

Answer **all** questions.

- 1 The following balances were extracted from the books of GB Trading on 30 June 2022.

	\$
Sales revenue	100 560
Sales returns	5 920
Cost of sales	76 990
Equipment at cost	48 000
Motor vehicles at cost	146 200
Accumulated depreciation	
- Equipment	21 600
- Motor vehicles	31 200
Trade receivables	20 800
Trade payables	10 100
Cash at bank (credit)	6 200
Inventory	19 100
Allowance for impairment of trade receivables	800
Wages and salaries	19 800
Motor vehicles expenses	3 900
Insurance	4 960
Discount received	1 210
Commission income	6 000
Rent expense	14 100
4% Bank loan (repayable 2025)	50 000
Drawings	13 200
Capital, 1 July 2021	145 300

Additional information

- 1 \$560 of insurance was prepaid.
- 2 Rent of \$2 500 was payable for the month of June 2022.
- 3 Commission income of \$500 was still outstanding.
- 4 Based on objective evidence, it was estimated that 5% of the trade receivables will be deemed to be uncollectible.
- 5 It is the business' policy to provide depreciation as follows:
  - Equipment at 10% per annum using the reducing balance method.
  - Motor vehicles at 20% per annum using the straight line method.

- 6 Interest for the loan was yet to be paid on 30 June 2022.
- 7 10% of the bank loan to be repaid on 10 July 2022.

**REQUIRED**

- (a) Prepare the statement of financial performance for the year ended 30 June 2022. [10]
- (b) Prepare the statement of financial position as at 30 June 2022. [10]

**[Total: 20]**

**[Turn over]**

- 2 The following was the allowance for impairment of trade receivables account of SG Trading for the year ended 31 July 2021.

Allowance for impairment of trade receivables account

2020		Debit \$	Credit \$	Balance \$
Aug 1	Balance b/d			640 Cr
2021				
July 31	Impairment loss on trade receivables	140		500 Cr
Aug 1	Balance b/d			500 Cr

### REQUIRED

- (a) Explain the entry on 31 July 2021 in the allowance for impairment of trade receivables account. [2]

A credit customer, JJ Ltd, who owed SG Trading \$800 was declared a bankrupt. On 15 July 2022, SG Trading received, in cash, \$0.60 for each dollar owed by JJ Ltd. On the same day, the balance was written off as uncollectible.

### REQUIRED

- (b) Prepare journal entry to record the transaction on 15 July 2022. Narration is **not** required. [4]

The trade receivables balance of SG Trading for the year ended 31 July 2022 was \$12 400.

It is SG Trading's policy to provide allowance for impairment loss of trade receivables at 5% on trade receivables.

### REQUIRED

- (c) Calculate the impairment loss on trade receivables for the year ended 31 July 2022. [2]
- (d) Prepare journal entry to record (c) on 31 July 2022. Narration is required. [2]
- (e) State and explain the accounting theory needed for the recording of allowance for impairment loss on trade receivables. [2]

**[Total: 12]**

- 3 3RC Consultancy provides the following account balances from its books on 30 June 2022.

	\$
Office equipment	23 000
Accumulated depreciation of office equipment	9 800
Depreciation of office equipment	345
Capital, 1 July 2021	?
Drawings	6 700
Cash at bank	4 640
Consultancy fees revenue	96 995
Utilities	8 800
Wages and Salaries	25 000
Rent expense	42 000
Trade receivables	24 330
Allowance for impairment of trade receivables	330

### REQUIRED

- (a) Calculate the capital balance on 1 July 2021. [3]
- (b) Calculate 3RC Consultancy's profit for the year ended 30 June 2022. [1]

The following errors were discovered on 30 June 2022 by the accountant of 3RC Consultancy.

- 1 Cheque received of \$12 000 for consultancy service was recorded as debit consultancy fees revenue and credit cash at bank.

**[Turn over**

- 2 Depreciation of office equipment, \$354, was wrongly recorded as \$345.

**REQUIRED**

- (c) Prepare journal entries to correct errors 1 and 2.  
Narrations are **not** required. [6]
- (d) State the effect and amount of error 1 on 3RC Consultancy's profit  
for the year ended 30 June 2022. [2]
- (e) Calculate 3RC Consultancy's adjusted profit for the year ended  
30 June 2022. [3]

**[Total: 15]**

**[Turn over**

- 4 GI Trading buys and sells equipment on credit. It has been the business' policy to record its inventory on a "First in, First out" basis. GI Trading had the following credit transactions for the month of June 2022.

2022

June 1 Balance from May 2022, 10 units at \$8 000.  
 5 Bought 30 unit at \$24 600.  
 11 Sold 10 units for \$10 200.  
 17 Bought 40 units at \$36 800.  
 22 Sold 30 units for \$29 000.

