DUNEARN SECONDARY SCHOOL
POA 4E PRELIMS PAPER 1 2022
MARK SCHEME

Prelims

P1Q1	P1Q2	P1Q3	P1Q4
COE [14]	TR ledger/Cash [12]	FS Analysis Liquidity [9]	Income Interpretation [13]
P2Q1 FS [20]	P2Q2 DM TR/Equity [12]	P2Q3 FS Analysis Profitability [12]	P2Q4 Inventory [16]

Question 1
(a)

Journal

	Particulars	Debit ($)	Credit ($)
(i)	Trade Receivable Lee Lee	1 000	
	Trade Receivable Le Le		1 000 [1]
(ii)	Sales Returns	300	
	Trade Receivable Lee Lee		300 [1]
(iii)	Insurance expenses (6800 x 2)	13 600	
	Cash at bank		13 600 [1]
(iv)	Cash at bank (800-80)	720	
	Bank interest income		720 [1]

1(b)

Ningxuan
Statement of adjusted profit for the year ended 30 June 2021

	$	
Profit before adjustment	5 858	
Add: Interest income understated [1]	720	
Less: Sales Returns understated [1]	300	
Less: Insurance expenses understated [1]	13 600	
Loss after adjustment	7 322	[1]

Q1 Total: 8m

Q2

(a) Interpret must have **dates with amounts and key words** [8]

(i) April 1 2018	Deon had an **estimated** [1] amount of debts $800 [1] likely **uncollectib from trade receivables.**
(ii) 14 Dec 2018	Dawn went **bankrupt** [1] and its debt of $3000 was **written off as uncollectible.[1]**
31 March 2019	**Deon reviewed** its trade receivables balance and <u>decreased</u> its allowance for impairment of trade receivables by <u>$100 [1]</u> to **$4 900**.[1]
31 March 2020	Deon **reviewed** its trade receivables balance and <u>increased</u> its **allowance for impairment of trade receivables** by <u>$6000[1]</u> to **$7 000**.[1]

(b) (i) 31 March 2019 profit will understated [1] by $100 [1]
(c) (i) 31 March 2020 current asset will decrease [1] by $6000 [1]

Q3 (a)

2020 Working Capital = CA- CL = 34 000

2021 Working Capital = CA- CL = 21 300

2020 Current ratio = CA: CL = 4.4:1

2021 Current ratio = 59800:38500 =1.55:1

2020 Quick ratio = QA: CL = 4.1: 1
2021 Quick ratio = 3500: 38500 = 0.09 :1

Daniel's liquidity has worsened from 2020 to 2021[1] based on all the 3 liquidity figures and ratios as shown above.

Absolute working capital worsened from $34 000 in 2020 to $21 300 in 2021. [1] Current ratio also worsened from 4.4:1 from 2020 to 1.55:1 in 2021. [1] This means that the business may have less current assets to pay off its current liabilities.
This is caused by cashflow issue shown by the decrease in cash at bank to bank overdraft and increase in current portion of bank loan. [1]

Quick ratio worsened in 2021 to 0.09:1.[1] This implied that the business has insufficient quick assets to pay off its liabilities. [1] Potential that business will lose its credibility as it's unable to pay off its debts when they fall due. [1]

Quick ratio benchmark of 1:1 is not met in 2021.[1]

Current ratio benchmark of 2:1 is not met in 2021.[1]

Must use any liquidity ratios to comment. [2]
Causes and explanation [1] max
Conclusion: right word used "Worsened" liquidity over the years [1]

(b)

	Daniel Technology	Raheem Hi-tech
Inventory turnover	12 times	25 times
Day sales in inventory	=1/12 x 365 days = 30.4 days	= 1/25 x 365 days = 14.6 days

Raheem Hi-tech has a better inventory management compared to Daniel as he has a higher inventory turnover of 25 times per year compared to Daniel's inventory turnover of 12 times per year. This means that **Raheem is able to sell and replenish his goods at a faster pace comparatively**.[1]

Raheem day sales in inventory is 14.6 which is better than Daniel's day sales of 30.4 days, implying that **Raheem takes a shorter time of only 14 days to sell his goods** while Daniel takes 30 days to sell his goods.[1]

Overall, Raheem **has better inventory management** compared to Daniel.[1]

[9m]

