

- 1 Dazzling Home Supplies is in a business of selling household lights. On 31 December 2021, the business had an inventory balance of \$15 000. Unfortunately, the store had experienced a fire due to electrical faults and some of the inventory was damaged. The selling price of the remaining inventory was \$8 200.

The insurance company had informed Dazzling Home Supplies that the business would be able to receive a compensation of \$5 000. As at 31 December 2021, the claim had not yet been received.

REQUIRED

- (a) State the valuation rule of inventory

Inventory is valued at the lower of cost or net realisable value. [1]

- (b) Name the accounting theory applied to the valuation of inventory.

Prudence theory [1]

- (c) Calculate the amount of inventory loss due to the fire. Show all workings.

Impairment loss on inventory

= \$15 000 - \$8 200 [1]

= \$6 800 [1]

- (d) Prepare the journal entries to adjust the value of the inventory on 31 December 2021.

Narrations are **not** required.

[3]

Journal

Date	Particulars	Debit	Credit
2021		\$	\$
Dec 31	Impairment loss on inventory	1 800 [1]	
	Insurance receivable	5 000 [1]	
	Inventory		6 800 [1]

- (e) State the effect on the profit for the year if the inventory was **not** adjusted as at 31 December 2021.

Profit will be overstated by \$1 800. [1]

[Total: 8]

- 2 The following information is extracted from the books of Kitty Palace Pte Ltd for the financial year ended 30 June 2021 and 2022.

	2021 \$	2022 \$
Inventory	7 800	21 500
Trade receivables	6 550	10 900
Cash in hand	3 180	2 900
Cash at bank	15 890	-
Bank overdraft	-	4 210
Trade payables	4 900	5 100
Current portion of long term borrowing	10 000	10 000
Long Term borrowing	50 000	40 000
Current ratio	2.24	?
Quick ratio	1.72	?

REQUIRED

- (a) Calculate, to two decimal places, the following for the year ended 30 June 2022:

- (i) Current ratio

Current assets / Current liabilities

$$= (21\,500 + 10\,900 + 2\,900) / (4\,210 + 5\,100 + 10\,000)$$

$$= 1.83 \text{ [1]}$$

- (ii) Quick ratio

Quick assets / Current liabilities

$$= (10\,900 + 2\,900) / (4\,210 + 5\,100 + 10\,000)$$

$$= 0.71 \text{ [1]}$$

- (b) Identify one stakeholder who would be interested in Kitty Palace Pte Ltd's liquidity.

Explain why the stakeholder identified is interested in the information.

Any of the answers below:

Stakeholder	Reason
Banks/ credit suppliers /other creditors	will want to find out if Kitty Palace Pte Ltd will be repay current/potential debts
Current / potential Shareholders	Will need to find out whether to invest more / divest from the business.
Managers	will need to plan how to run the business

Employees	Will need to find out whether to continue working for the business depending on whether the business can pay their salaries
Current and potential customers	Whether to buy from the business/prepay for purchases depending on whether the business can continue to operate Whether they can take advantage of Kitty Palace Pte Ltd 's adverse situation to negotiate better deals

(c) Comment on Kitty Palace Pte Ltd's liquidity for the years ended 30 June 2021 and 2022.

- Kitty Palace Pte Ltd's liquidity position is worse in 2022 than 2021
- Kitty Palace Pte Ltd's current ratio has worsened from 2.24 : 1 in 2021 to 1.83 : 1 in 2022, which is lower than the preferred ratio of 2 : 1.
- This means that Kitty Palace Pte Ltd has \$2.24 current assets to pay off every dollar of current liability in 2021 as compared to \$1.83 in 2022.
- Kitty Palace Pte Ltd's quick ratio has also worsened from 1.72 : 1 in 2021 to 0.71 : 1 in 2022, which is lower than the preferred ratio of 1 : 1.
- This means that for every dollar of current liability, Tunes has \$1.72 quick assets to pay them off in 2021 as compared to \$0.71 in 2022.
- The business has insufficient quick assets to meet her short-term debts at 30 June 2022.
- Kitty Palace Pte Ltd is holding on to a large amount of inventory in 2022 as compared to 2021. Holding on to more inventories will mean that cash is tied up in inventory. Goods may also become obsolete and have to be sold at a loss. Holding on to more inventories will also increase warehouse cost. All these will worsen the liquidity position.

(d) Suggest **two** ways to improve the liquidity of Kitty Palace Pte Ltd.

- Sells more shares to get more investors to invest in the company
- Advertising or sales to sell more inventory
- Sell off unnecessary non current assets

[Total: 9]

- 3 Kelly started a sole proprietorship So Good Baking Supplies, a baking supplies business in 2020. The business provided the following ledger accounts for the year ended 31 March 2022.