### REQUIRED

- (a) Calculate the cost of sales for the month of June 2022. [2]  
 (b) State the basis of inventory valuation. [1]  
 (c) State the inventory amount on 30 June 2022. [1]

Due to a pipe leakage on 25 June 2022, equipment costing \$20 000 was damaged and repair cost of \$5 000 was incurred. These equipment is expected to be sold for \$23 200 after repair.

### REQUIRED

- (d) Calculate the impairment loss on inventory for the month of June 2022. [2]  
 (e) Prepare journal entry to record the impairment loss on inventory in part (d). Narration is **not** required. [2]

Scenario-Based Qtn: Which credit customer to extend credit to?

Two credit customers have approached GI Trading requesting for a longer credit terms from 20 days to 30 days. Due to the uncertainty of the world situations on the local economy, GI Trading is only willing to extend the credit term of one of the credit customers only.

Credit customer Ho Sdn Bhd

- Malaysian customer.
- Main customer for five years with annual sales revenue of \$200 000.
- Was only late 6 times over the last five years.
- Average repayment time of 27 days for the last accounting period.
- Good reputation in the industry and good online review rating of 4.2 out of 5.

Credit customer Gen Trading

- Local customer, started operations in one and a half years ago.
- Customer for just one and a half years with annual sales revenue of \$120 000, expecting upward trend in sales revenue.
- Was only late 4 times over the last one and a half years.
- Average repayment time of 23 days for the last accounting period.
- Popular among youngsters and positive online review rating of 4.7 out of 5.

**REQUIRED**

- (f) Advise GI Trading which credit customer it should extend the credit term. Justify your decision with **two** reasons. [5]

**[Total: 13]**

**End of Paper**

**[Turn over**

**Q1 20 marks**  
**(a) 10 marks**

**GB Trading**

**Statement of financial performance for the year ended 30 June 2022**

	\$	\$	
Sales revenue		100560	
Less Sales returns		<u>(5920)</u>	
Net sales revenue		94640	✓
		<u>(76990)</u>	
Less Cost of sales			
Gross profit		17650	✓
Add Other income			

**[Turn over**

Discount received	✓1210	
Commission income (6000+500) ✓	✓6500	7710
Total income		25360

Less Other expenses

Wages and salaries	19800	✓
Motor vehicles expenses	3900	
Insurance (4960-560) ✓	✓4400	
	✓1660	
Rent expense (14100+2500) ✓	0	
Impairment loss on TR (1040-800) ✓	✓240	
Depreciation of equipment		
10%(48000-21600) ✓	✓2640	
Depreciation of Motor vehicles	✓2924	
20%(146200) ✓	0	
Interest expense 4%(50000) ✓	✓2000	78820
		(53460)
Loss for the year ✓OF unless alien		)

Format ✓

(b) 10 marks

**GB Trading**  
**Statement of financial position as at 30 June 2022**

	Cost	Accumulated depreciation	Net book value
	\$	\$	\$
<b>Assets</b>			
<b><u>Non-current assets</u></b>			
Equipment	48000	✓24240	23760
Motor vehicles	146200	✓60440	85760

[Turn over

			✓10952
<b>Total non-current assets</b>	194200	84680	0

**Current assets**

Trade receivables		✓20800	
Less Allowance for impairment of TR		✓ (1040)	
Net trade receivables		✓19760	
Inventory		✓19100	
Prepaid insurance		✓560	
Commission income receivable		✓500	
<b>Total current assets</b>			39920
<b>Total assets</b>			149440

**Equity and liabilities****Owner's Equity**

Capital (145300-53460-13200) ✓✓		78640	
<b>Total equity</b>			78640

**Non-current liability**

Long term borrowing ✓ (50000-5000)		✓45000	
<b>Total non-current liability</b>			45000

**Current liabilities**

Trade payables		✓10100	
Bank overdraft		✓6200	
rent payable		✓2500	
interest payable		✓2000	
current portion of Long Term Borrowing ✓ 10%(50000)		✓5000	
<b>Total current liabilities</b>			25800
<b>Total equity and liabilities</b>			149440

**Format ✓****2 12 marks****(a) 2 marks**

\$140 represents

- the reversal of impairment loss on trade receivables or
- decrease in allowance for impairment of trade receivables ✓
- leading to the allowance for impairment of trade receivables of \$500 as at 31 July 2022 ✓.

