CHIJ KATONG CONVENT
Prelim Examination 2022
Secondary 4 Express / 5 Normal
Suggested Answer Scheme – **Paper 1 & 2**

P1 / Q1

Total **[12]**

(a) Wages expense reported on the statement of financial performance [3]
= 25200 [1] – 850 [1] + 1030 [1] = $25 380

(b) [2]

Journal

2022			DR ($)	CR ($)
Apr 30	Wages expense	E+	1 030 [1]	
	Wages payable	L+		1 030 [1]

(c) *Working* [2]

If wages owed to staff is adjusted	If wages owed to staff is NOT adjusted
Journal entries raised: Dr Cr Wages expense E+ 1030 Wages payable L+ 1030 Profit = Income – Expenses = 0 – (+1030) = -1030	No journal entries are raised. Profit = Income – Expenses = 0 – 0 = 0

Profit will be overstated [1] by $1030 [1] if wages owed to staff on 30 April 2022 is not adjusted.

(d)(i) The business had provided the service in the last period but had not yet received the payment in the last period. Hence, the commission receivable of $570 adjusted in the last period is reversed in this period. [1]

(d)(i) The business received a cheque of $9760 for commission income. [1]

(d)(iii) The business had provided the service in this period but would be receiving the payment in the next period. [1]

(e) *[Any one of the following]* [2]
Accrual basis of accounting [1]
Business activities are to be recorded in the accounting period they occur regardless of whether cash is paid or received in the same period or not [or the definition found in the TB]. Hence, commission for services already provided this year but not received yet should be included in this year's income. [1]
OR
Revenue recognition [1]
Revenue is earned when goods have been delivered, or services have been provided. Hence, commission for services already provided this year should be included in this year's income. [1]
OR
Matching concept [1]
Income should be recorded in the period it is earned and expenses recorded in the period it is incurred. Hence, commission for services earned this year should be included in this year's income. [1]

P1 / Q2

Total **[5]**

(a) [Trend] [3]

Gross profit margin has worsened by 7% from 2021 to 2022.

The business has become less efficient in trading in 2022.

[Cause]

This could be because the business reduced its selling price in 2022 to clear slow-moving goods.

The business also might have bought goods at a higher price in 2022 when Pitas reduced amount bought and did not enjoy trade discount.

(b) [Trend] [2]

Profit margin has improved by 3% from 2021 to 2022.

The business has become more efficient in managing its expenses.

[Cause]

The improvement in profit is not caused by higher gross profit since gross profit margin has worsened. The improvement is therefore due to a better management of expenses in 2022.

The business could have laid off excess staff in 2022 to reduce salaries / relocated to a location with cheaper rental, etc.

P1 / Q3

Total **[9]**

(a) Invoice [1]

(b) Pieces of yoga pants sold in May 2022 = 36 [2]

Applying FIFO, these yoga pants sold were from the beginning inventory (22 pieces) and inventory bought on 4 May (14 pieces).

Thus, cost of sales in May 2022 = 528 [1] + 364 [1] = $892

(c) Gross profit = 1115 - 892 = $223 [1] [2]

Gross profit margin
= Gross profit / Sales revenue
= 223 / 1115 x 100 = 20% [1]

(d) Cost of damaged yoga mats = $224 [2]
NRV of damaged yoga mats = $136
Since cost > NRV, therefore value of damaged yoga mats should be $136 (NRV).

Cost of undamaged yoga mats = $2160
NRV of undamaged yoga mats = $2592
Since cost < NRV, therefore value of undamaged yoga mats should be $2160 (Cost).

Thus, value of yoga mats on 31 Dec 2021 = 136 [1] + 2160 [1] = $2296

(e) [2]

If adjustment to damaged goods is made	If adjustment to damaged goods is *NOT* made
Journal entry raised: Dr Cr Impairment loss on inventory E+ 88 Inventory L+ 88 Cost 224 – NRV 136 = $88 Equity = Beginning capital + (Income – Expenses) – Drawings Equity = 0 + 0 – (+88) – 0 = - 88	Equity = Beginning capital + (Income – Expenses) – Drawings Equity = 0 + 0 – 0 – 0 = - 0

If the damaged yoga mats are not adjusted, equity will be overstated [1] by $88 [1].

