

Paper 1 Suggested Solutions

Question 1

a) Trading business ✓

b)

	Source document
6 June	Invoice ✓
9 June	Credit note ✓
15 June	Receipt/ remittance advice/ payment voucher ✓

c) The purpose of a trade discount is to encourage (Any one of the following ✓):

- Customer to buy in bulk
- Customer's patronage
- Customer's loyalty

d)

Amount owing = $(3000 - 600) \times 90\% = 2160$ ✓

Percentage of discount received

= $2160 - 1836 / 2160 \times 100\% = 15\%$ (For correct answer ✓)

e) Any two of the following ✓✓:

- Payer's bank account has **insufficient funds** / is closed / is **frozen**
- Cheque has **expired**
- Cheque is **post-dated**
- **Incomplete** information on the cheque (missing date / signature / amount paid)
- **Inconsistent** information on the cheque (amount written in figures does not match amount written in words)

[Total: 9]

Question 2

- (a) Revenue recognition theory. ✓

Revenue is earned when goods have been delivered or services have been provided. ✓

- (b)

Journal

Date 2024		Debit \$	Credit \$
Jun 30	Plumbing fee income (86400+1760)	88 160 ✓	
	Income summary		88 160 ✓

- (c)

Extract of Statement of Financial Position as at 30 June 2024

<u>Current asset</u> ✓	\$
Plumbing fee income receivable	1 760 ✓

- (d)

- (i) 1 July 2023

Rent expense payable of \$3 000 was **still owing from the previous financial year** ending 30 June 2023 to **be paid in this financial year** ✓.

- (ii) 23 March 2024

There is a **cheque payment** ✓ of \$23 000 for rent expense.

- (iii) 30 June 2024

Rent expense of \$5 000 **incurred but not yet paid** ✓ for the current financial year ending 30 Jun 2024.

- (e)

- (i) Profit for the year will be **overstated by \$5000**. ✓

- (ii) The **current liabilities** will be **understated by \$5000**. ✓

[Total: 11]

Question 3

- (ai) CA = $14200 + 25000 - 1700 + 800 + 1500 = \39800
CL = $2300 + 9100 + 10000 = \$21400$

Current ratio

$$\begin{aligned} &= \text{current assets} / \text{current liabilities} \checkmark \\ &= 39800 / 21400 \\ &= 1.86 \checkmark \end{aligned}$$

- (aii) Quick ratio

$$\begin{aligned} &= \text{current assets} - \text{inventory} - \text{prepayments} / \text{current liabilities} \checkmark \\ &= 39800 - 14200 - 1500 / 21400 \\ &= 1.13 \checkmark \end{aligned}$$

- (b)

P

The current ratio has worsened from the three years from 2.13 in 2022 to 1.92 in 2023 to 1.86 in 2024. ✓

E

This is below the general benchmark of 2 in 2024, which suggest that the business have insufficient current assets to pay for its immediate debts in 2024. ✓

P

However, the quick ratio of the business has improved over the three years from 0.72 in 2022 to 0.98 in 2023 to 1.13 in 2024. ✓

E

This is above the bench of 1 in 2024, which suggest that the business is has sufficient quick assets to pay for its immediate debts in 2024. ✓

L

In conclusion, the liquidity of the business has improved from 31 July 2022 to 31 July 2024. ✓

- (c) Sofia could:

1) Increase sources of cash by obtaining cash contribution from owner or shareholders/ obtain a long-term loan/ sell excess non-current assets for cash. ✓

2) Manage cash outflow by reducing operating expenses/ Negotiating for better credit terms from supplier. ✓

[Total: 11]

Question 4

- (a) When the sole proprietor, incurred debts and losses incurred, the sole owner is obliged to pay them using his personal assets. ✓
- (b) Any one of the following ✓

- Limited liability partnership
- Private limited company

(c) Any one of the following ✓

- Shareholders
- Managers
- Employees
- Lenders
- Suppliers
- Customers
- Government
- Competitors

(d) Going concern theory ✓

(e) Equity is the claim by the owner on the net assets of the business. ✓

(f) $\text{Capital} = (16400 + 9700 + 20800 + 13400) - (7900 + 17000) = 35400$ ✓

(g)

Capital				
Date	Particulars	Dr (\$)	Cr (\$)	Bal (\$)
2023				
Jan 1	Bal b/d			35400 CR
Jun 4	Motor vehicle		16000 ✓	51400 CR
Dec 31	Drawing	1200 ✓		50200 CR
Dec 31	Income summary	8 500 ✓		41700 CR
2024				
Jan 1	Bal b/d			41700 CR

[Total: 9]

Paper 2 Suggested Solutions

Question 1

(a)

Ping Consultancy Services Pte Limited			
Statement of financial performance for year ended 31 December 2023			
	\$	\$	
Consultancy fee revenue (-8200)		106 800	✓
<u>Other income</u>			
Advertising income		4 700	✓
<u>Less: Other expenses</u>			
Rental expense	36 000		✓
Utilities expense (-600)	23 000		✓
Wages and salaries (+2000)	29 000		✓
Depreciation of fixtures and fittings [(90 000 – 20 000)/10]	7 000		✓
Depreciation of office equipment [15% x (22 000 – 8 000)]	2 100		✓
Reversal of impairment loss on trade receivables [5% x (22 500 -0) – 2 200]	(1 075)		✓
Interest expense (9/12 x 6% x 10000)	450	96 475	✓
Profit for the year		15 025	

(b)

Ping Consultancy Services Pte Limited
Statement of financial position as at 31 December 2023

