

POA 7087/01/2024/Answer					
Q1a	Cash at bank				
	Date	Particular	Dr (\$)	Cr (\$)	Bal (\$)
	2024				
	May-31	Bal b/d			240 Dr [1]
		Rent		120	120 Cr [1]
		trade receivable, John (dishonoured cheque)		700	580 Cr [1]
		bank charges		72	652 Cr [1]
		trade receivable, Asthon	740		88 Dr [1]
		trade payable, Arron (error)	90		178 Dr [1]
	Jun-01	Bal b/d			178 Dr
Q1b	Bank reconciliation statement as at 31 May 2024				
	Bal as per bank statement			-82	[1]
	Add deposit in transit				
	Trade receivable, Yen Xi			1900	[1]
				1818	
	less cheque not yet presented				
	Transport expense		460		[1]
	trade payable, Nelson		1180	1640	[1]
	Bal as per cash at bank			178	
Q1c	Segregation of duties	Separate cash handling and cash recording duties among different employees so that no single person has control over the entire cash process.			
	Custody of cash	Secure cash and cheques in a locked storage.			
	Authorisation	Obtain proper approvals for all payments from authorised personnel by having at least two persons to review and approve all payments.			
	Bank reconciliation	Compare the business' records with the bank's records to identify items that caused the difference between the ending balances in the cash at bank account and the bank statement.			

		anyone [2m]					

Q2a	Cost of sales = \$3000 + \$6400 = \$9,400 [1]					
Q2b	Gross profit = \$5500 (0.9)+ \$9700(0.9) - \$9400 = \$13680 [1] - \$9400 = \$4280 [1]					
Q2c	Endng Inventory = \$7,300 [1]					
Q2d	Dr	Cash at bank	8730 [1] - DE			
	Cr	Sales revenue	8730 [1] - amt			
	Dr	Cost of sales	6400 [1] - DE			
	Cr	inventory	6400 [1] - amt			
Q2e	\$3300 + 95%(\$3100) = 6245 [2]					
Q2f	\$3 400 [1]					
Q2g	Inventory is valued at the lower of cost or net realisable value [1] in line with the Prudence theory [1] states that the accounting treatment chosen should be the one that least overstates assets and profits and least understates liabilities and losses.					
Q2h	30/6/2023 =	15.52 days	[1]			
	30/6/2024 =	18.43 days	[1]			
Q2i	The rate of inventory turnover has worsened from 23.52 times in 2023 to 19.81 times in 2024[1]. This means that the business is managing inventory less efficiently over the two years[1]. This can also be seen from the worsening days-sales-in-inventory. It has increased from 15.52 days in 2023 to 18.43 days in 2024.					
Q2j	- Decrease selling price for slow moving inventory - Offer trade discounts to encourage customers to buy in bulk - Improve marketing strategies in boost the sales - Use of technolgoy to help business to predict demand of inventory to prevent over and under-stock of goods.					

any 2								
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Q3a			
	Total asset = $700 + 5\,400 + 120 + 300 =$	6520	[1]
	Total liabilities = $1500 + 890 + 450 =$	2840	[1]
	Equity = $6520 - 2840$	3680	[1]
	Equity = $700 + 4600 - \text{Drawings} = 3680$		
	Drawings = $700 + 4600 - 3680 =$	1620	[1]
3b	Dr Income summary 4600		[1]
	Cr Capital 4600		[1]
3c	· specific industry outlook of the customer is in.		
	· economic outlook		
	· reputation of customers		
	· new customers' history of repayment		
	any two [2]		

POA 7087/02/2024/Answers
Question 1

Cape Star

Statement of financial performance for the year ended

Sales revenue	280100	
less sales returns	5000	
Net sales revenue	275100	
less cost of sales (+90)	105990	[1]
Gross profit	169110	

add other income

commission income	3200	[1]
interest on bank deposit	50	[1]
discount received	45	3295 [1]

Less expenses

Insurance expenses	3000	[1]
Depreciation of motor vehicles	40100	[1]
Depreciation of fixtures and fittings	4500	[1]
impairment loss on Trade receivables	2207	[1]
loss on sales of non-current asset	9000	58807 [1]
Profit for the year	113598	

Cape Star

Statement of financial position for the year ended

Asset	\$	\$	\$
Non-current asset	Cost	Acc dep	NBV
Motor vehicles	242500	122200	120300
Fixtures and fitting	22500	11100	11400
			131700 [1]
current asset			
trade receivables (-2960)	16940		[1]
less allowance for imp of TR	847	16093	

Inventory (-90)		67210		[1]		
Cash at bank (-405+7000+30000)		72495		[3]		
prepaid insurance		6000	161798			
			293498			
Equity and liabilities						
Shareholder's Equity						
Share capital(60 000 Ordinary shares)(+7000)		177000				
Add retained earning (- 6050-9000+113598)		98548	275548	[2] (for -6090, -9000)		
Current liabilities						
Trade payables (-450)		8150		[1]		
commission income received in advance		800		[1]		
dividend payable		9000	17950	[1]		
			293498			