P1 / Q4

Total **[14]**

(a) [3]

Updated Cash at Bank Account

		DR ($)	CR ($)	Balance ($)
2021				
July 31	Balance b/d			42 Cr [1]
July 31	Bicol [860 – 680]	180 [1]		
July 31	Bank charges		35 [1]	103 Dr
2021				
Aug 1	Balance b/d			103 Dr

(b) [4]

Macleod
Bank Reconciliation Statement as at 31 July 2021

	$
Balance as per bank statement	257
add: Cheques in-transit	
Sales revenue	172 [1]
less: Cheques not presented yet	
Yamal (cheque 1249)	(326) [1]
Balance as per updated cash at bank	103 [1]

[1] for correcting identify both cheques in transit and cheques not presented yet.

(c) Transactions should be recorded at their original cost. [1]

(d) *[Any one of the following]* [1]

- To ensure that cash and assets are not stolen or damaged
- To ensure transactions related to cash and assets are recorded accurately
- To comply with law and regulations

[Note: Accept 'To deter fraud' but not to detect fraud.]

(e) Loan on 1.1.21 = $20 000 [5]

Loan on 1.4.21 = 20000 – 5000 (repayment on 31.3.21) = $15 000

Interest from 1.1.21 to 31.3.21 = 3/12 [1] x 20000 [1] x 4% [1] = $200
Interest from 1.4.21 to 31.12.21 = 9/12 [1] x 15000 [1] x 4% = $450

Interest expense for year ended 31.12.21 = 200 + 450 = $650

P2 / Q1

(a) Total – 8 marks

Mario Limited Statement of financial performance for the year ended 31 March 2022		
	$	$
Sales revenue	180950	
Less: Sales returns	17200	
Net sales revenue		163750
Less: Cost of sales		92100
Gross Profit		71650
Add: Other income		
Commission income [5450 + 1000]		6450
Less: Other expenses		
Interest on loan [4% x 80000] or [3200 + 400]	3200	
Rent expense [18000 - 2000]	16000	
General expenses	13460	
Wages and salaries	20560	
Impairment loss on trade receivables [2066 - 1500]	566	
Depreciation on machinery [10% x (120000 - 6000)]	11400	
Depreciation on fixtures and fittings [(19000 - 2000) / 5]	3400	68586
Profit for the year		9514

P2 / Q1

(b) Total – 12 marks

Mario Limited Statement of financial position as at 31 March 2021			
	$	$	$
	Cost	Accumulated Depreciation	Net book value
ASSETS			
<u>Non-current assets</u>			
Machinery (-6000 - 11400)	120000	17400	102600
Fixtures and Fittings	19000	3400	15600
			118200 □
<u>Current assets</u>			
Inventory		21000	
Trade receivables [42120 – 800] □	41320		
Less: Allowance for impairment of trade receivables (5% x 41320) □	2066	39254	
Cash at bank (12900 + 800 + 15000) □		28700	
Commission income receivable		1000 □	
Prepaid rent expense		2000 □	91954
Total assets			210154
EQUITY AND LIABILITIES			
<u>Shareholders' equity</u>			
Share capital, 90 000 ordinary shares [96000 + (10000 x 1.5)] □		111000	
Retained earnings (3900 + 9514 OF - 2700) □		10714	121714
<u>Non-current liabilities</u>			
Long-term borrowing (80000 x 3/4)			60000 □
<u>Current liabilities</u>			
Trade payables		5340	
Interest on loan payable (3200 - 2800)		400 □	
Dividends payable (90000 x 0.03)		2700 □	
Current portion of long-term borrowing (80000 x 1/4)		20000 □	28440
Total equity and liabilities			210154