Assets	Cost	Acc Dep	NBV	
<u>Non-current assets</u>	\$	\$	\$	
Fixture and fittings	90 000	(42 000)	48 000	✓
Office equipment	22 000	(10 100)	11 900	✓
			59 900	
 <u>Current assets</u>				
Trade receivables	22 500			
Less: allowance for impairment of trade receivables	(1 125)	21 375		✓
Prepaid utilities		600		✓
Cash at bank		7 400	29 375	
Total assets			89 275	
 Equity and liabilities				
<u>Shareholder's equity</u>				
Issued share capital, 120 000 ordinary shares		30 000		
Retained earnings (17 700+15 025 OF ✓– 3 600✓)		29 425	59 425	
 <u>Non-current Liabilities</u>				
Long term borrowings			10 000	✓
 <u>Current Liabilities</u>				
Trade payables		5 900		
Consultancy fee received in advance		8 200		✓
Wages and salaries payable		2 000		✓
Dividends payables (120 000 x 0.03)		3 600		✓
Interest payable		450	19 850	✓
Total equity and liabilities			89 275	

[Total: 20]

Question 2

(a) Any two of the following: ✓✓

- Usage
- Wear and tear
- Obsolescence
- Legal limits

(b) Any two of the following: ✓✓

- Purpose of non-current asset
- Features of non-current asset
- Customer's review
- Warranty

(c) Matching Theory ✓

In line with the matching theory, a portion of the original cost of the non-current asset is recorded as depreciation expense, so as to match against the income earned in the same financial period to determine the profit for the period. ✓

(d) Depreciation for first year = $10\% \times (8000 - 0) = 800$

Depreciation for second year = $10\% \times (8000 - 800) = 720$

Total depreciation = $800 + 720 = 1520$ ✓

Loss on sale of motor vehicle = $4600 - (8000 - 1520) = -1880$ ✓

(e) Depreciation expense = $10\% \times [(72000 - 8000) - (34000 - 1520)]$ ✓ = 3152 ✓

(f) Any one of the following: ✓

	Capital expenditure	Revenue expenditure
Definition	Expenditure incurred to increase earning capacity of the business	Expenditure incurred to maintain productive life of non-current assets
Consists of	• Costs to buy and bring the non-current assets to their intended use • Costs to enhance the non-current assets	• Costs to operate, repair and maintain the non-current assets in working condition
Benefits	Provides benefits for more than a year	Provides benefits which will be used within one year
Recorded as	Non-current assets in the Statement of Financial Position	Expense in the Statement of Financial Performance

(g)

(i) The profit will be understated by \$26700 ✓

(ii) The non-current asset will be understated by \$26700 ✓

[Total: 14]

Question 3

(a) Rate of inventory turnover

= cost of sales / average inventory ✓

= 109000 / (42500 + 47400)/2

= 2.42 times ✓

(b)

P

Leon's rate of inventory turnover of 2.42 times is worse than Kid's World of 3.71 times. ✓

E

This will imply that Leon is selling the clothes slower than Kid's World. ✓

E

Leon is also more likely to incur excessive storage costs and inventory obsolescence. ✓

L

In conclusion, Leon is managing his inventory less efficiently. ✓

(c) Any one of the following: ✓✓

- Reduce selling price for slow moving goods.
- Provide trade discounts to encourage customers to buy in bulk and regularly.
- Attract more customers through marketing campaigns.
- Use technological tools to implement inventory monitoring system to replace inventory on a timely basis and accurately predict customer demand.

(d) Error 1

	Debit \$	Credit \$
Cash at bank	180 ✓	
Salaries		180 ✓

Error 2

	Debit \$	Credit \$
Cash in hand	1400 ✓	
Interest income		1400 ✓

(e)

	Overstated \$	Understated \$	No effect
Error 3		270 ✓	
Error 4	4700 ✓		

[Total: 14]

Question 4

(a) A business buys sufficient inventory to keep on hand **to prevent at stock-out situation**✓, which often results in a loss of sales.

(b)

Account to be debited	Account to be credited
Inventory ✓	Trade payables ✓

(c) Cost of sales = \$3600 + \$6000 + \$7000 (✓for any 2) = \$16600 ✓
(90) (125) (155)

(d)

Decision	Kalina should buy B Strong. ✓
Basic statement	The cost per tin is \$25. This is cheaper than HS Energy, which cost \$30. ✓
Development	The cost savings can be used for other business expenses or business operations. ✓
Basic statement	The days sales in inventory turnover at 12.3 days is better than that of HS Energy at 14.9 days. ✓
Development	This means that B Strong is popular and is selling faster than HS Energy allowing Kalina to have potential increase in sales. ✓
Basic statement	B Strong contains A2 protein that can help babies to digest easily. ✓
Development	As customers are looking for milk powder that helps with babies digestion, this will suggest that B Strong will have a strong demand and is likely to enjoy strong sales.

1 decision + any 3 pairs of basic statement & development points for 7 marks.

Alternative:

Decision	Kalina should buy HS Energy. ✓
Basic statement	HS Energy's gross profit margin at 50% which is higher than B Strong's at 30%. ✓
Development	The higher gross profit margin will mean that Kalina is making more gross profit for every dollar of net sales revenue. ✓ OR This suggests that Kalina can charge a higher selling price for the HS Energy as the customers are willing to pay for the higher price. ✓
Basic statement	HS Energy must be consumed within 21 days after the container is opened compared with 45 days for B Strong. ✓
Development	As the customers prefer milk powder with a shorter expiry date, this will mean that HS Energy will be a better choice which will translate to higher sales. ✓
Basic statement	HS Energy contains DHA that helps brain and eye development.
Development	As customers are looking for milk powder that helps with growth development, this will suggest that HS Energy will have a strong demand and is likely to enjoy strong sales.

1 decision + any 3 pairs of basic statement & development points for 7 marks.

[Total: 12]