2024 4G3_5G2 Prelim Paper 2 Ans

Question 1
(a)

Alan
Statement of financial performance for the year ended 31 March 2024

	$	$
Sales revenue		111 300
Less: Sales returns		(11 300)
Net sales revenue		100 000√
Less: Cost of sales		(102 000)
Gross loss		(2 000) √
Other income		
Commission income (3 000 + 500)		3 500√
Less: Other expenses		
Rent expense (16 800 – 16 800/14 x 2)	14 400√	
Wages and salaries	33 000	
Discount allowed	210√	
Interest expense (3% x 20 000)	600√	
Depreciation on fixtures and fittings (10% x 90 000)	9 000√	
Depreciation on motor vehicles (20% x [40 000 – 8 000])	6 400√	
Impairment loss on trade receivables [2 200 – (800 – 400)]	1 800√	(65 410)
Loss for the year		(63 910)√OF

√ Format

[11]

(b)

Alan
Statement of financial position as at 31 March 2024

	Cost	Accumulated Depreciation	Net Book Value
	$	$	$
Assets			
<u>Non-current assets</u>			
Fixtures and fittings	90 000	27 000	63 000
Motor vehicles	40 000	14 400	25 600
			88 600√OF
<u>Current assets</u>			
Inventory		24 700	
Commission income receivable		500√	
Prepaid rent expense (16 800/14 x 2)		2 400√	
Cash at bank		8 300	
Trade receivables (44 400 – 400)	44 000		
Less: Allowance for impairment of trade receivables	<u>(2 200)</u>	41 800√OF	
			77 700
Total assets			166 300
Equity and liabilities			
<u>Owner's equity</u>			
Capital [99 900 – 900 – 63 910] √OF			35 090
<u>Non-current liabilities</u>			
Long-term borrowings √ (20 000 x 3/4)			15 000
<u>Current liabilities</u>			
Trade payables		111 010	
Interest expense payable (600 – 400)		200√	
Current portion of long-term borrowings (20 000 x 1/4)		5 000√	
			116 210
Total equity and liabilities			166 300

√ Format

[9]

Question 2

(a) For the financial year ended 30 June 2023:

Current ratio $= \frac{Current\ assets}{Current\ liabilities}$

$= \frac{(25\,900+26\,400+23\,600)\surd}{33\,400}$

$= 2.27\ \surd$ **[2]**

Quick ratio $= \frac{(Current\ assets - Prepayments - Inventory)}{Current\ liabilities}$

$= \frac{(25\,900+26\,400)\surd}{33\,400}$

$= 1.57\ \surd$ **[2]**

(b) For the financial year ended 30 June 2024:

Current ratio $= \frac{Current\ assets}{Current\ liabilities}$

$= \frac{(33\,300+50\,000+6\,000)\surd}{(17\,800+34\,100)}$

$= 1.72\ \surd$ **[2]**

Quick ratio $= \frac{(Current\ assets - Prepayments - Inventory)}{Current\ liabilities}$

$= \frac{33\,300\surd}{(17\,800+34\,100)}$

$= 0.64\ \surd$ **[2]**

(c) Lilydale's current ratio is on a worsening trend over the three years. It worsened from 3.74 in 2022 to 2.27 in 2023 to 1.72 in 2024. √ Lilydale's ability to pay debts within the short term using current assets has become weaker. √

The current ratio is above the acceptable norm of 2 in the first two years. It has fallen below the recommended norm in the third year but is still above 1. √ The business is able to pay current liabilities and meet operational needs in the first two years with its current assets. √

In the third year, the business may not have adequate current assets to pay current liabilities and meet operational needs. √

Lilydale's quick ratio is also on a worsening trend over the three years. It worsened from 3.00 in 2022 to 1.57 in 2023 to 0.64 in 2024. √ The business's ability to pay debts within the immediate term using quick assets has become weaker. √

