2023 4E5N Prelim Paper 2 Mark Scheme

Q1(a)

Jacob

Statement of financial performance for the year ended 31 December 2022

	$	**$**	
Sales revenue	195 430		
Less: Sales returns	(4 150)		
Net sales revenue		191 280	**[1]**
Less: Cost of sales		(70 200)	
Gross profit		121 080	**[1]**
Add: Other income			
Commission income (+1 500)		13 800	**[1]**
Less: Other expenses			
Rent expense (-600)	18 000		**[1]**
Wages and salaries (+950)	23 400		**[1]**
Utilities expense (-300)	9 500		**[1]**
Depreciation on office equipment (10% of 53 000)	5 300		**[1]**
Depreciation on motor vehicles [(80 000 - 24 000) x 30%]	16 800		**[1]**
Interest on bank loan (25 000 x 5%)	1 250	(74 250)	**[1]**
Profit for the year		60 630	**[1] OF**

Penalize up to one mark for wrong format or headings.

Jacob

Q1(b) **Statement of financial position as at 31 December 2022**

Assets	**$**	**$**	**$**	
Non-current assets	**Cost**	**Accumulated depreciation**	**Net book value**	
Office equipment	53 000	15 900	37 100	**[1]**
Motor vehicles	80 000	40 800	39 200	**[1]**
			76 300	
Current assets				
Trade receivables		23 250		
Inventory		30 500		
Commission income receivable (+1 500)		1 500		**[1]**
Prepaid rent expense		600	55 850	**[1]**
Total assets			132 150	
Equity and liabilities				
Owner's equity				
Capital (7 240 + 60 630 - 4 900 - 300)			62 670	**[1]**
Non-current liabilities				
Long-term borrowings (4/5 x 25 000)			20 000	**[1]**
Current liabilities				
Trade payables		35 180		**[1]**
Bank overdraft		7 100		**[1]**
Current portion of long-term borrowings		5 000		
Interest on bank loan payable		1 250		**[1]**
Wages and salaries payable		950	49 480	**[1]**
Total equity and liabilities			132 150	

Penalize up to one mark for wrong format or headings.

Q2

(a)

Journal				
Date	**Particulars**	**Dr ($)**	**Cr ($)**	
2022				
Jun-30	Sale of non-current asset	90 000		**[1]**
	Motor vehicle		90 000	**[1]**
Jun-30	Accumulated depreciation of motor vehicle	32 400		**[1]**
	Sale of non-current asset		32 400	**[1]**
Jun-30	Other receivable - Mr Ong	60 000		**[1]**
	Sale of non-current asset		60 000	**[1]**

(b) Net book value = 90 000 - 32 400 = $57 600 **[1]**

Gain on sale of non-current asset = 60 000 - 57 600 = $2 400 **[1]**

(c) It will be shown under the section of Add: Other Income as a gain on sale of non-current asset. **[1]**

(d) Non-current assets are valued at cost less accumulated deprecation. **[1]**

(e) Purpose of non-current asset **[2]**

Features of non-current asset

Customer reviews of non-current asset

Warranty

Choose any two.

Q3

(a) Days sales in inventory = Average inventory / Cost of sales X 365 days
Average inventory = (16 000 + 25 000) / 2 = $20 500 **[1]**

Days sales in inventory (2023) = 20 500 / 175 200 X 365 days = 42.71 days **[1]**

(b)

2021	30.21 days
2022	37.49 days
2023	42.71 days

The days sales in inventory for Larry's business is on a **worsening trend over the three years** ended 30 June **[1]**
2021, 2022 and 2023. The days sales has increased from 30.21 days in 2021 to 37.49 days in 2022 and to **[1]**
42.71 days in 2023.

This means that the business is taking a **longer time to sell all its inventory and is less efficient as managing its inventory over the three years.** **[1]**

This could be due to the business increasing the amount of inventory held on hand as it can be seen holding on to $9 000 more inventory from 2022 to 2023 while cost of sales only increased by $6 700 over the same period. **This shows that inventory held on hand is increasing at a faster rate than the cost of sales.** **[1]**

The business could be holding on to **more slow-moving goods which are now selling at a slower rate** and causing them to hold a larger amount of inventory, driving up the days sales in inventory. **[1]**

Accept other possible answers to show an increase in days sales in inventory.

