2023 Anderson Secondary School Sec 5N Prelims

1 Skin Lab only buys and sells beauty products on credit. The net trade receivables were given as $26 000 on 1 January 2022. The following information is extracted from the books of Skin Lab for the year ended 31 December 2022.

	$
Cost of sales	90 000
Total expenses	5 500
Trade receivables	22 000
Mark-up on cost	25%

REQUIRED

(a) Explain what is meant by trade receivables collection period. [1]

____

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____

(b) Calculate the following, correct to **two** decimal places when necessary:

(i) Net sales revenue [1]

____

____

____

(ii) Rate of trade receivables turnover [1]

____

____

____

(iii) Trade receivables collection period [1]

____

____

____

Setter: Mdm June Liau

The following information was provided by two similar businesses, Bio Lab and JW Beauty, for the year ended 31 December 2022.

	Bio Lab	JW Beauty
Rate of trade receivables turnover	4.45 times	6.24 times
Trade receivables collection period	82.02 days	58.49 days

REQUIRED

(c) Comment and compare the efficiency in the management of trade receivables between the two businesses. [4]

(d) State **two** sources of non-accounting information that a business may use when deciding whether to grant credit to a customer. [2]

[Total: 10]

2 The following information was extracted from the books of Xiang Pte Ltd for the financial year ended 30 June 2022.

	$
Share capital, 50 000 ordinary shares	100 000

On 1 November 2022, 10 000 shares at $2.50 each were issued. All shares were fully paid.

REQUIRED

(a) Calculate the total share capital of the business as at 30 June 2023. [1]

____

____

____

The retained earnings account for the year ended 30 June 2023 was also provided.

Retained earnings account

Date	Particulars	Debit	Credit	Balance
2022		$	$	$
Jul 1	Balance b/d			45 000 Cr
2023				
Jun 30	Income summary	50 000		5 000 Dr
Jul 1	Balance b/d			5 000 Dr

REQUIRED

(b) Calculate the net assets of the business as at 30 June 2023. [2]

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____

____

(c) Interpret the entry on 30 June 2023 in the retained earnings account. [1]

____

____

____

____

(d) Interpret the entry on 1 July 2023 in the retained earnings account. [1]

____

____

____

(e) Define the following terms:

(i) Dividends [1]

____

____

____

(ii) Retained earnings [1]

____

____

____

(f) State the effect (increase, decrease or no effect) of the following items on retained earnings.

(i) Dividends ______________________ [1]

(ii) Issue of additional shares ______________________ [1]

(iii) Profit for the year ______________________ [1]

[Total: 10]

3 Lysander owns a stationery store. Details from the cash at bank account and bank statement of the business for the month of March 2023 are as follows:

Cash at Bank Account

Date	Particulars	Cheque Number	Debit	Credit	Balance
2023			$	$	$
Mar 1	Balance b/d				1 045 Dr
3	Utilities	0121		240	805 Dr
4	Jolly	0122		750	55 Dr
6	Sales revenue		2 910		2 965 Dr
12	Betty		1 015		3 980 Dr
15	Danny	0123		2 555	1 425 Dr
22	Athina	0124		875	550 Dr
27	Cash		3 670		4 220 Dr
31	Shuzhen		2 050		6 270 Dr

Bank Statement

Date	Particulars	Payments	Receipts	Balance
2023		$	$	$
Mar 1	Balance b/d			1 525 Cr
3	Cheque 0120	480		1 045 Cr
4	Bank transfer (Min)		150	1 195 Cr
6	Cheque 0121	240		955 Cr
9	Cheque deposit		2 910	3 865 Cr
13	Cheque deposit		1 015	4 880 Cr
14	Cheque deposit (Rejected: 13 March)	1 015		3 865 Cr
16	Cheque 0123	2 755		1 110 Cr
25	Cash		3 670	4 780 Cr
27	Direct debit: Insurance	4 975		195 Dr
31	Bank charges	100		295 Dr

Additional information:

Lysander has recorded the amount for cheque number 0123 incorrectly in his books.

REQUIRED

(a) Update the cash at bank account on 31 March 2023. Bring down the corrected balance. [5]

(b) Prepare a bank reconciliation statement on 31 March 2023. [5]

[Total: 10]

4 Jin Flowers sells floral bouquets. It also conducts floral arrangement workshops occasionally.

	1 Jan 2022	31 Dec 2022
Workshop fee income receivable	$1 800	
Workshop fee income received in advance		$960

During the year, the business received electronic transfers amounting to $6 800 for workshop fees.

