2025 4E5N POA Prelim Paper 1 Ans

1(a)

Journal

Date	Particulars	Dr	Cr
2025		$	$
May 31	Income Summary	10 670	
	Capital		10 670

[2]

(b)

Capital account

Date	Particulars	Dr	Cr	Balance
2024		$	$	$
June 1	Balance b/d			12 040 Cr
Aug 15	Office equipment		3 100	15 140 Cr
2025				
May 25	Cash at bank		9 000	24 140 Cr
May 31	Drawings (4080 + 930)	5 010		19 130 Cr
	Income Summary (Profit)		10 670	29 800 Cr
June 1	Balance b/d			29 800 Cr

[5]

(c)

The accounting entity theory states that the activities of a business are separate from the actions of the owner and all transactions are recorded from the point of view of the business.

Therefore, the amount withdrawn by the owner from the business for personal use should be recorded as drawings. Resources contributed by the owner are recorded as capital. [2] **[Total: 9]**

2(a)

Journal

Date	Particulars	Dr	Cr
2025		$	$
July 31	Trade receivable - Filzah	6 210	
	Service fee revenue		6 210
	Trade payable - Yasmin (4 000 – 400)	3 600	
	Inventory		3 600
	Cash at bank (2 000 x 2)	4 000	
	Interest income		4 000

[6]

Error	Effect of error on profit	$
(i)	Understated	6 210
(ii)	No Effect	0
(iii)	Understated	4 000

[3] **[Total: 9]**

3

(a) Value of inventory at cost or net realizable value, whichever is the lower. [1]

(b) Prudence Theory.

When the net realisable value of inventory is less than its cost price business must recognise possible future loss (impairment loss on inventory) in the current year and reduce the value of its inventory so that profits for the year and its inventory asset are not overstated.

(c) Journal

Date	Particulars	Dr	Cr
2025		$	$
June 7	Impairment loss on inventory (9 500 – 7 350)	2 150	
	Inventory		2 150

[2]

(d) Dr Insurance claim receivable $ 1 280

Cr impairment loss on trade receivable $ 1 280[2]

(a) The value of inventory shown in Lorraine's statement of financial position on 30 June 2025 = $7 350 [1] **[Total: 8]**

4(a) Genevieve Sportswear

Adjusted Cash at Bank a/c

Date	Particulars	Debit	Credit	Balance
2025		$	$	$
Apr 30	Balance b/d			3 130 Dr
	Rent		2 430	700 Dr
	Christina Mart	1 910		2 610 Dr
	Yna Musicians (rejected cheque)		1 300	1 310 Dr
	Bank charges		93	1 217 Dr
May 1	Balance b/d			1 217 Dr

[5]

(b) Genevieve Sportswear

Bank Reconciliation Statement as at 30 April 2025

	$	$
Credit balance as per bank statement		8 447
Add: Deposits in transit		
Sophia Dream Auditors		1 650
		10 097
Less: Cheques not yet presented		
Insurance	2 430	
Inventory	6 000	(8 430)
		1 667
Less : Bank error		
Nazeefa (1 500 – 1 050)		(450)
Adjusted balance as per cash at bank account		1 217

[5]

(c) Current Asset, $ 1 217

(d) If the unadjusted profit for April 2025 for Genevieve Sportswear is $ 6000, calculate the adjusted profit for the month after the adjustments for bank reconciliation is done. Adjusted profit for April 2025 = $(6 000 – 2 430 – 93) = $3 477 [2] **[Total:14]**

1 (a)

Charlotte Legal Services
Statement of Financial Performance for the year ended 31 May 2025

		$	$
Consultancy fee revenue			98 000
Add : Other income			
Commission income			18 500
			116 500
Less: Other expenses			
Wages and salaries		31 100	
Rent expense	(35 000 / 14 x 12)	30 000	
Advertising expense	(15 600 + 2 390)	17 990	
Interest on loan	(5% x 40 000 x 1 year)	2 000	
Depreciation on fixtures and fittings	10% x (84 000 – 4 000)	8 000	
Depreciation on office equipment	[20% x (100 000 - 36 000)]	12 800	
Impairment loss on trade receivables (Reversal)	[(3900-700) – (6% x (37 700-700))]	(980)	(100 910)
Profit for the year			**15 590**

[8]

(b)