Question 4

Transaction	**Description**
Jan 1	Service Fee income receivable of $1 200 from the previous financial year is **reversed** [1] and deducted from the rent income account in the current financial year. **Payment is to be received in the current year**.[1]

Feb 15	**<u>Collected cheque</u>** [1] of $ 3200 **<u>for service fee income</u>**. [1]
Dec 31	$1 000 of the amount collected during the year was for **<u>service fee in the next financial year.</u>**[1] Hence, this amount is **<u>deducted from the rent income account</u>**.[1]
31	Actual service fee income of $8000 **<u>is earned for the year</u>**[1] and **<u>closed off to income summary</u>**. [1]

Important to have ***<u>date, amount</u>*** and ***<u>key words</u>*** to get max marks for each question.

4(b)

Faye

Extract of Statement of Financial Performance for the year ended 31 December 2021

Consultancy Service Fee Income $8000 [1]

4 (c)

Faye

Extract of Statement of Financial Position as at 31 December 2021

<u>Current Liability</u>

Consultancy Service Fee Income Received In advance $1000[1]

4 (d) (i) Profit will be overstated by $1000.[1]

(ii) Current assets will not be affected. [1]

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Question 1
(a)

Dunearn Gems Pte Ltd Statement of financial performance for the year ended 30 June 2021				
	$		$	
Sales revenue	388 000			
Less: Sales returns	(16 700)			
Net sales revenue	371 300			
Less: Cost of sales	(138 500)			
Gross profit			232 800	[1]
LESS: Expenses				
Wages and salaries	85 200			
Rent (12/14 x 140 000)	120 000	[1]		
General expenses (9 200 – 200)	9 000	[1]		
Advertising expenses (40 700 – 3 000)	37 700	[1]		
Depreciation – Equipment (10% x 283 000)	28 300	[1]		
Depreciation – Motor vehicles [20% x (347 000 – 11 800)]	67 040	[1]		
Reversal of impairment loss on trade receivables (800 -300)	(500)	[1]		
Interest on bank loan (5% x 120 000)	6 000	[1]	(352 740)	
Loss for the year			(119 940)	

[8m]

(b)

Dunearn Gem Pte Ltd Balance Sheet as at 30 June 2021			
ASSETS	$ Cost	$ Accumulated depreciation	$ Net book value
Non-current assets			
Motor vehicles	347 000	(78 840)	268 160
Equipment (+3 000)	283 000[1]	(151 300)	131 700
	630 000	(230 140)	399 860 [1]
Current assets			
Trade receivables (36 300 – 300)		36 000 [1]	
Inventory		25 900	
Prepaid General expenses		200[1]	
Prepaid rent expenses		20 000 [1]	82 100
Total Assets			481 960
EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital, 200 000 ordinary shares [1]		200 000	
Accumulated loss [1] (26 400-119 940/OF [1]- 4 000 [1])		97 540	
			102 460
Non-current liabilities			
Long term borrowings		120 000[1]	
			120 000
Current liabilities			
Trade payables		224 900	
Interest expense payable (5% x 120 000)		6 000 [1]	
Bank Overdraft		28 600 [1]	
			259 500
Total Equity and Liabilities			481 960

[12m]

[Total: 20m]

<u>Question 2</u>
Students can choose either option.

Tenny International	**Raja Singapore**
The business should extend a longer credit period to Tenny International. [1]	The business should extend a longer credit period to Raja Singapore. [1]
The financial risk of extending to Tenny International is lower [1] as it is a big international corporation with great reputation and possibly stronger financial standing [1]	The financial risk of extending Raja Singapore is lower [1] as the business is able to collect the debt faster [1] by 10 days. Raja Singapore's average repayment period of 30days is 10 days shorter than Tenny International's average repayment period of 40 days.
Tenny International is a larger and more important customer [1] its average debt of $50,000 is 5 times that of Raja Singapore. The business should try to preserve the client relationship to prevent the possibility of Tenny International from buying from its competitors. [1]	Raja Singapore's credit standing is better [1] than Tenny International as it has only 2 late repayments times in 2020 unlike Tenny which has 4 late repayments. The risk of extending the credit period to Raja is lower. [1]
Tenny International is likely to continue to succeed in its business [1] since it has strong focus on R & D, and will probably be able to come up with new innovative products to attract more customers. [1]	Raja Singapore is likely to enjoy stable demand [1] because its niche market is its customer loyalty programme so customers will find it attractive to buy their products. [1]
Tenny International is a strong international business with global presence [1]. The international business likely to be more financial stability and can provide funds to settle its debts when the need arises. [1]	Raja Singapore is local enterprise with strong presence in Singapore. [1] As Singaporeans, we should definitely support local enterprise so that our Singapore brand can become stronger and grow internationally. [1]

