

Bukit Panjang Government High School
2022 Prelim Examination Paper 2 – Secondary 5NA (Syllabus 7087)

Answer Key

1(a)

Hanz Pte Limited			
Statement of financial performance for the year ended 31 July 2022			
	\$	\$	
Sales revenue	358 000		
Less: Sales returns	(15 500)		[1]
Net sales revenue	342 500		
Less: Cost of sales	(32 920)		
Gross profit		309 580	[1]
Add: Other incomes			
Discount received	739		
Commission income (250 - 150)	100		[1]
		839	
Less: Other expenses			
Depreciation expense of motor vehicles (25% x [198 000 - 11 200])	46 700		[1]
Depreciation expense of fixtures and fittings (10% x 4 000)	400		[1]
Impairment loss on inventory (62 350 - 62 000)	350		[1]
Reversal of impairment loss on trade receivables ([4% x (20 000 - 1 800)] - [2 800 - 1 800])	(272)		[1]
Advertising expenses (8 889 + 889)	9 778		[1]
Wages and salaries (46 920/15 x 12)	37 536		[1]
Discount allowed	3 030		
General expenses	13 500		
		(111 022)	
Profit for the year		199 397	[1]

1(b)

Hanz Pte Limited
Statement of financial position as at 31 July 2022

	\$ Cost	\$ Accumulated depreciation	\$ Net book value	
Assets				
<u>Non-current assets</u>				
Motor vehicles	198 000	57 900	140 100	[1]
Fixtures and fittings	4 000	2 400	<u>1 600</u>	[1]
			141 700	
<u>Current assets</u>				
Inventory		62 000		[1]
Trade receivables (20 000 - 1 800)	18 200			[1]
Less: Allowance for impairment of trade receivables (4% x [20 000 – 1800])	<u>(728)</u>			[1]
Net trade receivables		17 472		
Prepaid wages and salaries (46 920/15 x 3)		9 384		[1]
Cash at bank		<u>38 800</u>		
			127 656	
Total assets			<u>269 356</u>	
Equity and Liabilities				
<u>Shareholders' equity</u>				
Share capital, 10 000 ordinary shares		10 000		
Retained earnings (34 520 + 199 397 - 2 100)		<u>231 817</u>		[1] OF*
			241 817	
<u>Non-current liabilities</u>				
Long-term borrowings			12 000	
<u>Current liabilities</u>				
Trade payables		12 400		
Advertising expenses payable		889		[1]
Commission income received in advance		150		[1]
Dividend payables		<u>2 100</u>		[1]
			15 539	
Total equity and liabilities			<u>269 356</u>	

**OF – Students will still be awarded the mark as long as the right working is used even if the profit for the year figure used from part (a) is calculated wrongly to avoid double-penalisation.*

2(a) (i)

Journal			
Particulars			
Date	Particular	Debit	Credit
2020		\$	\$
May 6	Allowance for impairment of trade receivables	450	
	Trade receivable – Ali Mama Services		450

[1]

[1]

(ii)

Journal			
Particulars			
Date	Particular	Debit	Credit
2020		\$	\$
Dec 20	Cash at bank (0.35 x 10 600)	3 710	
	Allowance for impairment of trade receivables (0.65 x 10 600)	6 890	
	Trade receivables – Lozada Trading		10 600

[1]

[1]

[1]

Note: Marks will still be awarded to student can combine journal entries into a single journal (i.e. students can display answer for each components using 1 single journal)

2(b)

Lesla Holdings

Statement of financial position as at 30 June 2021 (extract)

	\$	\$
<u>Current assets</u>		
Trade receivables (102 000 – 10 600)	91 400	
Less: Allowance for impairment of trade receivables (9% x 102 000)	<u>9 180</u>	
		82 220

[1]

[1]

2(c) It is valued at trade receivables less allowance for impairment of trade receivables (net trade receivables). [1]

2(d) (i)

On 1 July 2021, MediaCrop Ltd owed \$9 600 to Lesla Holdings. [1]

(ii)

On 19 August 2021, Lesla Holdings provided services to MediaCrop Ltd at \$1 000 on credit. [1]

(iii)

On 11 November 2021, Lesla Holdings received a cheque of \$1 950 [1] and gave a cash discount of \$50 [1] for full settlement of debts by MediaCrop Ltd.

(iv)

On 10 February 2022, Lesla Holdings written off MediaCrop Ltd's remaining debts of \$8 600. [1]

3(a) Year ended 30 April 2020

$$\begin{aligned}\text{Quick ratio} &= (\text{CA} - \text{Inventory} - \text{Prepayment}) / \text{CL} \\ &= (10\,450 + 15\,000) / 12\,100 \\ &= 2.10 \text{ (2 d.p.) [1]}\end{aligned}$$

Year ended 30 April 2021

$$\begin{aligned}\text{Quick ratio} &= (\text{CA} - \text{Inventory} - \text{Prepayment}) / \text{CL} \\ &= (18\,900 + 8\,900) / 26\,780 \\ &= 1.04 \text{ (2 d.p.) [1]}\end{aligned}$$

Year ended 30 April 2022

$$\begin{aligned}\text{Quick ratio} &= (\text{CA} - \text{Inventory} - \text{Prepayment}) / \text{CL} \\ &= 30\,150 / (3\,300 + 28\,960 + 2\,200 + 12\,000) \\ &= 0.65 \text{ (2 d.p.)}\end{aligned}$$