Charlotte Legal Services
Statement of Financial Position as at 31 May 2025

		$ Cost	$ Accumulated Depreciation	$ Net book value
Assets				
Non-current assets				
Fixtures and fittings	(16 000 + 8 000)	84 000	24 000	60 000
Office equipment	(36 000 + 12 800)	100 000	48 800	51 200
		184 000	72 800	111 200
Current assets				
Trade receivables (37700-700)		37 000		
Less: Allowance for impairment of trade receivables	(6% x 37 000)	(2 220)	34 780	
Prepaid rent expense	(35 000 / 14 x 2/14)		5 000	
Commission income receivable (18 500 – 10 500)			8 000	**47 780**
Total assets				**158 980**
Equity and Liabilities				
Owner's equity				
Capital, (90000 + 15590 – 6800)			72 000	**98 790**
Non-current liabilities				
Long-term borrowings				40 000
Current liabilities				
Trade payables			13 000	
Bank overdraft			2 800	
Advertising expense payable			2 390	
Interest expense payable			2 000	
				20 190
Total equity and liabilities				**158 980**

[12][Total: 20]

2(a)

Journal

Date	Particulars	Dr	Cr
2024		$	$
Aug 9	Cash at bank 3 600 x 0.40	1 440	
	Allowance for impairment of trade receivables 3600 x 0.60	2 160	
	Trade receivable – Soup Spoons		3 600

[3]

(b)

Prudence Theory. When debts are likely to be uncollectible, the business should report and adjust the loss in the value of the trade receivable asset as an expense in the current so that profits and trade receivable asset may not be overstated
or Matching theory. The expenses incurred (impairment loss on trade receivables) must be matched against income earned in the same financial period to determine the profit for the period.

[2]

(c)

	Tr Rec 32 600			Tr Rec 35 100
1 July 2023	30 June 2024	1 July 2024	9 Aug 2024	30 June 2025
Allow..3000	Allow =7% x 32 600 = 2 282	Allow =2 282	w/o 2 160	Allow =7% x 35100 = 2 457

Journal

Date	Particulars	Dr	Cr
2024		$	$
June 30	Allowance for impairment of trade receivables	718	
	Impairment loss on trade receivables (2 282-3 000)		718
2025			
June 30	Impairment loss on trade receivables	2 335	
	Allowance for impairment of trade receivables		2 335
	2 457 - (2 282 – 2160)		

[4]

(d)

Statement of financial performance for the year ended 30 June 2025

	$	$
Less : Other expenses		
Impairment loss on trade receivables	2 335	
(7% x 35 100) - (2 282 – 2 160)		2 335

[2][Total: 11]

3.

(a)

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current Liabilities}}$$

$$= \frac{700 + 10\,000 + 2\,300 + 11\,200 + 500}{7\,100 + 10\,900} \quad [1]$$

$$= \frac{24\,700}{18\,000}$$

= 1.37 [1]

(b)

$$\text{Quick ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}}$$

$$= \frac{700 + 2\,300 + 11\,200}{7\,100 + 10\,900} \quad [1]$$

$$= \frac{\mathbf{14\,200}}{\mathbf{18\,000}}$$

$$= \mathbf{0.79} \quad [1]$$

(c)

The quick ratio worsened from 1.32 on 31 October 2023 to 0.79 on 31 October 2024

In 2nd year business did not have enough liquid assets to pay short-term debts on time.

It worsened probably because business

1. Purchased the motor vehicles using cash/cheque
2. Repayment of long-term loan resulting in the bank overdraft
3. Had difficulty selling the goods and hence funds were tied in the inventory which could not be converted to cash a liquid asset.
4. Owner took cash or cheque for his own use.

[4]

(d)

1. Suggestion : Ask for an extension of credit period
   Reason : With more time to settle short-term debt owing to credit supplier, business may have a healthy bank balance instead of a bank overdraft.
2. Suggestion : Sell goods by cash only instead of selling goods on credit.
   Reason : Cash increases as customers pay cash immediately. Credit sale may mean a delay in collecting amount owing by trade receivables and business faces a delay in trade receivable collection which affects business liquidity, In addition business faces a risk of impairment loss on trade receivables.
3. **Suggestion :** Seek a long term loan instead of asking for an increase of bank overdraft.

   Reason : Bank overdraft increases current liabilities which worsens liquidity. Long term loan does not become an urgent debt as business can take time to settle such non-current liability.
4. **Suggestion :** Before ordering goods in advance, do a market survey and order an optimal amount of goods which are in demand – not too much nor too little and in a timely manner.