[7]

2(b) Similarities: Both dividend and drawings are debit in nature [1]; both are part of Equity section [1]; Both are deductions from Equity[1]

Differences: Dividend is sharing of profit with shareholders while drawing is withdrawal by owner for personal use. [1]; Dividend applicable for company while drawings is relevant for sole trader.[1] Dividend amount is calculated based on number of shares while drawings amount is simply any amount taken by owner.[1]

2(c) Either Prudence concept [1]: states that Trade Receivable, being an asset, should not be overstated, thus, allowance of impairment on trade receivable has to be deducted from it to get the net trade receivable. [1]

The potential impairment loss of trade receivable should be recognised so that profit is not overstated and losses are not understated. [1]

OR Matching concept [1]: states that all expenses incurred and income earned in the same accounting period has to be matched so that the profit calculated is accurate; the impairment loss from the customers should be matched to the credit sales of the same accounting period. [1]

Q3

(i) Net Sales Revenue

2022 Gross Profit margin = Gross Profit/ Net Sales Revenue x 100% = 25%
COS =28000
2022 Markup = 25% = GP/COS [1]

GP = 25% x 28000 =7000

Net Sales Revenue = 28000+7000= 35 000 [1]

(ii) Profit Margin

2022 Profit margin = profit/NSR x 100%=5200/35000 x 100% = 14.86% [1]

(iii) Return on equity
2022 Average Equity

= (15000+30000)/2

= 22500 [1]

2022 Return on equity

= profit/ave equity x 100% = 5200/22500 x 100% = 23.11 % [1]

3b)

Year ended 31 March	2020	2021	2022
Gross profit margin	30%	20%	20%
Profit margin	10%	28%	14%

The GP margin has worsened from 30% in 2020 to 20% in 2021. [1]

Reason:

This could be due to the business inability to secure a lower cost of goods from its supplier in 2021 OR or it was not able to sell its goods at a higher price in 2021 compared to 2020. [1]

However, GP margin was maintained at 20% for both 2021 and 2022. [1]

Reason:

Implying that business was probably able to maintain its cost of purchase from the suppliers OR sell its goods at the same price in 2021 and 2022. [1]

However, the overall profit margin improved from 10% in 2020 to 28% in 2021. [1]

This indicates that the business has better management of its expenses in 2021 compared to 2020. [1]

However, the business profit margin worsened from 28% in 2021 to 14% in 2022. [1]

This is due to less efficient management of its expenses in 2022 compared to 2021. [1]

Overall, the business' profitability has improved from 10% in 2020 to 14% in 2022, with 2021 being the most profitable year with the highest profit margin of 28%. [1]

Q4

Inventory

Date 2022	Particulars	Dr $	Cr $	Balance
Mar 1	Balance b/d			28 000 Dr[1]
2	Trade payable Max (30 000 x 0.9)	27 000[1]		55 000 Dr
3	Cost of sales		28 000[1]	27 000 Dr
17	Trade payable Colin	22 000 [1]		49 000 Dr
20	Cost of sales		27 000[1]	22 000 Dr
27	Cost of sales (28 000/2)	14 000[1]		36 000Dr
30	Trade payable Colin		22 000[1]	14 000 Dr
Apr 1	Balance b/d			14 000 Dr[1]

Zhen Dong

Statement of Financial Performance for the month ended 31 March 2022

(extract)

	$
Sales revenue (50 000 x 85% + 60 000)	102 500 [1]
Less: Sales returns (50% x 50 000 x 85%)	21 250 [1]
Net Sales Revenue	81 250 [1]
Less: Cost of sales (28 000 + 27000 -14000)	41 000 [1]
Gross profit	40 250 [1]

4c) 20% x 14000 = 2800

DR Impairment loss on inventory 2800   CR Inventory 2800

Profit will be overstated by $2800 [1] and Current Asset would be overstated by $2800 [1]

if Zhen Dong did not make any adjustments to his accounts.

4d) Prudence concept [1]