REQUIRED

(a) Prepare journal entries to account for the workshop fee income for the year ended 31 December 2022, including the closing entry. Narrations are **not** required. [8]

Date	Particulars	Debit $	Credit $

(b) Name and explain the accounting theory which must be applied when accounting for the sale of goods or the provision of services. [2]

Name: ______________________________

Explanation: ______________________________

____

____

[Total: 10]

END OF PAPER

1 The following balances were extracted from the books of Ning Trading on 31 August 2023.

	$
Capital (1 September 2022)	135 000
Drawings	8 660
Fixtures and fittings at cost	100 000
Motor vehicles at cost	200 000
Accumulated depreciation:	
Fixtures and fittings	38 000
Motor vehicles	61 000
5% Bank loan	50 000
Sales revenue	236 500
Sales returns	14 200
Cost of sales	99 100
Wages and salaries	52 200
Motor vehicle repairs	13 800
General expenses	8 700
Discount received	210
Rent received	39 000
Trade payables	16 400
Trade receivables	29 000
Cash at bank	28 500
Allowance for impairment of trade receivables	1 750
Inventory	23 700

Additional information at 31 August 2023

1 At 31 August 2023
 (i) Wages and salaries, $2 700, was owing.
 (ii) Rent received was for 16 months ending 31 December 2023.
 (iii) 5% interest on bank loan was still outstanding.

2 The net realizable value of the inventory is $22 000.

3 Commission income receivable at 31 August 2023 was $5 000.

4 Fixtures and fittings at 10% per annum using the straight-line method.
Motor vehicles is depreciated at 20% per annum using the reducing-balance method.

5 A credit customer, Alice went bankrupt. It was decided to write off the $1 500 owed by her.

6 A review of trade receivables on 31 August 2023 showed that 3% of the balance may not be collectible.

7 Bank charges of $120 have not been recorded.

REQUIRED

(a) Prepare the statement of financial performance for the year ended 31 August 2023.
[10]

(b) Prepare the statement of financial position as at 31 August 2023.
[10]

(c) Explain the accounting entity theory.
[2]

[Total: 22]

GL

2 Yen started a trading business, Yen Pte Ltd, on 1 August 2013. He has provided the following information about his business for the two years ended 31 July 2022 and 2023.

	31 July 2022	31 July 2023
	$	$
Net Sales revenue	360 000	470 000
Cost of sales	270 000	341320
Gross profit	90 000	128 680
Total expenses	36 000	67 500
Share capital	400 000	400 000
Retained earnings	80 000	120 000

REQUIRED

(a) Calculate the following ratios for the year ended 31 July 2023. Each calculation should be correct to **two** decimal places. Show all workings.

(i) Mark-up on cost [1]
(ii) Gross profit margin [1]
(iii) Profit margin [1]
(iv) Return on equity [2]

The following information about Yen's business was also made available for the year ended 31 July 2022.

Mark-up on cost	33.33%
Gross profit margin	25%
Profit margin	15%
Return on equity	11.25%

REQUIRED

(b) Comment on the profitability of Yen Pte Ltd's business over the two years ended 30 July 2022 and 2023. [6]

The company is still making profits despite the downturn due to global uncertainties. Yen released a statement to all shareholders assuring them that since the company is making profit, its liquidity position will also be healthy.

REQUIRED

(c) Comment on Yen's statement. [2]

Yen Pte Ltd Chief Finance Officer (CFO) was instructed to look into the liquidity of the business over the two years ended 31 July 2022 and 2023.

REQUIRED

(d) Explain what is meant by the liquidity of a business. [1]

[Total: 14]

3 Zen Consultancy, a firm providing consultancy services, uses source documents to record the occurrences of transactions.

REQUIRED

(a) State the source document used by the business for:

- **(i)** consultancy services provided on credit [1]
- **(ii)** reduction in amounts owed due to overcharge [1]
- **(iii)** acknowledgement of payment received [1]

Zen Consultancy provided the following account balance on 1 October 2022.

Allowance for impairment of trade receivables $3 240

On 15 December 2022, Clive, a credit customer who owed Zen $2 400, was declared bankrupt and Zen was only able to collect $0.60 of every dollar owed.

On 30 September 2023, the trade receivables amounted to $69 000.

Zen Consultancy makes an allowance for impairment of trade receivables based on 4% of its trade receivables at the end of each financial year.