P2 / Q2

(a)(i)

2022			Dr ($)	Cr ($)	
May 15	Cash at bank (1600 x 0.3)	A+	480		
	Trade receivable – Eden	A-		480	
	Allowance for impairment of trade receivables (1600 - 480)	A+	1120		
	Trade receivable – Eden	A-		1120	

(a)(ii)

2022			Dr ($)	Cr ($)
Jun 30	Impairment loss on trade receivables	E+	544	
	Allowance for impairment on trade receivables	A-		544

Working

1 Jul 2021		30 Jun 2022
Allowance = - 1200	Adjusted beginning allowance = -1200 + 1120 (Eden written-off) = -80 Adj beginning allow + change = Ending allow -80 = change = -624 change = -544 Allowance becomes more negative, hence impairment loss is E+	Adjusted TR = 12000 – 1600 (Eden) = 10400 Allowance = - (6% x 10400) = -624 Note: Qn mentions that the transaction with Eden was not recorded yet. Hence, ending TR must be adjusted.

(b)(i)

Trade receivables on 30 Jun 2022

= 12000 – 1600 (amount received from Eden and amount owed from Eden written-off) = $10400

(b)(ii)

Allowance for impairment on trade receivables on 30 Jun 2022

= 6% x 10400 = $624

(c)

On 30 Jun 2022, impairment loss on trade receivables is an E+, hence…

Profit would decrease by $544

(d)

Prudence theory

The accounting treatment chosen should be the one that least overstates assets and profits, and least understates liabilities and losses.

Hence, at financial year-end, allowance for impairment on trade receivables for amounts that may not be collectible in the future is deducted from trade receivables so as not to overstate assets and profit.

P2 / Q3

(a)(i)

Working capital

= Current assets - Current liabilities

= (56 500 + 47 000 + 7 230) - (33 000 + 28 040) = 110 730 - 61 040 = $49 690

(a)(ii)

Working capital ratio

= Current assets / Current liabilities = 110 730 / 61 040 = 1.81

(a)(iii)

Quick ratio

= (Total current assets - Inventory - Prepayments) / Current liabilities

= (110730 – 56500 – 7230) / 61 040 = 47 000 / 61 040 = 0.77

OR

Quick ratio

= (Receivables + Cash at bank + Cash in hand) / Current liabilities

= 47 000 / 61 040 = 0.77

(b)

	2020	2021	2022
Working capital	$76750	$50170	$49690
Current ratio	4.43	3.24	1.81
Quick ratio	2.24	1.02	0.77

[6 unique comments on trend and reason – 6 marks; Students' answer must be in correct 'direction'.]

The working capital of Cindy's business has worsened from $76 750 in 2020 to $50 170 in 2021 to $49 690 in 2022.

The current ratio has also worsened from 4.43 in 2020 to 3.24 in 2021 to 1.81 in 2022.

The current ratio was above the general benchmark of 2 in 2020 and 2021 but fell below the general benchmark in 2022.

The quick ratio has also worsened from 2.24 in 2020 to 1.02 in 2021 to 0.77 in 2022.

The quick ratio also was above the general benchmark of 1 2020 and 2021 but fell below the general benchmark in 2022. In 2022, the business has less than $1 of quick assets to pay off $1 of current liability.

Inventory has increased every year from $32 050 in 2020 to $56 500 in 2022. This suggests that the business was overstocking thus depleting its cash / unable to sell its goods quickly to get cash.

The cash position has also worsened from $18 200 in 2020 to $5 000 in 2021 and finally to a bank overdraft of $28 040 in 2022. This suggests that cash was used up and the business resorted to borrow short-term loan to cover its cash outflow.

Trade receivables increased from $32 050 in 2020 to $47 000 in 2022. Increasing trade receivables could indicate that the business didn't monitor its credit customers ensure that they pay promptly / business didn't scrutinise whether credit customers were able to pay before granting credit to them.

