Answer Scheme- POA Sec 4Exp/ 5NA Paper 2 Prelim 2022

1(a) Toys Paradise Pte Limited

Statement of Financial Performance for the year ended 31 July 2022

	$	$	
Sales revenue		80 000	
Less Sales returns		7 650	
Net sales revenue		72 350	(1m)
Less Cost of sales		26 300	
Gross profit		46 050	(1m)
Other Income			
Commission income (3700 + 140)		3 840	(1m)
		49 890	(1m)
Less Other Expenses			
Rent expense (15000 – 1800)	13 200		(1m)
General expenses	10 200		
Wages and salaries	16 600		
Interest on bank loan (8% X 9/12 X 40000)	2 400		[1m]
Impairment loss on trade receivables (2150 – 1000)	1 150		(1m)
Depreciation of fixtures and fittings 5% X (35000 – 1000)	1 700		(1m)
		45 250	
Profit for the year		4 640	

1(b) Toys Paradise Pte Limited

Statement of Financial Position as at 31 July 2022

	$	$	$	
Assets				
Non-current assets	Cost	Accumulated depreciation	Net book value	
Fixtures and fittings	35 000	3 150 (1450 + 1700)	31 850	(1m)
Current assets				
Inventory		37 000		
Prepaid rent expense (9000/15 X 3)		1 800		(1m)
Commission income receivable		140		(1m)
Trade receivables	43 000			
Less Allowance for impairment of trade receivables (5% X 43000)	2 150			
Net trade receivables		40 850		(1m)
			79 790	
Total assets			111 640	
Equity and Liabilities				
Shareholders' equity				
Share capital, 20 000 ordinary shares		20 000		
Retained earnings [19000 + 4640 (OF1m) - 0.10 X 20000 (1m)]		21 640	41 640	
Non-current liabilities				
Long-term borrowings			40 000	(1m)
Current liabilities				
Dividends payable (0.10 X 20000)		2 000		(1m)
Bank overdraft (1m) (7900 + 2400)		10 300		(1m)
Interest on bank loan payable		2 400		(1m)
Trade payables (17700 – 2400)		15 300		(1m)
			30 000	
Total equity and liabilities			111 640	

2(a) the ability of a business to convert current assets into cash to pay current liabilities (1m)

(b)(i) Current ratio
= Current assets/ Current liabilities
= (25600 + 5400 + 19300 - 3300 + 7800 + 1200)/ (24300 + 5000 + 2550)
= 56 000(1m)/ 31850 (1m) = 1.76

(ii) Quick ratio
= Quick assets/ Current liabilities
= 56000 – 25600 – 1200/ 31850
= 29200 (1m)/ 31850 = 0.92

(c) TechnoTrends's current ratio of 1.76 is worse than Top In Tech's current ratio of 3.96. (1m)
Any 1 of the 2 points 1m:
The current ratio of TechnoTrends is below the general benchmark of 2.
Both businesses are still able to pay the short-term debts using current assets when they fall due.

TechnoTrends's quick ratio of 0.92 is worse than Top In Tech's quick ratio of 2.75. (1m)
Any 1 of the 2 points 1m:
The quick ratio of TechnoTrends is below the general benchmark of 1.
This shows that TechnoTrends is not able to pay its short-term debts using quick assets when they fall due.

Any 2 of the 4 points 1m each:
Inventory holdings of TechnoTrends is worse than Top In Tech. TechnoTrends's higher level of inventory of $25 600 as compared to Top In Tech of $17 200 means more of TechnoTrend's funds are tied up in inventory.

The cash balance of TechnoTrends is worse than Top In Tech since TechnoTrends's cash balance of $5 400 is lower than Top In Tech of $10 100.

The bank balance of TechnoTrends is worse than Top In Tech since TechnoTrends's bank balance of $7 800 is lower than Top In Tech of $20 800.

Trade payables position of TechnoTrends is worse than Top In Tech since TechnoTrends's higher trade payables of $24 300 as compared to Top In Tech of 11 200 will add on to the financial burden of TechnoTrends in the short-term.