(c) Larry could try to **sell its inventory faster** or try to **keep sufficient inventory on hand.** **[2]**
Larry could sell inventory faster by **providing trade discounts to encourage customers to buy in bulk** and regularly. **[1]**

(d) If the business does **not have sufficient goods on hand, it will result in a loss of sales.** **[1]**
If the business **holds / buys too much inventory** and is unable to sell them, it will **result in higher storage costs** and **increase the risk of goods becoming obsolete.** **[1]**

Q4

(a)

Journal

	Date	Particulars	Dr ($)	Cr ($)	
	2021				
(i)	Nov-04	Cash at bank (0.4 x 1 200)	480		**[1]**
		Allowance for impairment of trade receivables	720		**[1]**
		Trade receivable - Kylian		1200	**[1]**
	2022				
(ii)	Mar-31	Allowance for impairment of trade receivables	885		**[1]**
		Impairment loss on trade receivables		885	**[1]**

Working = 3730 - 720 - 2 125 (5% of 42 500) = 885 (Reversal)

(b)

Maria

Statement of financial position as at 31 March 2022 (Extract)

Current assets:	$	$	
Trade receivables	42,500		
Less: Allowance for impairment of trade receivables	(2,125)		**[1]**
Net trade receivables		40,375	**[1]**

(c)

(i) On 10 May 2022, business made credit sales worth $9 500 to customer Gerald. **[1]**

(ii) On 12 May 2022, credit customer Gerald returned $100 worth of goods to business. **[1]**

(d) **SBQ**

Decision - IKEO **[1]**

IKEO has collection period of 33 days and has repaid Maria late twice while MUJEE has a collection period of 39 days and repaid Maria late 7 times. **[1]**

Maria should give the longer repayment period to IKEO as they have only repaid late twice and their collection period of 33 days is more reassuring. This means that IKEO is able to **manage their repayment better and is less likely to exceed the 40 days** if it was extended to them. Maria would **receive the repayment from IKEO on a timelier basis and enjoy better cashflow as well.** **[1]**

IKEO has been in business for 15 years as compared to MUJEE which has only been around for 2 years. **[1]**

IKEO's business would be **more stable and reputable as they have been around longer** with a more **secure customer base**. Maria would feel more comfortable extending their repayment period knowing that even if the industry is not doing well, IKEO would be able to repay the trade receivables within 40 days. **[1]**

There's a strong demand for affordable and practical goods for home use and exercise from IKEO whereas MUJEE does not sell such affordable exercise goods nor such a wide variety of goods. **[1]**

Maria would face **less default risk from IKEO as IKEO sells a wider range of goods**, ranging from **[1]** household products, home appliances and exercise equipment at affordable prices. This means that **even if the exercise equipment sales are slow, IKEO can leverage / tap on the sales of other areas** of its business to make repayment to Maria.

Decision - MUJEE **[1]**

MUJEE has a higher average trade receivables balance of $50 000 as compared to IKEO's $30 000. **[1]**

This means that MUJEE is a **major client** and Maria would gain more standing and would be able to better **preserve that relationship** with them if she were to extend their repayment period to 40 days. This would ensure more sales to them and more profits for her business. **[1]**

MUJEE is popular among small gym businesses and exercise enthusiasts while IKEO is only popular amoung families. **[1]**

MUJEE would be able to **sell a larger quantity of higher end / more expensive exercise equipment** as they mainly sell to gym businesses and enthusiasts who are willing to spend on it. Maria would be able to **gain more sales to them in the future if the demand picks up or when the industry recovers.** **[1]**

The exercise culture is growing and more people are exercising and going to gyms, unlikely to get the same exposure to exercise equipment in their own homes. **[1]**

This means that MUJEE is likely to gain more sales of exercise equipment from gyms and this would **translate to more sales for Maria's business. There is also less default risk from MUJEE as their business would be expanding and gaining more sales.** **[1]**

Accept other reasonable answers that do not contradict the Decision mark.