- 3(b)** *Note: Students have to identify that they can only evaluate using **current ratio** and **quick ratio**. No marks will be awarded if students evaluate working capital figure as evaluation using absolute value provides no comparison between two variables.*

Current ratio

- The current ratio has worsened from 3.61 in 2020 to 1.70 in 2022. [1]
- This means that for every \$1 of short-term debts, the company has \$3.61 and \$1.70 of net current assets to cover its debts in 2020 and 2022 respectively. [1]

Quick ratio

- The quick ratio has worsened from 2.10 in 2020 to 0.65 in 2022. [1]
- This means that for every \$1 of short-term debts, the company has \$2.10 and \$0.65 of quick assets to cover its debts in 2020 and 2022 respectively. [1]

Reasons for the decline in liquidity

(Any one of the reasons below to gain the next 1 mark)

Reason #1: Increasing inventory

- The reason was the increasing inventory of the business from \$18 200 to \$48 920 in 2022 which suggests that the company is overstocking or have difficulties in selling its goods which worsens its liquidity of the business [1]

Reason #2: Decrease in cash at bank due to net trade receivables

- The increase of net trade receivables from \$10 450 in 2020 to \$30 150 in 2022 which suggests that the business has difficulties in collecting payment from its credit customer. [1]

Reason #3: Increase in trade payables

- The increase of trade payables from \$12 100 in 2020 to \$28 960 in 2022 also suggests that the business may have insufficient funds to pay its credit suppliers. [1]

Conclusion

In conclusion, the liquidity of GiveTea Trading has worsened from 2020 to 2022 as the quick ratio falls below 1. [1]

3(c) Any **two** of the following [2]:

- (1) Increase cash by obtaining long-term loan.
- (2) Increase cash by selling excess non-current assets.
- (3) Increase cash by obtaining cash contribution from owners.
- (4) Decrease cash outflow by reducing negotiating better credit terms from supplier.
- (5) Decrease cash outflow by reducing operating expenses.

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

- (1) Having integrity / being straightforward and honest
- (2) Being objective

3(e) Objectivity theory means that accounting information recorded must be supported by reliable and verifiable evidence [1] so that financial statements will be free from opinions and biases [1].

4(a)

Journal				
Particulars				
Date	Particular	Debit	Credit	
2021		\$	\$	
Sep 30	Trade receivables - Bryan	2 000		[1]
	Sales revenue		2 000	[1]
Sep 30	Insurance expense	480		[1]
	General expense		480	[1]
	Note: Accept answer if student do the 'long' method for Error 2 as shown below.			
	<u>Alternative solution for Error 2:</u>			
	Cash at bank	480		
	General expense		480	
	Insurance expense	480		
	Cash at bank		480	

4(b) (i)

Profit for the year will be understated by \$2 000. [1]

(ii)

Profit for the year will not be affected / No effect to profit for the year. [1]

4(c)

Note: Both options are acceptable so long as students provide the following reasonable evidence and explanation to support their choice.

Marks allocation:

- 1 mark for decision
- 3 evidences to be provided (1 mark for each evidence)
- 3 corresponding explanation to be provided (1 mark for each explanation)

Decision: I would set up as a sole proprietorship [1].

Evidence	Explanation
<u>Transferability of ownership:</u> Krit would like to transfer the ownership of this new business (Aroy Aroy Mak) to his children if they are interested in running this business when they grow up. [1]	Setting up as a sole proprietorship allows Krit to transfer the ownership of the business easily as he only needs to update the particulars of the new owner, whereas in private limited company, all partners needs to agree to it before being able to transfer the ownership. [1]
<u>Ownership structure:</u> Krit also prefers a business structure that requires him to have little or minimal administrative regulations to abide by. [1]	Setting up as a sole proprietorship allows Krit to have the least administrative duties and statutory requirements to follow, whereas in private limited company, it require partners to adhere some regulations such as submitting annual declarations on their ability to pay. [1]
<u>Level of control:</u> Krit has experiences in running his previous business (Sawadee Snacks) by himself. [1]	Setting up as a sole proprietorship means that he have full control over the running of the business, whereas in a private limited company, the control of the business is shared among the partners.[1]

Decision: I would set up as a limited liability partnership [1].

Evidence	Explanation
<u>Access to funds:</u> Setting up Aroy Aroy Mak requires massive capital of \$180 000 and Krit may not have sufficient funds to set up the new retail shop. [1]	Setting up as a private limited company allows Krit to be able to obtain more funds from a bank. Krit can also get more capital through his friends if he decided to ask them to join his new business venture. [1]
<u>Risk:</u> Krit wants to ensure that his own assets (private property) is protected against any losses incurred from his new business. [1]	Setting up as a private limited company allows Krit protect his property from any losses. When a limited liability partnership incur losses, the partners are not liable for the debt personally. [1]
Owners' expertise: Krit is not knowledgeable in the area of HR and administrative functions but have friends who are good at handling these functions. He also have plans to spend more time with his newborn child.[1]	Setting up as a private limited company allows Krit to spend more time with his family as the control and ownership of the business is shared among the partners where each partner can take care of the different functions in the business according to their expertise. [1]