2022 PRELIMINARY EXAMINATION 4E5N Principles of Accounts P2 MARKING SCHEME

1(a)

Sappy Pte Ltd
Statement for financial performance for the year ended 30 June 2022

	$	$	
Sale revenue	652 900		
Less: Sale return	(21 470)		
Net sales revenue		631 430	1
Less: Cost of sales		(290 450)	
Gross profit		340 980	1
Add: Other income			
Discount received	12 300		
Rent income (2 500 x 6 + 3 000 x 6)	33 000		1
		45 300	
Less: other expenses			
Discount allowed	19 430		
Salaries expense	29 000		
Insurance expense	12 900		
Utilities expense	10 340		
Interest expense (5% x 50 000)	2 500		1
Impairment loss on inventory	25 000		1
Impairment loss on trade receivables [(5% x (92940 – 1500) – (5230 – 1500))	842		1
Depreciation of motor vehicles (10% x (150 000 – 15 000))	13 500		1
Depreciation of Premises (20% x 240 000)	48 000		1
		161 512	
Profit for the year		224 768	

(b) Sappy Pte Ltd

Statement of financial position as at 30 June 2022

Assets	Cost $	Accumulated depreciation $	NBV ($)	
Non-current assets				
Motor vehicles	150 000	28 500	121 500	1
Premises	240 000	142 500	97 500	1
Total non-current assets			219 000	
Current assets				
Cash at bank		50 470		
Trade receivables (92 940 – 1 500)	91 440			1
Less: Allowance for impairment of trade receivables (5% x (92940 – 1500)	4 572	86 868		1
Inventory (75 900 – 50 000)		25 900		1
Insurance receivables		25 000		1
Rent income receivables (33 000 – 18 000)		15 000		1
Total current assets			203 238	
Total assets			422 238	
Equity and liabilities				
Shareholders' equity				
Share capital, 100 000 ordinary shares		100 000		
Retained earnings (20 780 + 224 768 – 5 000)		240 548		1
Total equity			340 548	
Non-current liabilities				
Long term borrowing (50 000 x ¾)		37 500		1
Total non-current liability			37 500	
Current liability				
Current portion of long term borrowing (50 000 x ¼)		12 500		1
Trade payables		24 190		
Interest payable (5% 50 000)		2 500		1
Dividend payable ($0.05 x 100 000)		5 000		1
Total current liabilities			44 190	
Total equity and liabilities			422 238	

[Total: 20]

Question 2

(a) (i) Gross Profit
= 150 000 x 0.4
= $60 000

Cost of Sales
= Net Sales Revenue – Gross Profit
= 150 000 – 60 000 = $90 000 **[1]**

(ii) Profit for the Year
= Gross Profit – Expenses
= 60 000 – 45 000
= $15 000 **[1]**

Profit Margin
= $\frac{Profit\ for\ the\ Year}{Net\ Sales\ Revenue} \times 100\%$
= $\frac{15000}{150000} \times 100\%$
= 10.0% **[1]**

(iii) Rate of Inventory Turnover
= $\frac{Cost\ of\ Sales}{Average\ Inventory}$
= $\frac{90000}{5800}$
= 15.5 times **[1]**

(b) Any four of the following: **[4] – 1 mark each**

- The gross profit margin has improved by 9% from the year ended 31 December 2020 to 2021.
- This may be due to Tim Trading lowering cost price as seen as a drop in cost of sales from the year ended 31 December 2020 to 2021 by searching for a cheaper supplier.
- The profitability of Tim Trading has dropped from the year ended 31 December 2020 to 2021, as seen from the 3.8% decrease in profit margin.
- This is likely due to the increase in operating expenses from the year ended 31 December 2020 to 2021.
- This is likely due to Tim Trading being less efficient in managing their operating expenses.

(c) Offering trade discount, which is a reduction off the list price of the items, it will encourage customers to buy in bulk or encourage customer loyalty [1] . This will in turn increase sales for the business. [1]

(d) Any two of the following: **[2] – 1 mark each**

- The rate of inventory turnover for Tim Trading at 15.5 times is worse than of Tam Pte Ltd at 22 times. For every 1 unit not sold, Tim Trading sold 15.5 units while Tam Pte Ltd sold 20 units.
- Tim Trading may have a lower rate of inventory turnover as he may have bought goods in bulk in order to lower his cost price.
- Tim Trading may not have promoted his goods to attract customers.
- Tam Pte Ltd is selling its inventory faster than Tim Trading.
- Tam Pte Ltd is managing its inventory more efficiently than Tim Trading.

