Section A

Answer **all** questions in this section

1 Wheels & Deals Private Limited trades in premium motorcycles. On 30 April 2021, there was a fire in its warehouse and only one unit of motorcycle costing of $14 000 located in its showroom was salvaged. Its accounting records for inventory which were kept in the warehouse were also destroyed. The following information has been pieced together:

Balance sheet extracts at 31 December 2020:

	$
Inventory	153 000
Trade receivables	162 000
Trade payables	124 000

Other information for the accounting period 1 January 2021 to 30 April 2021:

	$
Cash sales	70 000
Receipts from credit customers	420 000
Payments to credit suppliers	288 000

The following balances at 30 April 2021 are available:

	$
Trade receivables	154 000
Trade payables	130 000

The firm sells its goods at a margin of 20% on sales.

REQUIRED

a A calculation of the cost of the inventory destroyed. [8]

Additional Information

The company uses the first – in first - out method of valuing its inventory. The cost price of its inventory, motorcycles, has been steadily increasing in the recent months. The director proposes that the company should change to the weighted average cost method instead. Below are its transactions for May to December 2021.

2021	**Purchases**	**Sales**
May	2 at $20 000 each	
June		1 at $30 000
September	3 at $23 000 each	
October		3 at $36 000 each
November	2 at $24 000	
December		1 at $37 000

REQUIRED

b Compute the value of its inventory as at 31 December 2021 using:
  (i) First-in first out
  (ii) Weighted average cost [6]

c Explain the impact of rising prices on cost of inventory and gross profit when using the first – in first – out method of valuing inventory [4]

d Explain an advantage of using the weighted average cost method of valuing inventory in times of rising prices. [2]

[Total: 20]

[Turn over

2 Wanderlust Pte Limited provides travel services in the form of tour packages to Asia. The trainee accountant has extracted the following balances for the year ended 30 June 2022.

	$
Computer and office equipment:	
Cost	260 000
Accumulated depreciation at 1 July 2021	54 000
Sales of holiday packages	1 269 300
Payments to travel companies	650 000
Rental of shop premises	220 600
Staff salaries	90 500
Share capital	80 300
Retained losses at 1 July 2021	10 000
Dividends	18 100
Operating costs	192 700
Trade receivables	35 100
Trade payables	17 900
Bank overdraft	46 500

The following additional information is to be taken into account before preparing the final accounts for the year.

1 New office equipment costing $8 000 was purchased just before the year end. This had been debited in error to the operating costs account.

Wanderlust's policy is to charge depreciation at the rate of 20% per annum on cost at the end of the year.

2 A customer owing $1 000 had been included in the accounts payable balances as $10 000.

3 Additional share capital of $10 000 issued during the year had been debited to the dividend account.

4 Wanderlust made a sales promotion during June 2022. Customers taking advantage of this had paid deposits of $31 000 for holiday packages to be taken in 2023. This had been included in the sale of holiday packages figure. The cost of the promotion packages amounted to $12 000 had been paid to travel companies.

5 A fire occurred in one of the shops on 15 June 2022. This had caused damage estimated at $23 000. The directors expected this to be covered by its insurance claim.

6 A customer who owed $4 200 at 30 June 2022 was uncontactable. Investigations revealed that the customer had emigrated to another country.

REQUIRED

a Prepare an income statement for the year ended 30 June 2022, taking additional information 1 to 6 into account. [5]

b Prepare Wanderlust's balance sheet as at 30 June 2022. [11]

c Explain your treatment of additional information 4. Justify your answer by making reference to any accounting conventions. [4]

[Total: 20]

[Turn over

3 The directors of Capers Pte Limited are considering an expansion of the company's operations which is estimated to require a further $5 000 000 to be invested in the company.

The following information has been extracted from the latest published balance sheet of the company:

	$
Ordinary shares of $0.25 each	2 600 000
8% preference shares of $1.00 each	1 600 000
Revaluation reserve	4 000 000
Retained earnings	1 300 000
6% bonds (2025)	1 000 000

The current price of the company's ordinary shares is $0.60 whilst that of the preference share is $1.00.

The directors are now considering how to raise the additional capital and have the company's financial adviser to report on the advantages and disadvantages of the following in meeting the company's projected capital needs:

Option 1: A rights issue of ordinary shares at $0.50 each.

Option 2: A bonus issue of ordinary shares at $0.25 each.

Option 3: An issue of 6% bonds.

REQUIRED

a For **each** of the above options, compute the following:
 (i) Net asset value of each ordinary share
 (ii) Debt-equity ratio

[9]

b As the financial adviser, comment on **each** of the options proposed by the directors. You may use your computation in **(a) above** to support your answer. [6]

c It is expected that next year's trading conditions will be more difficult than this year due to an economic slowdown. Which of the three options would you recommend the directors to take? Give reasons for your recommendation. [5]

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Section B

Answer all questions

4 Allswell Pte Limited which buys and sells home exercise equipment was started by two fitness enthusiasts on 1 January 2020. Business was good and it made profits in its first two years of operations. The directors were, however, a little puzzled by the decline in its cash and bank balances.

Below are the balance sheets of Allswell Pte Limited as at 31 December:

	2020	**2021**
	$'000	$'000
Non current assets (NBV)	500	800
<u>Current Assets</u>		
Inventory	90	95
Trade receivables	60	50
Bank	35	-
	685	945
<u>Current Liabilities</u>		
Trade payables	45	20
Bank overdraft	-	20
Dividend payable	20	45
<u>Share capital & reserves</u>		
$1 Ordinary share capital	350	450
Revaluation reserve	100	-
Retained earnings	70	210
<u>Long Term Liabilities</u>		
10% Bonds	100	200
	685	945

Additional Information

1 During the year ended 31 December 2021, non-current assets costing $400 000 were purchased and non-currents assets with a net book value of $50,000 were sold for $40 000.

2 All financing transactions took place on 1 January 2021.

3 Interim dividends amounting to $45 000 were paid in 2021.

REQUIRED

a Compute the net profit for the year ended 31 December 2021. [3]

b Prepare a statement of cash flows for the year ended 31 December 2021. [12]

c With reference to the statement of cash flows prepared in **(b) above**, explain to the directors why a net profit does not necessarily give rise to an overall inflow of cash for the business. [6]

The budding entrepreneurs were eager to improve their management of the business and wanted to know if they were trading efficiently. They provided the following information for the year ended 31 December 2021.

	$
Sales	820 000
Cost of sales	615 000

Ratios for similar businesses are as follows:

Gross profit margin	20%
Days-sales-in-inventory	30 days
Accounts receivable collection period	20 days
Accounts payable payment period	35 days

REQUIRED

d State the formula and calculate the following ratios to **two decimal places** for the year ended 31 December 2021.

(i) Gross profit margin

(ii) Days-sales-in-inventory

(iii) Accounts receivable collection period

(iv) Accounts payable payment period

(v) Cash conversion cycle [5]

e Evaluate the company's performance against the industry standards. [10]

Additional information

The directors have signed a contract with Sihat Sdn Bhd, a company based in Malaysia that will sell its exercise equipment in Malaysian states of Selangor, Pahang and Penang. The goods will be delivered to Sihat Sdn Bhd and any inventory not sold will be returned to Allswell. Sihat Sdn Bhd has no obligation to pay Allswell until it sells the equipment. In January 2022, exercise equipment costing $50 000 were sent to the Malaysian distributor. The exercise equipment is to be sold at a mark up of 20%. It was decided to include this as sales in January 2022 as the directors are confident that all the equipment will be sold by its Malaysian distributor.

f Comment on the directors' decision. [4]

[Total: 40]

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