

Answer **all** questions.

- 1** The following balances are extracted from the books of Dong Boutique on
31 May 2023.

| | |
|---|---------|
| | \$ |
| Fixtures and fittings at cost | 150 000 |
| Equipment at cost | 370 000 |
| Accumulated depreciation: | |
| Fixtures and fittings | 26 000 |
| Equipment | 133 200 |
| Capital | 110 000 |
| Trade receivables | 216 900 |
| Trade payables | 165 200 |
| Cash at bank | 9 550 |
| Inventory | 98 420 |
| Allowance for impairment of trade receivables | 9 820 |
| 4% Bank loan repayable 2026 | 100 000 |
| Sales revenue | 832 600 |
| Sales returns | 6 470 |
| Cost of sales | 291 400 |
| Drawings | 19 200 |
| Rent expense | 42 250 |
| Wages and salaries | 132 000 |
| Utilities | 16 450 |
| Insurance | 22 100 |
| Interest on loan | 2 080 |

Additional information

- 1 Fixtures and fittings are to be depreciated at 10% per annum using the straight-line method with a scrap value of \$2 000.
- 2 Equipment is to be depreciated at 20% per annum using the reducing-balance method.
- 3 At 31 May 2023:
 - Commission income \$3 200 was receivable
 - Utilities \$1 960 were still owing
 - Monthly insurance of the same amount was paid up till June 2023
 - Interest on loan for the year has not been paid in full
- 4 Inventory costing \$3 100 was damaged owing to poor handling. They can only be resold at \$1 300.
- 5 Wages and salaries included \$5 000 paid for owner's personal expense.
- 6 The allowance for impairment of trade receivables was to be maintained at 5% of trade receivables.

REQUIRED

- (a)** Prepare the statement of financial performance for the year ended

[10]

31 May 2023.

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

[Total: 20]

- 2 Uma Store prepared the following cash at bank account for the month of May 2023:

| Cash at bank | | | | | |
|--------------|------------------|--------|----------|----------|-----------|
| 2023 | | Cheque | Dr \$ | Cr \$ | Bal \$ |
| May 1 | Balance b/d | | | | 5 360 Dr |
| 4 | Star Trading | 2234 | | 260 | 5 100 Dr |
| 9 | Lab Supplies | | 5 120 | | 10 220 Dr |
| 10 | Nano Tech | 2235 | | 1 290 | 8 930 Dr |
| 12 | Rent expense | 2236 | | 7 700 | 1 230 Dr |
| 16 | Kele Co. | | 3 400 | | 4 630 Dr |
| 23 | Cash in hand (i) | 2237 | | 1 500 | 3 130 Dr |
| 30 | Capital (ii) | | 4 000 | | 7 130 Dr |
| 30 | Salaries | 2238 | | 8 300 | 1 170 Cr |
| Jun 1 | Balance b/d | | | | 1 170 Cr |

REQUIRED

- (a) Interpret the entries (i) and (ii) in the cash at bank account above. [2]
- (b) State **one** difference between bank loan and bank overdraft. [1]

Uma Store received the following bank statement:

| Bank Statement for month of May 2023 | | | | | |
|--------------------------------------|---------------------------|--------|------------------|---------------|-----------|
| 2023 | | Cheque | Withdrawal \$ | Deposit \$ | Bal \$ |
| May 1 | Balance b/d | | | | 5 760 Cr |
| 3 | Standing order: Insurance | | 860 | | 4 900 Cr |
| 6 | Cheque | 2230 | 400 | | 4 500 Cr |
| 7 | Cheque | 2234 | 260 | | 4 240 Cr |
| 13 | Direct credit: Renee Lee | | | 1 260 | 5 500 Cr |
| 23 | Cheque | 2237 | 1 500 | | 4 000 Cr |
| 24 | Deposit | | | 5 120 | 9 120 Cr |
| 27 | Cheque | 2236 | 7 900 | | 1 220 Cr |
| 30 | Deposit | | | 4 000 | 5 220 Cr |
| 31 | Interest | | | 35 | 5 255 Cr |
| Jun 1 | Balance b/d | | | | 5 255 Cr |

It is confirmed that Uma Store had recorded the **cheque no. 2236** wrongly in the cash at bank account.