   Reason : Business will be able to sell its goods which are popular and saleable at a faster rate and convert its goods into cash which improves liquidity.

[4][Total: 11]

4.

(a)

Let Cost price = Cost of sales = 100%
Mark up = Gross profit = 20%
Selling price = Net sales revenue = 120% = \$600 000

$$\text{Hence cost of sales} = 100\% = \frac{\$600\,000}{120} \times 100 \quad [1]$$

= \$500 000 [1]

(b)

(i) Rate of inventory turnover

$$= \frac{\text{Cost of sales}}{\text{Average inventory}}$$

where Average inventory

$$= \frac{\text{Opening Inventory + Closing Inventory}}{2}$$

$$= \frac{34\,500 + 42\,820}{2}$$

= 38 660 [1]

$$= \frac{500\,000}{38\,660}$$

= 12.93 times [1]

(ii) Days sales in inventory

$$= \frac{\text{Average inventory}}{\text{Cost of sales}} \times 365 \text{ days}$$

$$= \frac{38\,660}{500\,000} \times 365$$ [1]

= 28.22 days [1]

(c)

	Ashley	Reanne
Rate of inventory turnover	12.93 times	14 times
Days sales in inventory	28.22 days	21.51 days

Ashley's rate of inventory turnover of 12.93 times is worse than Reanne's rate of inventory turnover of 14 times. She is not selling her goods as fast as Reanne. The number of times she replenishes her goods is slower. [2]
Similarly Ashley's days sales inventory of 28.22days is worse than Reanne's days sales inventory of 21.51 days. Ashley takes a longer time to sell her goods than Reanne. Ashley's management of inventory is not as efficient as Reanne's. [2]

(d) Ashley can improve her business rate of inventory turnover by

1. Sell slow-moving inventory at a lower price by offering a trade discount as customers will buy goods when they are cheaper.
2. Do sales promotion so as to attract customers to clear stocks at a faster rate.
3. Order optimal amount of goods in a timely manner using technological tools to estimate customer's demands so that goods can be sold easily.
4. Do a market research and buy goods that are in demand so that they can be sold easily.[1]

(e)

Decision : Ashley should buy Panasonic blenders to start her second business.		
	Basic Statement	Development
Reason 1	The cost of Panasonic blender = \$50 + (10%x50)= \$55 Cost of Ninja Wireless blender = \$57 Hence cost of Panasonic blender is \$2 cheaper.	The cost savings means that Ashley can be used for other business expenses / operations.
Reason 2	Panasonic blender comes with a 2 year warranty which is one year longer than Panasonic's.	Ashley's customer would prefer a product that has a longer warranty period and hence Panasonic blender is likely to be more popular and saleable than Ninja blender. There will be

		greater sales revenue if Ashley buys Panasonic blender.
Reason 3	It is an established brand that has been in the market for a decade	The fact that the product has been sold for a long time to 10 years means that Panasonic blenders have established their foothold in the market. There is a stronger likelihood of good sales revenue and hence profit as well.
Reason 4	There is favourable feedback from customers especially from those who have been using it for a long time.	Customers are already familiar with the brand and there is no need to advertise or promote to launch the product Advertising expenses that are saved can be used for other business operations or to pay for day-to-day expenses.

Decision : Ashley should buy Ninja blenders to start her second business.		
	Basic Statement	Development
Reason 1	Its light weight is an advantage.	It is easier to handle, store, portable and hence more convenient for everyday use.
Reason 2	The Ninja blender needs no wires or cord to operate.	This makes the blender portable and convenient to use. Even if there is no power outlet, it can still be used. User does not face the hassle of dealing and storing the cords and hence there is more freedom of movement. It will be popular with customer who need it for camping, picnics or travelling.
Reason 3	It is easier to clean	Busy users would prefer a blender that is easy to wash as it saves time, especially for working house wives with no helpers at home and for those who use it in the office.
Reason 4	It is made in Singapore	Ashley will be able to visit its factory since is located in the same country. Should she be dissatisfied or needs after-sales service, she can readily address her business needs with the local supplier. It is more inconvenient for her to make trips to Malaysia should she want to do the same.

Any 3 reasons well explained or any suitable points raised. [7] **[Total: 18]**