Drawings a/c

Date	Particulars	Debit	Credit	Balance
2021		\$	\$	\$
Dec 1	Cash at bank	500		500 Dr
2022				
Jan 1	Inventory	450		950 Dr
Mar 31	Capital		950	-

Capital a/c

Date	Particulars	Debit	Credit	Balance
2021		\$	\$	\$
Apr 1	Balance b/d			10 500 Cr
Dec 31	Cash at bank		5 000	15 500 Cr
2022				
Mar 31	Income summary		9 400	24 900 Cr
31	Drawings	950		23 950 Cr

REQUIRED

- (a) Describe the transactions in the drawings account on the following dates

- (i) 1 December 2021

On 1 December 2021, the owner took out money \$500, from the bank for personal use. [1]

- (ii) 31 March 2022

On 31 March 2021, the total drawings for the year ended 31 March 2022 \$950 was transferred to capital account. [1]

- (b) Describe the transaction in the capital account on 31 December 2021.

The owner put in additional capital worth \$5 000 into the business bank account. [1]

- (c) State whether the business had made a profit or a loss for the year ended 31 March 2022.

The business made a profit of \$9 400.[1]

Extremely Good Bakers Pte Ltd provided the following account balances on 1 April 2020.

	\$
Share capital, 10 000 ordinary shares	50 000
Retained earnings	25 450

The financial year of Extremely Good Bakers Pte Ltd ends on 31 March.

The following transactions took place in 2021 and 2022.

Date	Transaction
2021	
Feb 1	Dividends of \$0.05 per share were declared.
Mar 31	Profit for the year was \$9 300.
Apr 5	The dividends declared on February 1 were paid.
Oct 10	10 000 shares were issued at \$2 per share.
2022	
Jan 31	Dividends at \$0.05 per share were declared and paid in full.
Mar 31	Loss for the year was \$1 000.

REQUIRED

(d) Prepare the share capital account for the years ended 31 March 2021 and 2022.

Share capital a/c

Date	Particulars	Debit	Credit	Balance
2020		\$	\$	\$
Apr 1	Balance b/d			50 000 Cr [1/2]
2021				
Apr 1	Balance b/d			50 000 Cr [1]
Oct 10	Cash at bank (\$10 000 x \$2)		20 000	70 000 Cr [1]
2022				
Apr 1	Balance b/d			70 000 Cr [1/2]

(e) Prepare the retained earnings account for the years ended 31 March 2021 and 2022.

Retained earnings a/c

Date	Particulars	Debit	Credit	Balance
2020		\$	\$	\$
Apr 1	Balance b/d			25 450 Cr [1]
2021				
Mar 31	Income summary		9 300	34 750 Cr [1]
Mar 31	Dividends (\$0.05 x 10 000)	500		34 250 Cr [1]
Apr 1	Balance b/d			34 250 Cr [1]
2022				
Mar 31	Income summary	1 000		33 250 Cr [1]
Mar 31	Dividends (\$0.05 x 20 000)	1 000		32 250 Cr [1]
Apr 1	Balance b/d			32 250 Cr [1]

(f) State **two** advantages of a private limited company.

- It has easier access to funds. For example, it is more likely for banks and other lenders to lend money to a private limited company. The company may also issue more shares to raise funds. [1]
- When the company incurs debts and losses, shareholders are not obliged to pay them using their personal assets. In the worst-case scenario, they will only need to forfeit their investments. [1]

[Total: 16]

- 4 After preparing the trial balance, the accountant of Koko Trading prepared the financial statements for the year ended 31 December 2021. The following errors were discovered.

- 1 A motor vehicle repairs invoice \$150 was posted to the motor vehicles account.
- 2 Credit sales of \$1 500 to Pang Pang was recorded in Pong Pong's account.
- 3 Debit note of \$800 issued to a customer has been recorded in the debit column of the sale revenue account and the credit column of the trade receivables account.

The profit for the year before discovering the error was \$25 000.

REQUIRED

- (a) Prepare journal entries to correct the errors. Narrations are not required.

Journal

	Particulars	Debit	Credit	
		\$	\$	
1	Motor vehicle repairs expense	150		[1]
	Motor vehicles		150	
2	Trade receivables – Pang Pang	1 500		[1]
	Trade receivables – Pong Pong		1 500	
3	Trade receivables	1 600		[1]
	Sales revenue		1 600	

- (b) Prepare a statement to show adjusted profit for the year ended 31 December 2021.

Koko Trading

Statement to show adjusted profit for the year ended 31 December 2021

	\$
Unadjusted profit for the year	25 000 [1]
Less: Motor vehicles repair expense understated	(150) [1]
Add: Sales revenue understated	1 600 [1]
Adjusted profit for the year	26 450 [1]

[Total: 7]

End of Paper