Marking Scheme: Sec 4E5N POA Preliminary Examination 2022 (Paper 2)

1/2m per □ Total: 60m

1(a)

Hyun Bin Private Limited
Statement of Financial Performance for the year ended 31 July 2022

	$	$
Sales revenue	472 300	
Less: Sales returns	(8 450)	
Net sales revenue		□ 463 850
Less: Cost of sales		(201 900)
Gross profit		□ 261 950
Other income		
Commission income	□ 4 200	
Discount received	□ 75	4 275
		266 225
Less: Other expenses		
Insurance (12/16 x 8 320) □	□ 6 240	
Printing and stationery	□ 1 230	
Salaries and wages	□ 46 500	
Utilities	□ 7 200	
Depreciation on fixtures and fittings (10%x 56700)□	□ 5 670	
Depreciation on motor vehicles [40% x (282 500 – 123 800)] □	□ 63 480	
Impairment loss on inventory □	□ 3 000	
Reversal of impairment loss on trade receivables [(5% x (32 900 – 1 400)) – (3 500 – 1 400)] □	□ (525)	(132 795)
Profit for the year		□ 133 430

[9]

1(b)

Hyun Bin Private Limited
Statement of Financial Position as at 31 July 2022

Assets	$	$	$
Non-current Assets	Cost	*Accumulated Depreciation	Net Book Value
Fixtures and fittings (15 220 + 5 670)*	56 700	□ (20 890)	35 810
Motor vehicles (123 800 + 63 480)*	282 500	□ (187 280)	95 220
			□ 131 030
Current Assets			
Inventory (135 900 – 3000) □		□ 132 900	
Trade receivables (32 900 – 1 400) □	□ 31 500		
Less: Allowance for impairment of trade receivables (5% x 31 500) (5% x 13 300) □	□ (1 575)	□ 29 925	
Commission income receivable □		□ 700	
Prepaid insurance expense (4/16 x 8 320)		□ 2 080	
			165 605
Total assets			296 635
Equity and Liabilities			
Shareholders' Equity			
Share capital, 90 000 ordinary shares □ [96 000 + (10 000 x 2)]		□ 116 000	
Retained earnings (30 805 + 133 430 □OF – (0.08 x 90 000) □OF)		□ 157 035	273 035
Current Liabilities			
Bank overdraft [29 100 – (10 000 x 2)] □		□ 9 100	
Trade payables		7 300	
Dividends payable (0.08 x 90 000) □		□ 7 200	23 600
Total equity and liabilities			296 635

[11]
[Total: 20]

2(a) **[6]**

	Tom	Jerry
(i) Working capital = Current Assets – Current Liabilities	(104 600 + 1 600 + 40 750) – (9 230 + 37 900) ▯ = 146 950 - 47 130 = **$99 820 ▯**	(8 765 + 16 400 + 400 + 10 840) – (5 000 + 7 450) ▯ = 36 405 - 12 450 = **$23 955 ▯**
(ii) Current ratio = Current Assets / Current Liabilities	146 950 / 47 130 ▯ = **3.12 ▯**	36 405 / 12 450 ▯ = **2.92 ▯**
(iii) Quick ratio = (Current Assets – Inventory – Prepayments) / Current Liabilities	40 750 / 47 130 ▯ = **0.86 ▯**	(8 765 + 10 840) / 12 450 ▯ = **1.57 ▯**

2(b) Any <u>six</u> of the following (▯▯ *each*): **[6]**

- Tom's working capital of $99 820 is better than Jerry's of $23 955.
- Tom's current ratio of 3.12 is also better than Jerry's of 2.92.
- Tom's better working capital and current ratio is mainly due to a higher inventory balance of $104 600 compared to Jerry's of $16 400 and a higher trade receivables balance of $40 750 compared to Jerry's of $10 840. This is offsetted by a higher trade payables balance of $37 900 compared to Jerry's of $7 450 and a bank overdraft of $9 230 compared to Jerry's cash at bank balance of $8 765.
- Both Tom's and Jerry's current ratios are above the general benchmark of 2.
- This indicates that both businesses have sufficient current assets to pay for their immediate debts.
- However, Tom's quick ratio of 0.86 is worse than Jerry's of 1.57.
- Tom's quick ratio is below the general benchmark of 1 whereas Jerry's is above the general benchmark.
- This indicates that Tom may not have sufficient quick assets to pay for its immediate debts.
- This is evident from Tom's bank overdraft position of $9 230.
- Despite a healthy current ratio, Tom's poor quick ratio could be due to the business holding excessive inventory as 71.18% (104 600 / 146 950 x 100%) of its current assets are in the form of inventory.
- In conclusion, Tom has a poorer liquidity position when compared to Jerry.