(d) Any 2 of the 3 points 1m each:
Obtain cash contributions from owner
Sell excess non-current assets for cash
Obtain additional bank loan
Accept any plausible answers.

(e)(i) cost less accumulated depreciation/ net book value (1m)

(ii) trade receivables less allowance for impairment of trade receivables/ net trade receivables (1m)

3(a) Estimated amount of debts likely to be uncollectible from customers. (1m)

(b) Prudence (1m)

The accounting treatment chosen should be the one that least overstates assets, in this case trade receivables, when recording allowance for impairment of trade receivables. (1m)

(c)

2019		$
(i) Dec 1	The amount of estimated debts likely to be uncollectible from trade customers. (1m)	1 800
2020		
(ii) Nov 30	Increase in the allowance for impairment of trade receivables from $1800 to $4300. (1m)	2 500

(d) Journal

2021		Dr ($)	Cr ($)
(i) Jul 14	Allowance for impairment of trade receivables (0.6 X 6300) (1m) Trade receivable- Rainbow (1m)	3 780	3 780
(ii) Nov 30	Impairment loss on trade receivables (1m) Allowance for impairment of trade receivables (1m)	3 080	3 080

Workings:
AFIOTR as at 1 Dec 2020 = 4300
AFIOTR during the year = 4300 – 3780 = 520
AFIOTR as at 30 Nov 2021 = 9% X 40000 = 3600
Increase in AFIOTR = 3600 – 520 = + 3080

(e) Profit will decrease by $3 080. (1m)

(f) Stage 2 Journal (1m);

Stage 3 Ledger (1m)

4(a) Accumulated depreciation of the motor vehicles to be sold

= (10% X 15000) + 10% X (15000 – 1500)

= 1500 + 1350 = $2 850

Gain on the sale of motor vehicles

= Selling price – Net book value

= 13 000 – (15000 – 2850) (1m)

= $850 (1m)

(b) Depreciation expense for the year ended 28 February 2022

= 10% X [50000 – 15000 – (20000 – 2850)] + 10% X 19000

= 1785 (1m) + 1900 (1m) = $3 685

(c) Motor vehicles Account

2021		Dr ($)	Cr ($)	Balance ($)
Mar 1	Balance b/d			50 000 Dr
Aug 22	Sale of non-current asset (1m)		15 000	35 000 Dr
Oct 18	Cash at bank (1m)	19 000		54 000 Dr
2022				
Mar 1	Balance b/d (1m)			54 000 Dr

(d)

Buy Photocopier (1m)	Rent Photocopier (1m)
Buy photocopier: Toner cost per month: = [0.01(2000) + 0.1(500)] = $70 Rent photocopier: Copier charges per month: = [0.15(2000 + 500)] = $375 The printing related cost is cheaper by $305 per month to buy a photocopier as compared to renting a photocopier. (1m) The cost savings can be used to pay other day to day expenses. (1m)	Prints 10 more pages per minute (1m) The faster printing speed will increase customers' satisfaction leading to a recurring income stream esp when customers help to spread positive word-of-mouth through their social networks. Ultimately profit will increase. (1m)
There is additional feature for faxing which is missing if one chooses to rent the photocopier. (1m) Baker's Delight can save on the cost to buy a fax machine in the long run and such cost savings can be used to pay other day to day expenses. (1m)	In the event machine breaks down, another photocopier will be provided as replacement. (1m) This will ensure continuity of business operations. (1m)
The photocopier bought is a new machine. (1m) There will be lesser frequency of machine breakdown which will disrupt the business operations, hence affecting the stream of income. (1m)	Rental contract has a number of freebies thrown in: servicing, toners, consumables, spare parts, repairs and maintenance. (1m) This will lower the expenses of the business and increase profits for the year concerned. (1m)
Warranty is provided for the first three years. (1m) This gives business a peace of mind when operating the machine as the machine will be repaired at the very least without business incurring any additional cost if there is hardware defects. (1m)	

Accept any plausible answers.