In 2024, the quick ratio has fallen below 1. √ This means that the business is not able to pay for its current liabilities with its quick assets when the current liabilities are due for payment. √

There is a steady increase in inventory balance from $15 000 in 2022 to $23 600 in 2023 to $50 000 in 2024. √ In addition to having liquid assets tied up in inventory, the business also needs to spend more on storage cost and face higher inventory risks such as inventory obsolescence and losses due to damage and theft. √

Lilydale's bank balance is on a decreasing trend over the three years. From positive balances of $48 000 in 2022 to $25 900 in 2023 to eventually a bank overdraft of $17 800 in 2024. √ The decreasing bank balance over the three years and negative balance in 2024 indicates that the business is facing cashflow problems. √

(Marks are awarded for stating any of the points up to a maximum of 6) **[6]**

c) **Any 2 of the following:**

Obtain cash contribution from owner. √

Obtain long-term loan in cash. √

Sell excess non-current assets for cash. √

(Accept any other reasonable answer) **[2]**

[Total: 16]

Question 3

(a) Trade receivable Kim account

Date	Particulars	Dr	Cr	Balance
		$	$	$
2024				
Jul 1	Balance b/d			6 900 Dr ✓
7	Sales revenue (5 400 x 90%)	4 860 ✓		11 760 Dr
13	Sales returns (1 300 x 90%)		1 170 ✓	10 590 Dr
28	Cash at bank		10 000 ✓	590 Dr
28	Discount allowed		590 ✓	-

✓ for each pair of correct account and amount **[5]**

✓ for correct dates and format **[1]**

[6]

(b) A trade discount was offered to encourage bulk purchases from customer Kim √ **[1]** or for his customer patronage or for his customer loyalty.

(c) Credit note √ **[1]**.

(d) According to the Objectivity theory √, accounting information recorded must be supported by reliable and verifiable evidence so that financial statements will be free from opinions and biases. √ Source documents provide evidence to capture occurrence of a transaction. √ **[3]**

[Total: 11]

Question 4

(a) Wear and tear, Obsolescence, Legal limits and usage. **2 marks for any 2 causes.**
(b) Prudence theory √ **[1]** and Matching theory. √ **[1]**
(c) Loss on sale of non-current asset. √ **[1]**
(d) Income summary account. √ **[1]**
(e) Jerry's business should buy Equipment ABC. √ **[1]**

Equipment ABC is able to pack 6 000 units per week as compared to 2 000 units per week for Equipment XYZ. √ **[1]** This indicates that Equipment ABC has greater capacity to pack more units (4 000 more units per week) which will mean increase in sales volume leading to increase in sales revenue and profit. √ **[1]**

Equipment ABC has warranty of 5 years as compared to only 1 year of warranty for Equipment XYZ. √ **[1]** This means that there is greater assurance of safeguarding against any equipment breakdown if Jerry's business buys Equipment ABC which will in turn lead to cost savings from repair of equipment. √ **[1]**

Equipment ABC can be delivered immediately as compared to delivery of 3 months for Equipment XYZ. √ **[1]** This time savings will mean that Jerry's business can use Equipment ABC to pack units immediately to generate sales revenue. √ **[1]**

OR

Jerry's business should buy Equipment XYZ. √ **[1]**

Equipment XYZ costs cheaper to buy, $22 000 ($21 500 + $500 delivery fee) as compared to $22 800 ($20 000 + $2 800 delivery fee), for Equipment ABC. √ **[1]** This will mean cost savings of $800 for Terry's business. √ **[1]**

The annual servicing cost for Equipment XYZ is also cheaper than that for Equipment ABC, $600 as compared to $1,500. √ **[1]** This will mean annual cost savings of $900 for Jerry's business, leading to greater profit. √ **[1]**

There is positive feedback from 88% of customers who had purchased Equipment XYZ. √ **[1]** This will mean a greater assurance that Equipment XYZ will be able to perform its functions well, leading to greater sales revenue and profit. √ **[1]**

[Total: 13]