1a)

White House Pte Ltd **[0.5]**		
Statement of financial performance for the year ended 31 October 2021 **[0.5]**		
	$	$
Sales revenue $90,000-(96%x$3,000) **[0.5]**	87,120	
Less: Sales returns	(4,000)	
Net sales revenue		83,120
Less: Cost of sales		(22,000)
Gross profit		61,120
Add: Other income		
Rent income ($11,000-$5,00) **[0.5]**	10,500 **[0.5]**	
Commission income	700 **[0.5]**	
Total other income		11,200
Total income		72,320 **[0.5]**
Less: Other expenses		
General expenses $2,000-(2/5x$150) **[0.5]**	1,940 **[0.5]**	
Salaries ($80,900+$3,300) **[0.5]**	84,200 **[0.5]**	
Loan interest expense	1,800 **[0.5]**	
Impairment loss on inventory (50%x$7,000) **[0.5]**	3,500 **[0.5]**	
Impairment loss on trade receivables (reversal) ($12,000x5%)-(5,000-2,000) **[0.5]**	(2400) **[0.5]**	
Depreciation of motor vehicles ($55,000-$11,000)x10% **[0.5]**	4,400 **[0.5]**	
Depreciation of fixtures and fittings ($12,000/5 years) **[0.5]**	2,400 **[0.5]**	
Total other expenses		(95,840)
Loss for the year		(23,520)

1b)

White House Pte Ltd			
Statement of financial position as at 31 October 2021			
	$	**$**	**$**
Assets	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Non-current assets			
Motor vehicles	55,000	(15,400) (11,000+4,400)	39,600
Fixtures and fittings	12,000	(4,400) (2,000+2,400)	7,600
Land	140,000	-	140,000
Total non-current assets	207,000	(19,800)	187,200 **[1]**
Current assets			
Inventory ($28,670-$7,000) **[0.5]**		21,670	
Trade receivables ($14,000-$2,000) **[0.5]**	12,000		
Less: Allowance for impairment of trade receivables ($12,000x5%) **[0.5]**	(600)		
Net trade receivables		11,400 **[0.5]**	
Cash at bank ($14,000+$50,000) **[0.5]**		64,000	
Prepaid general expense (2/5x$150) **[0.5]**		60	
Commission income receivable		700	
Insurance claim receivable (50%x$7,000) **[0.5]**		3,500	
Total current assets			101,330
Total assets			288,530
Equity and Liabilities			
Shareholders' equity [0.5]			
Share capital, 200,000 ordinary shares **[0.5]**		200,000	
Retained earnings ($36,070-$23,520 **[0.5]**-($0.05x200,000 shares)) **[0.5]**		2,550	
Total equity			202,550
Non-current liabilities			
Long-term borrowings ($60,000x5/6))		50,000 **[0.5]**	
Total non-current liabilities			50,000
Current liabilities			
Current portion of long-term borrowings($60,000x1/6)		10,000 **[0.5]**	
Salaries payable		3,300 **[0.5]**	
Rent income received in advance		500 **[0.5]**	
Loan interest expense payable		1,800 **[0.5]**	
Dividends payable ($0.05x200,000)		10,000 **[0.5]**	
Trade payables ($7,500+(96%x$3,000)) **[0.5]**		10,380	
Total current liabilities			35,980
Total equity and liabilities			288,530

2a)

Lois			
Journal			
Date	Particulars	Debit	Credit
2021		$	$
Jan 1	Rent income	1,200	
	Rent income receivable	**[1]**	1,200
Dec 31	Cash at bank	19,000	
	Rent income	**[1]**	19,000
	Rent income	1,500	
	Rent income received in advance	**[1]**	1,500
	Rent income (-$1,200+$19,000-$1,500)	16,300	
	Income summary	**[1]**	16,300

2b)

Advertising expense incurred for year ended 31 December 2021 = -$400 **[0.5]** + $8,800 **[0.5]** - $600 **[0.5]** = $7,800 **[0.5]**

2c)

Lois			
Journal			
Date	Particulars	Debit	Credit
2021		$	$
Mar 16	Cash at bank ($0.70x$3,000)	2,100	
	Allowance for impairment of trade receivables ($0.30x$3,000)	900	
	Trade receivables – Michelle Trading		3,000
	[marks only awarded if entry is fully correct]	**[2]**	

2d)

Rate of trade receivables turnover = Net credit sales revenue/Average net trade receivables **[0.5]**

= $690,000 **[0.5]** / $88,200 **[0.5]**

= 7.82 times **[0.5]**

Average net trade receivables = ($100,000-$2,000)+($80,000-$1,600) / 2

= $88,200

2e)

The business rate of trade receivables turnover *improved* from 6.80 times in 2020 to 7.82 times in 2021. **[1]**

This can also be seen from an *improvement* of the trade receivables collection period from 53.67 days (365 days/6.80 times) in 2020 to 43.80 days [($88,200/$690,000)x365 days] in 2021. **[2]**

This means that it was collecting payment from its credit customers on a more timely basis/taking a shorter time to collect money from its trade receivables in 2021 than in 2020. **[1]**

Hence, the business has become more efficient at managing its trade receivables over the two years. **[1]**

3a)