REQUIRED

(b) Suggest how Zen Consultancy can reduce the risk of irrecoverable debts.
[2]

(c) Explain the need for providing an allowance for impairment of trade receivables. Support your answer with an accounting theory.
[2]

(d) Prepare the following:

- **(i)** Journal entries to record the transaction on 15 December 2022. [3]
- **(ii)** Journal entries to adjust the balance of allowance for impairment of trade receivables for the financial year ended 30 September 2023. [2]

[Total: 12]

4 Jin Sports is a supplier of sports apparel and accessories.

Two existing credit customers have approached the business to negotiate for longer repayment period, from 30 days to 45 days. As the economy is not doing well due to global uncertainties, Jin Sports can only extend credit extension to only one business.

The following information is available.

	DeSports Pte Ltd	High Energy Pte Ltd
Nature of business	• Sells a wide range of branded sports apparel, accessories, exercise machines, bicycles and other sports equipment etc. • Has a huge store located at a major downtown shopping mall.	• Sells trendy sports apparel and sports accessories. • Located at a heartland shopping mall.
Annual sales revenue made to customers	• $180 000	• $32 000
Repayment history over the past year	• Collection days: 40 • Repaid late 5 times.	• Collection days: 35 • Repaid late twice.
Reputation of business	• Popular with working adults and kids. • Have been in business for 10 years.	• Popular with students. • Have been in business for 4 years.
Industry outlook	• Increase in number of parks/ park connectors in Singapore. • Increased interest in sports due to health promotion efforts by the Health Promotion Board. • Facing stiff competition from online retailers. • Have no plans to establish online presence. • Increased tourist numbers expected in Singapore.	• Increase in number of parks/ park connectors in Singapore. • Increased interest in sports due to health promotion efforts by the Health Promotion Board. • Facing stiff competition from online retailers. • Have plans to set up their online stores next month. • Increased tourist numbers expected in Singapore.

REQUIRED

(a) Recommend which business Jin Sports should grant the credit extension to. Justify your answer with three reasons. [7]

On 1 January 2022, Jin Sports obtained a bank loan of $180,000 from Ace Bank which is repayable over 10 years. Interest is charged at 5% per annum. Both the loan and interest is repayable each year on 31 December. The financial year for Jin Sports ends on 30 June every year.

REQUIRED

(a) Calculate the interest expense incurred for the year ended 30 June 2022. [1]

(b) Calculate the interest expense incurred for the year ended 30 June 2023. [2]

(c) Using an accounting theory, explain why there is a need for adjustment of interest expense at the end of the accounting period. [2]

[Total: 12]

END OF PAPER

Suggested answers 2023 Anderson Prelims

Qn 1

(a) Trade receivables collection period measures the number of days a business takes to collect payment from its credit customers. [1]

(b)

(i) Net sales revenue
= 90000/100 X 125
= $112 500 [1]

(ii) Average net trade receivables
=(26000 + 22 000)/2
= $24 000

Rate of trade receivable turnover
= Net sales revenue/ Average net trade receivables
= 112500 / 24000
= 4.6875
= 4.69 times (2dp) [1]

(iii) Trade receivables collection period
= Average net trade receivables/ Net sales revenue X 365 days
= 24000 / 112500 X 365 Days
= 77.86666
= 77.87 days (2dp) [1]

(c)

- Bio Lab's rate of trade receivable turnover 4.45 times is worse than JW Beauty's at 6.24 times.
- This is line with the worse trade receivables collection period of Bio Lab at 82.02 days than JW Beauty's 58.49 days.
- This means that Bio Lab is collecting payment from its credit customers on a less timely basis than JW Beauty.
- As a result, Bio Lab would have less cash, causing its liquidity position to worsen.
- Overall, Bio Lab is less efficient in managing its trade receivables than JW Beauty.
- Bio Lab has a higher risk of debt being written off than JW Beauty.

[any 1 of the above = 1m] [4]

(d) Reputation of customer's business.
Economic outlook of the specific customer's industry.
Economic outlook.
New customers' history of repayment. [2]

[Total: 10]

Qn 2

(a) *Share capital = 100 000 + (10 000 X 2.5) = $125 000* *[1]*

(b) *Net assets = Equity = Share capital + Retained earnings*
Net assets = $125 000 - $5000 = $120 000 *[2]*
1m OF from part (a) share capital answer.