2(c) Days sales in inventory = 1/12.8 x 365 ▯
= **28.52 days ▯** **[1]**

2(d) **[3]**

- Tom's rate of inventory turnover of 9.5 times is worse than Jerry's of 12.8 times. ▯▯
- Tom's days sales in inventory of 38.42 days is also worse than Jerry's of 28.52 days. ▯▯
- This shows that Tom is less efficient at managing its inventory compared to Jerry, and Tom is taking a longer time than Jerry to sell its goods. ▯▯

[Total: 16]

3(a) Paradise Travel purchased motor vehicles costing $91 500 from Speedo Motors on credit. ▯▯ **[1]**

3(b) Depreciation is the allocation of the cost of a non-current asset over its estimated useful life. ▯▯ **[1]**

3(c) Depreciation rate = 38 244 / (378 000 – 186 780) x 100 ▯
= **20% per annum ▯** **[1]**

3(d) **Journal**

	2021		Dr ($)	Cr ($)
(i)	Sep 23	Other receivable – Zoom Motoring	▯ 54 000	
		Sale of non-current asset		▯ 54 000
(ii)	Oct 31	Sale of non-current asset	▯ 3 952	
		Income summary		▯ 3 952
		[54 000 - (78 200 – 28 152)] ▯▯		

[3]

3(e)

Decision	Buy Photocopier	Rent Photocopier
Evidence	The total cost of buying the photocopier and owning it for about 5 years is $7 300 (7 200 + 100), which is lower than the cost of renting the photocopier for 5 years at $15 000 ($250 x 12 x 5).	The upfront cash payment for renting the photocopier is $250 which is much lesser than the upfront cash payment of $7 300 for buying the photocopier.
Support	By buying the photocopier, Paradise Travel will incur lower cost in the long run as it is cheaper and hence earn more profits.	The lower upfront payment will enable Paradise Travel to have more cash available for use in its business operations.

Evidence	Paradise Travel will own the photocopier at a fixed cost for 5 years and not be subjected to increase in rental fees upon yearly renewal.	Paradise Travel is allowed to exchange the photocopier for the latest model when they renew the contract after each year.
Support	Paradise Travel can be assured of the usage of the photocopier at a known cost for 5 years and better manage the business's finances.	This will allow Paradise Travel to choose a better model with improved functions and/or faster printing speed after each year.
Evidence	The photocopier purchased will be brand new whereas the rental equipment has been used by others for up to 12 months.	Servicing of the photocopier is taken care of by the rental company.
Support	Hence, the machine should be in perfect working condition and is less likely to break down.	Hence, Paradise Travel can be assured that the photocopier will be in good working condition and does not have to worry about incurring additional expenses to maintain or repair the photocopier should it malfunction.

Decision (1m)
Any **three** sets of **Evidence (1m) + Support (1m)** **[7]**

[Total: 13]

4(a) **Journal**

	2022		Dr ($)	Cr ($)
(i)	Jan 31	Rental expense (3 600 x 2)	▯ 7 200	
		Cash at bank		▯ 7 200
(ii)		Fixtures and fittings	▯ 1 950	
		Admin expense		▯ 1 950
(iii)		Trade receivable – Thea	▯ 2 400	
		Service fee revenue		▯ 2 400

[3]

4(b) Geronimo Consulting
Statement to show adjusted profit for the year ended 31 January 2022

	$	$
Unadjusted profit for the year		52 830
Add:		
Admin expense – was overstated ▯	▯ 1 950	
Service fee revenue – was understated ▯	▯ 2 400	4 350
Less:		
Rental expense – was understated ▯		▯ (7 200)
Adjusted profit for the year		▯▯ 49 980

[4]

4(c) Professional ethics an accountant should uphold: **[2]**

- An accountant should have integrity which is to be straightforward and honest in all professional relationships. ▯▯
- An accountant should be objective which is to not let bias, conflict of interest or the undue influence of others override one's professional judgement. ▯▯

4(d) Any <u>two</u> of the following (▯▯ ***each***): **[2]**

Stakeholder	**Decision stakeholder may make**
Owners and shareholders	Whether to continue to invest in the business or sell the business, depending on the risks and returns related to the business.
Managers	To consider ways to improve the performance of the business.
Employees	Whether to continue working at the business.
Lenders	Whether to grant loans to the business, depending on the business' ability to repay the loan principal and pay interest.
Suppliers	Whether to sell to the business on credit, depending on its ability to pay.
Customers	Whether to buy from the business, depending on the business' ability to provide the services that they need and good after-sales service.
Government	Whether the business complies with the tax regulations and decides the amount of tax to collect from the business.
Competitors	Whether they are comparable to the business and how to improve their own performance.

[Total: 11] END OF PAPER