REQUIRED

- (c) Prepare an updated cash at bank account for the month ended 31 May 2023. [5]
- (d) Prepare the bank reconciliation statement for the month ended 31 May 2023. [4]

- (e) State and explain **one** internal control, other than bank reconciliation to safeguard cash in the business. [2]

[Total: 14]

- 3 Enterprise Ltd rents out office spaces to other businesses and provided the following information about its rent income for two years ended 31 August 2021 and 2022:

| | 31 Aug 2021 | 31 Aug 2022 |
|---------------------------------|-------------|-------------|
| | \$ | \$ |
| Rent income received in advance | 19 700 | |
| Rent income receivable | | 18 300 |

Based on all the rental contracts, \$92 500 rent income was earned for the year ended 31 August 2022.

REQUIRED

- (a) Calculate the rent income received for the year ended 31 August 2022. [1]
- (b) Explain the need to adjust for rent income for year ended 31 August 2022 by using revenue recognition theory to support your answer. [2]
- (c) Prepare an extract of the statement of financial position as at 31 August 2022. [2]

Enterprise Ltd has the following retained earnings account for year ended 31 August 2022:

| Retained earnings | | | | |
|-------------------|----------------|--------|---------|------------|
| 2021 | | Dr | Cr | Bal |
| | | \$ | \$ | \$ |
| Sep 1 | Balance b/d | | | 159 200 Cr |
| 2022 | | | | |
| Aug 31 | Dividends | 20 000 | | |
| 31 | Income summary | | 183 900 | |

Additional information

The business issued 10 000 new ordinary shares at \$1.20 per shares during the year ended 31 August 2022.

REQUIRED

- (d)** Define the following terms: [1]
- (i)** retained earnings [1]
- (ii)** dividends
- (e)** Calculate the **change** in shareholders' equity from year ended 31 August 2021 to 31 August 2022. [2]
- (f)** Explain **one advantage** and **one disadvantage** to set up a private limited business over a sole proprietorship. [2]

[Total: 11]

- 4 Leroy provides consultation services and offers credit terms for all his customers.
He provided the following information about his business for the year ended 30 April 2023:

For year ended 30 April 2023

Total consultation service fees

Total trade receivables, 1 May 2022

Total trade receivables, 30 April 2023

REQUIRED

- (a) Calculate the following for the year ended 30 April 2023: [1]
 (i) rate of trade receivables turnover [1]
 (ii) trade receivables collection period

Show your answer to **two** decimal places.

Leroy provided the following information about the business for the two years ended 30 April 2021 and 2022:

| | 30 April 2021 | 30 April 2022 |
|-------------------------------------|---------------|---------------|
| Rate of trade receivables turnover | 11.37 times | 8.13 times |
| Trade receivables collection period | 32 days | 45 days |

REQUIRED

- (b) Comment on the efficiency of managing trade receivables for Leroy's business over the three years ended 30 April 2021, 2022 and 2023. Suggest possible reasons for the trend. [5]
- (c) Suggest **one** action, besides reviewing credit worthiness of customers, that Leroy could take to improve efficiency in managing trade receivables. [1]

To improve his efficiency in managing trade receivables, Leroy determined that his business would offer a maximum of 30 days credit terms to its customers.

The following are information of a new customer, Besla requesting for 30-days credit terms:

Besla is in the business of selling electric vehicles. It is an overseas business from Europe and looking to selling electric vehicles in Singapore. Besla had been well-established and was reviewed to be the top-selling electric vehicle company in Europe.

The Singapore government is encouraging environmentally sustainable transportation and providing additional grants for purchase of electric vehicles.

Leroy is expecting to sign a one-year contract with Besla which would ensure an estimated \$5 600 consultation service fee every month. This would increase Leroy's profit margin by 10%. A check on the financial statements of Besla showed that it has a current ratio of 3.5 and a quick ratio of 0.84.

Review on the credit repayment trend in Europe showed that businesses normally pay after 40 days and this is likely to worsen owing to poorer economic outlook.

REQUIRED

- (d)** Recommend whether Leroy should grant the 30-days credit terms to Besla. Justify your decision with **three** [7]
reasons.

[Total: 15]

End of Paper

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