(c) 31 Dec (Income summary): Loss for the year was transferred to the retained earnings account at year end. [1]

(d) The business had an accumulated loss of $5 000 which was brought down to the next financial year. [1]

(e)

(i) Dividends are a portion of retained earnings that was distributed to shareholders. [1]

(ii) Retained earnings is the accumulation of profits and losses that has not been distributed to shareholders yet. [1]

(f)

Dividends	Decrease RE	[1]
Issue	No effect	[1]
Profit	Increase RE	[1]

[Total: 10]

Qn 3

(a)

Cash at Bank					
Date	Particulars	Dr ($)	Cr ($)	Bal ($)	
2023					
Mar 31	Bal b/d			6 270 Dr	(1)
	Trade receivable, Min	150			(1)
	Trade receivable, Betty (Dishonoured cheque)		1 015		(1)
	Insurance expense		4 975		
	Bank charges		100		(1)
	Trade Payable, Danny (Correction of error)		200		(1)
Apr 1	Bal b/d			130 Dr	

[5]

(b)

Lysander Bank Reconciliation Statement as at 31 March 2023		
	$	
Debit balance as per bank statement	(295)	(1)
Add: Deposits in transit		
- Shuzhen	2 050	(1)
Less: Cheques not yet presented		
- Jolly	(750)	(1)
- Athina	(875)	(1)
Adjusted balance as per Cash at Bank account	130	(1)

[5]

[Total: 10]

Qn 4

(a) Journal

Date	Particulars	Dr $	Cr $
2022			
Jan 1	Workshop fee income	1800	
	Workshop fee income receivable		1800
Dec 31	Cash at bank	6 800	
	Workshop fee income		6 800
Dec 31	Workshop fee income	960	
	Workshop fee income received in advance		960
Dec 31	Workshop fee income	4 040	
	Income Summary		4 040

[8]

(b) According to the <u>revenue recognition theory</u>, revenue is recognised when goods are sold and delivered or when services are provided.

or

According to the <u>accrual basis of accounting</u>, income is recognised when it is earned regardless of whether payment has been received. [2]

[Total: 10]

(a)

Ning Trading Statement of financial performance for the year ended 31 August 2023		
	$	$
Sales revenue		236 500
Less: Sales returns		(14 200)
Net sales revenue		222 300
Less: Cost of sales		(99 100)
Gross profit		123 200
Add: Other income		
Rent income (39 000 -9 500)	29 250	
Commission income	5 000	
Discount received	210	34 460
		157 660
Less: Other expenses		
Wages and salaries (52200+2700)	54 900	
Interest expense (5%x50000)	2 500	
Impairment loss on inventory	1 700	
Depreciation of fixtures and fittings (10%x100000)	10 000	
Depreciation of motor vehicles [20%x(200000-61000)]	27 800	
Impairment loss on trade receivables [3%x(29000-1500)]- (1750-1500)	575	
Bank Charges	120	
Motor vehicle repairs	13 800	
General expenses	8 700	120 095
Profit for the year		37 565

[10]

Ning Trading

Statement of financial position as at 31 August 2023

Assets	$	$	$
Non-current assets	*Cost*	*Accumulated depreciation*	*Net book value*
Fixtures and fittings	100 000	48 000	52 000
Motor vehicles	200 000	88 800	111 200
	300 000	136 800	163 200
Current assets			
Inventory		22 000	
Trade receivables(29000 – 1500)	27 500		
Less: Allowance for impairment of trade receivables(3%)	825	26 675	
Cash at bank (28500-120)		28 380	
Commission income receivable		5 000	82 055
Total assets			**245 255**
Equity and liabilities			
Owner's equity			
Capital (135000+37565-8660)			163 905
Non – current liabilities			
Long- term borrowing			50 000
Current liabilities			
Trade payables		16 400	
Wages and salaries expense payable		2 700	
Rent income received in advance (4/16 x 39 000)		9 750	
Interest expense payable		2 500	31 350
Total equity and liabilities			**245 255**

[10]

(c) Accounting entity theory states that the activities of a business are separate from the actions of the owner. All transactions are recorded from the point of view of the business.
[2]

[Total: 22]

Qn 2

(a)

(i) Mark-up on cost
= Gross Profit /Cost of Sales
= (128680/341320) x 100 = 37.70% [1]

(ii) Gross profit margin
= Gross Profit / Net sales revenue
= (128680/470000) x 100 = 27.38% [1]

(iii) Profit margin
= Profit for the year / Net sales revenue
= [(128680 – 67500)/470000] x 100
= 61180/470000 x 100 = 13.02% [1]

(iv) Return on equity
= Profit for the year /Average equity
= (61180/500000) = 12.24%
Average equity
= [(400000+80000) + (400000+120000)]/2
= (480000 + 520000)/2 = $500000 [2]