**[Turn over**

**(b) 4 marks**

2022		Dr \$	Cr \$
July 15	Cash in hand✓	✓480	
	Allowance for impairment of trade receivables✓ (800-480)	✓320	
	Trade receivables, JJ Ltd✓✓		✓800

**Format ✓****(c) 2 marks (any method as long as working is clear and correct)**

Impairment loss on TR =  $5\%(12400)✓ - (500-320)✓✓ = \$440✓$

**(d) 2 marks**

2022		Dr \$	Cr \$
July 31	Impairment loss on trade receivables✓	440	
	Allowance for impairment of trade receivables✓		440
	Increase in AFI of \$440 recorded for the year ended 31 July 2022. ✓		

**(e) 2 marks**

Prudence theory ✓

- AFI is an estimate that needs to be recorded at accounting year so that profit for the year and trade receivables will not be overstated.✓

**3 15 marks****(a) 3 marks**

Capital, 1 July 2021

= Total debits – total credits ✓

=  $\$(23000+345+6700+4640+8800+25000+42000+24330) - (9800+96995+330)$

=  $\$134815✓✓✓ - 107125✓$

=  $\$27690✓$

**[Turn over**

**(b) 1 mark**

Profit for the year  
 = \$96995 – (345+8800+25000+42000)  
 = \$96995 – 76145✓  
 = \$20850✓

**(c) 6 marks**

2022		Dr \$	Cr \$	
Jun 30	(1) Cash at bank✓	24000		
	Consultancy fees revenue✓		24000	✓
	(2) Depreciation of office equipment✓	9		
	Accumulated depreciation of office equipment✓ (354-345)		9	✓

**(d) 2 marks**

Understated ✓by \$24000✓OF

**(e) 3 marks**

Adjusted profit = \$20850✓OF + 24000✓✓ – 9✓✓ = \$44841✓

**4 13 marks****(a) 2 marks**

Cost of sales = \$8000✓ + 24600✓ = \$32 600

**(b) 1 mark**

Lower of cost or net realizable value

**[Turn over**

(c) **1 mark**  
\$36800

(d) **2 marks**  
Cost = \$20000  
NRV = \$23200 – 5000 = \$18200

Impairment loss on inventory = 20000✓ – (23200-5000) ✓✓ = \$1800✓

(e) **2 marks**

2022		Dr \$	Cr \$
June 25	Impairment loss on inventory✓	1800	
	Inventory✓		1800

(f) **5 marks**

**To grant Ho Sdn Bhd (D1)**

**Reason 1 (E1)**

Main customers for the past 5 years compared to Gen Trading one and a half years.

**Development (DV1)**

Since they have been in business for 5 years and their business relationship are good. Also it will be easier to have business dealing with a long term customer as they are familiar with each other.

**Reason 2 (E2)**

Main customers with an annual sales of \$200 000 compared to Gen Trading \$100 000.

**Development (DV2)**

Ho Sdn Bhd is a well-established business and the main customer of GI Trading. GI Trading run the risk of losing such a customer that has dealing with them of \$200 000 annually.

**Reason 3 (E3)**

Good reputation in the industry and a good credit rating of 4.2 out of 5

**Development (DV3)**

This shows that Ho Sdn Bhd is a well-reputed and trusted business in the industry. So the chance of it repaying its debts is higher. Besides, the fact that their dealing with GI Trading is \$200 000 annually also shows that Ho Sdn Bhd is doing well in its local market and there is high chance that they might order more in the future.

**Reason 4 (E4)**

Average repayment period is 27 days which is within 30 days and on average Ho Sdn Bhd was only late 1.5 times in payment in a year compared to Gen Trading 2 times per year.

**Development (DV4)**

**[Turn over**

Despite the uncertainties and the strong SGD, Ho Sdn Bhd was still able to pay its debts within the 30 days period, this shows that it has the ability to pay its debts.

**To grant Gen Trading (D1)**

**Reason 1 (E1)**

Local customer as compared to Ho Sdn Bhd, an overseas customer.

**Development (DV1)**

Easier to communicate as it is situated locally. In times of crisis, it is easier to manage as there are established rules and regulations. Also with the strong SGD, it may become too expensive for Ho Sdn Bhd to buy from GI Trading.

**Reason 2 (E2)**

Debts repayment is faster than Ho Sdn Bhd by 4 days.

**Development (DV2)**

Early collection of debts is important for GI Trading. This provides GI Trading with available cash to meet its daily operation needs.

**Reason 3 (E3)**

Popular among youngsters and positive online review of 4.7 out of 5.

**Development (DV3)**

Though a new start up but is doing well with business with annual dealing of \$120 000 with GI Trading just within one and a half year. Also, there is a high chance that sales revenue may increase as upward trend in sales is expected from GEN Trading.

**Reason 4 (E4)**

GEN Trading sales revenue of \$120 000 is lower than that of Ho Sdn Bhd of \$200 0000.

**Development (DV4)**

If credit is granted to GEN Trading, the risk of uncollectible debts is lower per month as compared to Ho Sdn Bhd.

**[Turn over**