2a.	A business needs to be liquid so that it can pay its current liabilities and operating expenses [1] to ensure that the business can continue its operations smoothly.[1]		
2b.	Current asset (2024) =	24770	
	Current liabilities (2024) =	16,680	
	quick asset (2024) =	14800	
	current ratio =	1.49	[1]
	quick ratio =	0.89	[1]
2c	Current ratio has worsened from 2.05 in 2023 to 1.49 in 2024.		
	Current ratio in 2024 is below the general benchmark of 2 indicating that the business has insufficient current assets to pay short-term debts in 2024.		[1]
	Quick ratio has worsened from 1.59 in 2023 to 0.89 in 2024.		
	Quick ratio in 2024 is below the general benchmark of 1 indicating that the business has insufficient quick assets to pay short-term debts.		[1]
	The worsening in current ratio in 2024 is due to the cash at bank \$8820 in 2023 becoming an overdraft of \$5 970 in 2024.		[1]
	One reason that has contributed to the worsening quick ratio is the increase in inventory from \$4 270 in 2023 to \$9 710 in 2024.		[1]
	In conclusion the liquidity of the business has worsen in 2024 compared to 2023.		
2d		Effect on current asset	Effect on current liabilities
	Proposal 1	no effect	decrease by \$9530
	Proposal 2	increased by \$2000	no effect

3a	Bank loan					
	Date	Particular	Dr (\$)	Cr (\$)	Bal (\$)	
	2023					
	Jan-01	Bal b/d			81000	Cr [1]
	Feb-28	Cash at bank	9000		72000	Cr [1]
	Aug-31	Cash at bank	9000		63000	Cr [1]
	2024					
	Jan-01	Bal b/d			63000	Cr
3b	Journal					
	Date	Particular	Dr (\$)	Cr (\$)		
	2022					
	Aug-31	interest expnese (10% x 90000 x 6/12)	4500		[1]	
		cash at bank		4500	[1] DE	
	Dec-31	interest expenses (10% x 81000 x 4/12)	2700		[1]	
		interest expenses payable		2700	[1] DE	
	Dec-31	income summary	7200		[1] OF	
		interest expenses		7200		
3c	Interest for year 2023					
	1 jan to 28 Feb = 10%(81000) x 2/12		1350		[1]	
	1 Mar to 31 Aug = 10%(72000) x 6/12		3600		[1]	
	1 Sep to 31 Dec = 10%(63000) x 4/12		2100		[1]	
3d	According to accrual basis of accounting [1], income earned and expenses incurred should be recognized and recorded regardless of whether money is received or paid.[1]					

4a	non-current asset is valued at cost less accumulated depreciation.	[1]
4b	Dr Sales of non-current asset \$8 0000	[1]
	Cr motor vehicles \$80 000	
	Dr Other receivable, Pete \$60 000	[1]
	Cr Sales of non-current asset \$60 000	
	Dr Income summary \$20 000	[1]
	Cr Sales of non-current asset \$20 000	
4c	Yes, it is suitable to use reducing balance method to depreciation the motor vehicles because it is used more in its earlier years and less as the non-current asset get older as it becomes less efficient.	[1]
4d	Dr Cash at bank 57000	[1]
	Dr Discount allowed 3000	[1]
	Cr Other receivable, Pete 60000	[1]
4b		
Decision	Buy motor vehicles [1]	
Evidence 1	The annual spending on loan repayment, interest, servicing and insurance of \$17 000 (= \$90 000/10 + \$4 500 + \$3 500) is \$13 000 lesser when buying a MV than renting one at \$30 000 per year. Or Total cost for five years Buying = \$90 000 + \$45 000(interest) + 10 x (3500) = \$170 000 Renting = \$2 500 x 12 months x 5 years = \$300 000 \$300000 - \$170 000 = \$130 000 The business will save \$130 000 over ten years if it buys the van.	

Support 1	The cost savings can be used to pay for other operating expenses e.g. utilities and salaries.
Evidence 2	Buying a delivery van will enable the business to use a brand new delivery van.
Support 2	A new delivery van is less likely to break down or need major repair and is likely to come with warranty, enabling business to save on repair cost. OR As a new delivery van is less likely to break down, there would be minimal disruption to business operations due to the van's breakdown.
Evidence 3	There is flexibility for the business to include its name on the van.
Support 3	This serves as a form of advertisement and enables the business to promote its brand, potentially reducing advertisement expenses on other modes of advertisement.
Decision	Rent motor van [1]
Evidence 1	There will be \$8 000 less upfront payment/ deposit when renting a van as compared to buying it. Upfront payment Buying = \$10 000 Renting = \$3 000
Support 1	This will free up cash for the business to pay for its day-to-day expenses. Hence, renting puts less strain on the business' cash flow and it need not take up short-term loan.
Evidence 2	It will be possible for business to switch to other newer models of van when renewing the contract.
Support 2	This provides more flexibility for the business to choose a motor vehicle that suits its changing needs in generating income.

Evidence 3	The motor vehicle will be managed by the rental company in times of accident.	
Support 3	This will spare the business from the need to spend time going through the administrative procedures when accidents happen and the business can focus on its operations.	
Evidence 4	Servicing and maintenance will be arranged by the rental company.	
Support 4	Hence, the business need not be concerned about the upkeep of the van and can focus on its business operations. It can be assured that there will be no additional cash outflow on the repairs and maintenance of the van.	