Trade payables increased every year from $22 400 in 2020 to $33 000 in 2022. Increasing trade payables suggests that the business has difficulty paying its suppliers on time.

(c) [2 unique reasons, 1m each]
Liquidity is important to a business:
- to pay for day-to-day operating expenses (ie. salaries, rent);
- to pay short-term debts (ie. trade payables, salaries payable, bank overdraft);
- to take advantage of cash discounts offered by trade payables; and
(any other valid reasons)

(d) [2 unique reasons, 1m each]
- Have owner contribute cash capital [Note: must state 'cash']
- Obtain long-term loan [Note: must state 'long-term']
- Sell off inventory to get cash
- Convert business into a company and issue shares to get cash
- Negotiate for longer credit period from supplier to delay cash payment
(any 2 valid reasons)

P2 / Q4

(a)

<u>Working</u>

1.10.2020	Buy MV
	Depreciation of MV for 1st year
Y/e 30.6.2021	
1.4.2022	Sell MV
	No depreciation of MV in 2nd year as no depreciation is charged in the year of sale.
Y/e 30.6.2022	

Depreciation for year ended 30.6.21 = 30% x 50000 = $15,000
Depreciation for year ended 30.6.22 = 0 (no depreciation in year of sale)
Accumulated depreciation on 1.4.2022 = $15,000

NBV on 1.4.2022 = Original cost – Accumulated depreciation on 1.4.2022 = 50000 - 15000 = 35000
Selling price on 1.4.2022 = 30000 (sold on credit)
Loss on sale of non-current asset = 35000 – 30000 = 5000

Date		Dr($)	Cr($)
2022			
Apr 1	Sale of non-current asset	50000	
	Motor vehicles		50000
Apr 1	Accumulated depreciation - motor vehicles	15000	
	Sale of non-current asset		15000
Apr 1	Other receivable – Eva	30000	
	Sale of non-current asset		30000
June 30	Income summary	5000	
	Sale of non-current asset		5000

(b)

It is a loss on sale of non-current asset
Shown in the Expenses section on the statement of performance

(c) (1m for decision); (3m for evidence); (3m for development of the evidence)

The business should buy the van from Vonda.	The business should buy the van from Jissan
Evidence: Price is $98 000 and is cheaper than Jissan model by $12000 (ie. 110000 – 98000). Development: With the price being lower than the other model, Adam can use the cash saving to pay for other expenses such as salaries and rental in the business.	Evidence Jissen can carry up to 2000 kgs of food, which is 500 kgs more than Vonda. Development: As the capacity of the vehicle is larger, this indicates that the business can reach out to more customers. This would increase its sales revenue.
Evidence: Vonda's fuel efficiency is at 10 litres per 100 km, which is 2 litres less than the Jissan model. Development: Being more efficient in fuel consumption, the business would have a lower petrol expense.	Evidence: It comes with a warranty of 5 years, which is 2 more years longer than that from Vonda. Development: Thus, the business can be assured that any worn-out parts in the van will be repaired expertly by the supplier. This will also save the business repair expense.
Evidence: Annual depreciation on Vonda model = (98000-20000)/10 = $7800 Annual depreciation on Nissen model = (110000-28000)/10 = $8200 Lower annual depreciation by $400 with Vonda model. Development: The business will have a lower depreciation expense and thus a higher profit if the sales revenue is achieved in both models.	Evidence: The feedback on Nissen is that its after sales service is better than expected Development: The business can be assured that it will receive help quickly and therefore disruption to operations will be kept to the minimal.
Evidence: Serving cost chargeable on Vonda model (10 yrs) = (200x2x9 yrs) – 300 petrol voucher = $3300 Serving cost chargeable on Jissen model (10 yrs) = (250x2x7 yrs) = $3500 Saving of $200 Development: The business would be able to save on serving fees and petrol over 10 years.	