each year depreciation is \$10400. Compared to leasing, the cost per year is $1200 \times 12 = \$14400$. Thus, it is cheaper to buy than to rent.	2	<u>Liquidity of business</u> If purchase van, Jungno needs to pay upfront immediately down payment of \$8 000 and the next 12 months, \$1440 instalment each month. Working capital would decrease by \$25280. Jungno's current ratio of 1.98 may fall even lower if he were to own the van. If he leases, he only pays \$1200 immediately and also \$1200 monthly subsequently. Liquidity of business will not be adversely affected.	2
Candidates should provide max 3 reasons to support their decision.	<u>Servicing and Maintenance</u> Free servicing at authorized workshop for first 2 years, or 50,000km. Less hassle and less worries as van is maintained at tip-top condition. Reduces costs of maintenance and repairs for van, which translate to increased profitability.	2	<u>Servicing and Maintenance</u> With leasing, the servicing of the van is taken care of. Should the van be out of action, the leasing company will have a replacement van. This reduces the disruption of business delivery service, and he will be able to increase his service excellence to attract more customers.	2
Each reason should comprise of 1 basic statement for 1 mark which is then developed for an additional 1 mark – total 6 marks for discussing 3 reasons.	<u>Modifications to van</u> Jungno can modify the van to meet the needs of his business. Can optimize the use of van through modification and not be limited by the leasing company's specification of modification.	2	<u>Modifications to van</u> Carry out some modifications to van since van must be restored to original condition upon termination of lease. Divert cost savings to marketing on social media to enhance brand awareness.	2
	<u>Vehicle ownership</u> As the owner of the van, Jungno is allowed to use the van in other ways. He may even rent out his van to earn some additional income.	2	<u>Delivery trials</u> Jungno can trial delivery service. Not all customers may want this additional service if they feel that cost of delivery is passed on to them. Jungno can lease van first to assess needs before investing in van.	2
Marks will be awarded as follows: - Max 1 mark for only decision without any basic statement or development. - A decision only supported with basic statements will get only the decision mark and max three marks for basic development. - No additional developmental marks will be awarded where same basic statement is developed in two different ways.				

[7m]

(b)

Depreciation of existing equipment	$= [20\% \times (\$16000 - \$4200) \times 6/12] + [20\% \times (\$16000 - \$4200)]$ $= \$1180 + \2360 $= \$3540$	[1]
Depreciation of new equipment	$= [20\% \times \$5000 \times 6/12]$ $= \$500$	[1]
Depreciation expense for equipment for the year ended 30 June 2022	$= \$3540 + \500 $= \$4040$	[1]

(c)

Net book value	$= \$16000 - (\$4200 + \$1180)$ $= \$10620$	
Gain on sale of non-current asset	$= \$15000 - \10620 $= \$4380$	[1]

[1m]

(d)

Jongno Statement of financial position as at 30 June 2022 (Extract)				
	\$ Cost	\$ Accum. Dep		\$ Net Book Value
<u>Non-current assets</u>				
Equipment	24000	7060	[1]	13940
				[1]
				[3m]
				[Total: 14m]

Question 4

(a)

Liquidity is the ability of a business to convert current assets into cash to pay current liabilities. Liquidity is important for learning how easily a company can pay off its short-term liabilities and debts. [1]

A business needs to have sufficient liquidity to pay off its day-to-day operating expenses, reduce reliance on external financing, and be able in a good position to seize good investment or growth opportunities. [1]

[2m]

(b)

	2021		2022
Current ratio	= 3.11	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$ $\frac{21100}{14600}$ 1.45
Quick ratio	= 1.46	=	$\frac{\text{Current assets} - \text{Inventory} - \text{Prepayments}}{\text{Current liabilities}}$ $\frac{8400}{14600}$ 0.58

[4m]

(b)

1	Working capital position has worsened each year from \$15200 in 2021 to \$6500 in 2022. [1] Although there is excess of current assets over current liabilities, its working capital has been decreased significantly from the previous year and requires attention. [1]	[1]	Max 2 marks
2	Current ratio has worsened each year from 3.11 in 2021 to 1.45 in 2022. [1] The current ratio falls below the general benchmark of 2 in 2022/ Indicates insufficient liquid funds available to pay its short-term debts. [1]	[2]	
3	Quick ratio has worsened each year from 1.46 in 2021 to 0.58 in 2022. [1] The quick ratio has fallen below the general benchmark of 1 in 2022/ Indicates inability to its immediate debt obligations when they fall due using quick assets, which can be converted into cash more quickly than other current assets. [1]	[2]	Max 2 marks
4	Inventory holdings have worsened since inventory has increased from \$10000 in 2021 to \$12000 in 2022. [1] Increasing inventory may mean funds are tied up which could possibly be invested into more productive uses. [1]	[2]	
5	Trade receivables position has worsened since trade receivables have increased each year from \$7 000 in 2021 to \$8 400 in 2022. [1] Increasing trade receivables may mean trade receivables are not paying up. [1]	[2]	Max 2 marks
6	The cash at bank balance has worsened each year from \$3500 in 2021 to an overdraft of \$800 in 2022. [1] The decline in the bank balance into overdraft in 2022 may mean the business is unable to pay day-to-day expenses. [1]	[2]	
7	Trade payables position has worsened since trade payables have increased each year from \$2000 in 2021 to \$8400 in 2022. [1] Increasing trade payables may affect its ability to obtain credit. [1]	[2]	
8	\$5000 of long-term borrowings due for repayment within next 12 months will adversely affect its ability to pay for day-to-day operating expenses and its ability to meet short debt obligations. [1]	[1]	
9	Hence, liquidity has worsened drastically over the two years. Can improve liquidity by increasing its sources of cash, such as getting its owners to inject more capital, in the form of cash, to pay its credit suppliers. [1]	[1]	

Comments must relate over the two-year period.

[6m]

(c)

Bank loan	Bank overdraft
It is a fixed amount of money borrowed from bank by a business for a specific purpose, which is to be repaid with interest over a certain length of time. [1]	It is money owing to the bank by a business when the total withdrawals exceeds total deposits of funds it has in its bank account, used to tide over temporary cash shortage and is to be repaid within a few days or months. [1]
OR	
Shown as credit balance in Loan from bank account and classified under the non-current liabilities section as long-term borrowings in the statement of financial position. [1]	Shown as credit balance in the Cash at bank account and classified under the current liabilities section as bank overdraft (short-term borrowings) in the statement of financial position. [1]

[2m]

[Total: 14m]