(b) Mark-up on cost has improved from 33.33% in 2022 to 37.70% in 2023. (1).This means that for every $100 of cost of goods sold, Yen earned a gross profit of $4.37 more in 2023 than in 2022. (1)

Gross profit margin has also improved from 25% in 2022 to 27.38% in 2023. (1) This shows that for every $100 of sales revenue earned, the company earned $2.38 more in 2023 than 2022. (1)

These could be due to Yen buying his goods at a lower cost price or selling his goods at a higher selling price. (1)

However, the profit margin has worsened from 15% in 2022 to 13.02% in 2023.(1) This means that for every $100 of sales revenue earned, the company earned $1.98 less in 2023 than 2022. (1)

This is caused by the increase in total expenses as a percentage of net sales revenue from 10% in 2022 to 14.36% in 2023. (1)

Overall, the profitability of Yen Limited has worsened from 2022 to 2023 as mentioned above.
(any six points) [6]

(c) A business which is profitable does not mean it is liquid.
Profit could result from credit sales and there might be problem in collecting the debts from its credit customers. (Or any other reasonable answer)
[2]

(d) Liquidity refers the ability of the business to repay its current labilities when they fall due. [1]

[Total: 14]

Qn 3

(a) *(i) invoice*
(ii) credit note
(iii) receipt

[3]

(b) Improve credit granting process by
- Granting credit to customers who are financially able
- Monitoring collection patterns closely

Providing cash discounts for prompt payment

Increase debt collection efforts by
- Sending regular reminders to credit customers who delay payment
- Engaging professional debt recovery agencies to collect payment from recalcitrant credit customers.

(any two)

[2]

(c) Prudence theory- To ensure that trade receivables are not overstated.
Or Matching theory – To match the impairment loss on trade receivables (expense) incurred to the income earned in the same financial period so as to obtain an accurate profit for the year.[2]

(d)

Date	Particulars	Dr	Cr
2022		$	$
Dec 15	Cash at bank	1 440	
	Trade receivable, Clive		1 440
	Allowance for impairment of trade receivables	960	
	Trade receivable, Clive		960
2023			
Sep 30	Impairment loss on trade receivables	480	
	Allowance for impairment of trade receivables		480

[5]

Working

Starting allowance	Write off	Adjusting entry	Year end
$3240	- $960	+$480	69000 x 0.04 = $2 760

[Total: 12]

Qn 4

Jin Sports should grant credit to DeSports Pte Ltd.

Evidence	Explanation
• Popular with working adults and kids and has been in business for 10 years.	It is a popular business, so DeSports will have a stable demand for its goods. It has been operation for 10 years, it should be stable and less likely to close down. This indicates that DeSports will be more likely to be able to repay its debt.
• Increase in number of parks/ park connectors in Singapore. • Increased interest in sports due to health promotion efforts by the Health Promotion Board.	As the specific industry outlook is positive, there is potential for growth in this market. DeSports sells many types of sports wear and equipment. With increased interest in sports, more people will buy sports related goods and DeSports stocks a wide range of products.
• Annual sales revenue made to DeSports is $180 000 which is higher than that made to High Energy.	DeSports is more established than High Energy which makes it likely that High Energy will be more able to pay off its debts.
• Increased tourist numbers expected in Singapore.	DeSports has a huge mall downtown which means that business may improve due to increased demand for goods from tourists. This may result in more sales in future and DeSports will be more able to pay off its debts.

Jin Sports should grant credit to High Energy Pte Ltd.

Evidence	Explanation
• High Energy trendy sports apparel and sports accessories.	It is a popular with students so High Energy will have a good demand for its goods This indicates that High Energy will be more likely to be able to repay its debt.
• High Energy has a better repayment history (Collection days: 36 vs 40)	High Energy is more prompt in payment and Jin Sports will be able to obtain cash earlier which can be used for other purposes.

• *High Energy paid late twice compared to DeSports who paid late 5 times*	*High Energy is more reliable and Jin Sports can be more assured of collecting money from High Energy than DeSports.*
• High Energy has plans to set up their online stores next month.	*High Sports will be able to reach out to more customers and sales will increase. This means that High Energy will be more able to pay off its debts.*

[7]

(b) Interest expense incurred for the year ended 30 June 2022

= 5% x 180000 x 6/12

= $4 500 [1]

(c) Interest expense incurred for the year ended 30 June 2023
[2]

= (5% x 180000 x 6/12) + (5% x162000 x 6/12)

= $4500 + $4050

= $8550

(d) Accrual basis of accounting, expenses must be recognised in the period the services have been used, regardless of whether payment has been made.
[2]

[Total: 12]