(e) Any one of the following: **[1]**

- Inventory could become obsolete and the business may incur losses.
- Cash would be tied up in inventory instead of being used in more profitable areas.
- Business may incur additional storage cost to store the inventory.
- Business may become short of cash as it sells goods slower.

(f) Choco Lover Enterprise should invest in Tam Pte Ltd as they have a higher return on equity at 10% **[1]** which means that Tam Pte Ltd is better able to reward their investors. **[1]**

Question 3

(a) According to the matching theory, income earned must be matched against expenses incurred to determine the profit for that period. [1] Hence, business needs to record part of the cost of non-current assets (depreciation expense) used to generate income. [1]

Or According to prudence theory [1], so as to not overstate the value of the non-current assets. [1]

(b) Net book value of motor vehicle sold = $20 000 - $7 200 = $12 800 [1]

Gain on sale of motor vehicle = $15 000 - $12 800 = $2 200 [1]

(c) Depreciation Expense

= [(80 000 – 20 000 + 12 000) – (10 450 – 7 200)] x 20% [1]

= $13 750 [1]

(d)

Motor vehicle a/c

Date	Particulars	Debit	Credit	Balance
2021		$	$	$
Jan 1	Balance b/d			80 000 Dr [1]
Jul 1	Sale of non current asset		20 000	60 000 Dr [1]
Nov 1	Capital	12 000		72 000 Dr [1]
Jan 1	Balance b/d			72 000 Dr [1]

(e) Any of the following:

Capital expenditure is the cost of the non current asset as well as any cost to bring the non current asset to its intended use or working condition [1], whereas revenue expenditure is the cost to operate, repair, and maintain non current assets in working condition. [1]

Capital expenditure provides benefits for more than a year [1] whereas, revenue expenditure benefits are used up within a year. [1]

Capital expenditure is recorded as non current asset [1], whereas revenue expenditure is recorded as expenses. [1]

Question 4

(a) Max 1 mark for decision. Justification based on max 3 reasons to a max of total 6 marks.

Marks will be awarded as follows:

- Max 1 mark for only decision without any basic statement or development
- A decision only supported with basic statements will get only the decision mark and max 3 marks for basic statements
- No additional development marks will be awarded where basic statement is developed in two different ways.

Decision: Buy Printer	Decision: Rent Printer
If James buys a printer, he will get a new printer instead of a 12-month old printer. [1 basic statement] A new printer is unlikely to malfunction as compared to a 12-month old printer. / A new printer will more likely to be more efficient than a 12-month old printer. [1 development]	If James decides to rent a printer, it costs only $100 for the initial deposit and a monthly rent of $150 as compared to paying $2 500 up front. [1 basic statement] The cost to be incurred upfront is less than buying. This will mean having more cash available for other business use. [1 development]
The cost of the printer is $2 500 as compared to a monthly recurring rental of $150. [1 basic statement] Assuming if he uses for 17 months or more, it is more economical than renting. Cost of renting for 17 months = $150 x 17 = $2 550 [1 development]	While the rental printer is not new, James does not need to worry about maintenance and repairs. [1 basic statement] This is because the rental agreement covers servicing which will mean that James does not need to fork out additional cash to pay for maintaining and repairs. [1 development]
As the owner, he is not bound by the terms and conditions of the rental contract. [1 basic statement] He has the flexibility of upgrading to a better printer should his business expands and requires a more powerful machine. [1 development]	Buying a new printer requires periodical servicing which costs $120 per session while renting a printer does not incur additional serving costs. [1 basic statement] This will mean that James can cut down on his annual operating expenses. [1 development]
The printer is able to scan copies and send them directly to their email. [1 basic statement] As James's business will require them to print and scan high volume of reports, having the function to send the scanned copies directly to their email will make it more convenient for the user, and also increase efficiency of work. [1 development]	The rental printer can print faster than the printer that he wants to buy. [1 basic statement] The higher performing printer will improve productivity which means printing work can be done faster and the freed-up time can be used for other tasks on hand. [1 development]
	It will cost James $1 800 for the annual rental of the printer. While it appears to be expensive, it covers all the servicing and free replacement of ink cartridges. [1 basic statement] Should the business print a lot of reports, the replacement of ink cartridge will add on to the costs as well. He would have to bear all the

	repair costs should the printer breaks down subsequently. Jamesmight end up paying more as a result. [1 development]

(b)
(i) Invoice [1]
(ii) Credit note [1]
(iii) receipt / bank statement [1]
(iv) Debit note [1]

(c) According to the objectivity theory [1], accounting information recorded must be supported by reliable and verifiable evidence so that financial statements will be free from bias and opinions. [1]