On 30 November 2021, the business issued share capital $100,000 which was fully paid up. **[1]**

3b)

Inventory				
Date	Particulars	Debit	Credit	Balance
2022		$	$	$
Apr 1	Balance b/d **[0.5]**			2,000 Dr
10	Trade payable – Cece Trading **[0.5]**	5,000		7,000 Dr
12	Cost of sales **[1]**		7,000	-
25	Trade payable – Cece Trading **[0.5]**	3,500		3,500 Dr
May 1	Balance b/d **[0.5]**			3,500 Dr

3c)

Current ratio = Total current assets/Total current liabilities

2021 = ($33,000+$32,120+$43,500)/($4,600+$$27,000) = $108,620/$31,600 = 3.44 **[1]**

2022 = ($36,000+$38,900)/($10,800+$14,000+$53,000) = $74,900/$77,800 = 0.96 **[1]**

3d)

Quick ratio = Total current assets – Inventory – Prepayments / Total current liabilities

2021 = $108,620-$32,120 / $31,600 = 2.42 **[1]**

2022 = $74,900-$38,900 / $77,800 = 0.46 **[1]**

3e) **[1 mark each for any 6 points]**

1 The current ratio has worsened from 5.97 in 2020 to 3.44 in 2021 to 0.96 in 2022.

2 In the first two years, the current ratio was above the general benchmark of 2. However, in 2022, it fell below the general benchmark of 2 which could mean that the business may have trouble paying its short-term debts using its current assets.

3 The quick ratio has worsened from 5.45 in 2020 to 2.42 in 2021 to 0.46 in 2022.

4 In the first two years, the quick ratio was above the general benchmark of 1. However, in 2022, it fell below the general benchmark of 1 which could mean that the business may not be able to pay its short-term debts using quick assets where they fall due.

5 The business trade receivables have increased from $25,460 in 2020 to $33,000 in 2021 to $36,000 in 2022. This means that that the business may be facing difficulty in collecting cash from its trade receivables and therefore has less liquid resources for immediate payments.

6 Its trade payables have increased from $18,000 in 2020 to $$27,000 in 2021 to $53,000 in 2022. This means that the business is having difficulty in paying off its debts due to insufficient cash as seen from its bank overdraft balance in 2022.

7 Difficulty in paying off its trade payables may result in the business' inability to obtain credit or affect its relationship with suppliers.

8 Its rent payable has increased from $3,000 in 2020 to $4,600 in 2021 to $14,000 in 2022. This means that the business has difficulty in paying for its operational expenses.

9 Difficulty in paying off its rent expenses may result in the business being evicted from its place of business.

3f) **[1 mark each for any 2 points]**

1 Increase sources of cash by obtaining cash contributions from owners/shareholders.

2 Obtain long-term loan.

3 Sell excess non-current assets for cash.

4 Manage cash outflow by reducing operating expenses, negotiating for better credit terms from suppliers.

4a)

Decision: Fei should buy Hammer Strength. **[1]**

	Basic Statement/Evidence	Development
1	Has a longer warranty period of 2 years as compared to Pro Muscle which has 1 year.	A longer warranty period means that repairs costs would be covered by the supplier. This reduces repair expenses over a longer period, increasing profit.
2	Payment can be made within 30 days instead of paying immediately if bought from Pro Muscle.	Delaying payment for 30 days means that Fei has the opportunity to pay for other business expenses first, and she does not need to fork out immediate cash for the treadmills.
3	Able to return the treadmills within 30 days for a refund or exchange at no additional cost as compared to Pro Muscle which does not offer a refund and charges additional costs.	Should there be damages or if Fei finds the treadmills unsuitable, she is able to return them for a refund/exchange without having to incur additional costs especially since she just started her gym and would be conscious about cash outlay.

Decision: Fei should buy Pro Muscle. **[1]**

	Basic Statement/Evidence	Development
1	The supplier is in Singapore as compared to Hammer Strength which is based in Australia.	This means that Fei does not have to worry about shipping delays which overseas deliveries may have. With this assurance of timely delivery, she is able to commence her business to start earning revenue.
2	It is $2,400 cheaper to buy from Pro Muscle than Hammer Strength. Pro Muscle = ($1,500x5)+$100 = $7,600 Hammer Strength = ($2,000x5) = $10,000	The cost savings of $2,400 can be used for other business expenses especially since Fei has just started her gym. OR A lower cost of non-current assets would mean than depreciation is also charged lower, reducing business expenses.
3	Majority of clients who used Pro Muscle have good reviews about the treadmill.	This provides Fei the assurance that she would be purchasing quality products, thereby positively affecting her business' efficiency and productivity.

[1 mark each for any 3 reasonable Evidences and 1 mark each for any 3 reasonable related Developments]

b) **[1 mark for any 1point]**

1 Separate cash handling and cash recording duties among different employees.
2 Secure cash and cheques in a locked storage.
3 Obtain proper approvals for all payments from authorized personnel.
4 Conduct a bank reconciliation to determine reasons for differences in ending balance in bank reconciliation and bank statement./Conduct bank reconciliation.

c) **[1 mark for any 1point]**

1 Direct deposits
2 Direct payments
3 Cheques not yet presented
4 Deposits in transit
5 Dishonored cheques