SHSS Principles of Accounts
2023 PRELIMINARY 4E5N 7087 - Mark Scheme

<table>
<tr><th colspan="2">Paper 1</th><th>Marks</th></tr>
<tr><td>Q1
(a)</td><td>(i) Debit note
(ii) Credit note
(iii) Payment voucher/bank statement/ remittance advice/receipt</td><td>3</td></tr>
<tr><td>(b)</td><td>Recording using source documents ensures that transactions are recorded based on information that is reliable and verifiable [1] as required by objectivity theory.[1]</td><td>2</td></tr>
<tr><td>(d)</td><td>Any one difference:
Trade discount is given to encourage customers to buy in bulk while cash discount is given to encourage prompt payment by credit customers.
Trade discount are deductions off the list price at the point of sale and cash discount are deducted off the invoice price of goods at the point of payment.</td><td>1</td></tr>
<tr><td>(c)</td><td>
<table>
<tr><th colspan="4">Journal</th></tr>
<tr><th>Date</th><th>Particulars</th><th>Dr
$</th><th>Cr
$</th></tr>
<tr><td>2022</td><td></td><td></td><td></td></tr>
<tr><td>Aug 19</td><td>Trade payable – Caddy Co [(9400-800)x90%+250] [1]</td><td>7990</td><td></td></tr>
<tr><td></td><td>Discount received [1]</td><td></td><td>90</td></tr>
<tr><td></td><td>Cash at bank [1]</td><td></td><td>7900</td></tr>
</table>
</td><td>3</td></tr>
<tr><td></td><td>Total</td><td>9</td></tr>
<tr><td>Q2
(a)</td><td>
<table>
<tr><th colspan="4">Journal</th></tr>
<tr><th>Date</th><th>Particulars</th><th>Dr
$</th><th>Cr
$</th></tr>
<tr><td>(i) 2021</td><td></td><td></td><td></td></tr>
<tr><td>Nov 4</td><td>Trade receivable - Kirby [1]</td><td>2100</td><td></td></tr>
<tr><td></td><td>Cash at bank [1]</td><td></td><td>2100</td></tr>
<tr><td>(ii) 2022</td><td></td><td></td><td></td></tr>
<tr><td>Feb 2</td><td>Allowance for impairment on trade receivables [1]</td><td>2100</td><td></td></tr>
<tr><td></td><td>Trade receivable – Kirby [1]</td><td></td><td>2100</td></tr>
</table>
</td><td>4</td></tr>
<tr><td>(b)</td><td>Allowance for impairment on trade receivables for year ended 31 December: 5% x 28300 = $1415 [1]
<table>
<tr><th>2021</th><th>2022</th></tr>
<tr><td>$1820
Less write off: (2100)
(280)</td><td>New: 1415
Adjustment: 1415-(-280) = 1695</td></tr>
</table>
Allowance needed to be increased by $1695 [1]</td><td>2</td></tr>
<tr><td>(c)</td><td>
<table>
<tr><th colspan="2">Statement of financial performance for year ended 31 December 2022</th></tr>
<tr><td>Less: other expenses</td><td>$</td></tr>
<tr><td>Impairment loss on trade receivables [1] OF</td><td>1695</td></tr>
</table>
</td><td>1</td></tr>
<tr><td></td><td>Total</td><td>7</td></tr>
</table>

<table>
<tr><td>Q3
(a)</td><td>Furniture account represents furniture purchased meant for use by the business.
Inventory is used to record furniture purchased for resale to generate revenue for the business.</td><td>2</td></tr>
<tr><td>(b)</td><td>Transaction (ii)</td><td>1</td></tr>
<tr><td>(c)</td><td><table>
<tr><td>Error 1: Dr Furniture</td><td>[1]</td></tr>
<tr><td>Cr Inventory</td><td>[1]</td></tr>
<tr><td>Error 2: Dr Equipment</td><td>[1]</td></tr>
<tr><td>Cr Repairs</td><td>[1]</td></tr>
</table></td><td>4</td></tr>
<tr><td>(d)</td><td>Adjusted profit = 16500 +590=$17090 [1]</td><td>1</td></tr>
<tr><td></td><td>Total</td><td>8</td></tr>
<tr><td>Q4
(a)</td><td>(i) Gross profit margin = 200564/691600 x 100 = 29.00% [1]
(i) Profit margin = (200564-138320) [1] / 691600 x 100 = 62244 / 691600x100 = 9.00% [1]
(ii) Return on equity = 62244/((500000+546000)/2) [1] = 11.90%</td><td>5</td></tr>
<tr><td>(b)</td><td>Return on equity measures how much profit is earned for every dollar of equity invested by the shareholders.[1] It helps shareholders decide whether to buy more or sell their shares in the business.[1]</td><td>2</td></tr>
<tr><td>(b)</td><td><table>
<tr><td></td><td>2021</td><td>2022</td></tr>
<tr><td>Gross profit margin</td><td>25%</td><td>29%</td></tr>
<tr><td>Profit margin</td><td>12%</td><td>9%</td></tr>
<tr><td>Return on equity</td><td>16%</td><td>11.9%</td></tr>
</table>
Any 6 comments:
Kwek Ltd’s gross profit margin improved from 25% for year ended 30 Sep 2021 to 29% for year ended 30 Sep 2022. [1] What
This indicates that the business was able to derive more trading profit from its increased sales revenue over the two years. It could be owing to higher selling price or its ability to keep it cost of sales low. [1] So what
However, the profit margin worsened from 12% for year ended 30 Sep 2021 to 9% for year ended 30 Sep 2022. [1]
This signals that the business was unable to manage its operating expenses and the increased in gross profit is insufficient to cover the increase in operating expenses over the two years. [1]
The return on equity also subsequently worsened from 16% for year ended 30 Sep 2021 to 11.9% for year ended 30 Sep 2022. [1]
This indicates that business is deriving less profit for every dollar of contribution by shareholders hence making it less attractive to shareholders. [1]
Overall, the profitability of Kwek Ltd has worsened from year ended 30 Sep 2021 to 2022.</td><td>6</td></tr>
<tr><td>(d)</td><td>Accumulated depreciation = 25%x25000 x 2=12500
Gain on sale of non-current asset = 15000 – (25000 – 12500) = $2500 [1]</td><td>1</td></tr>
<tr><td>(e)</td><td>Profitability will be improved by the increased in profit by $2500 in other income (Gain on sale of NCA). [1]
Liquidity will be improved by increased of $15000 in current assets when sales proceeds are received [1]</td><td>2</td></tr>
<tr><td></td><td>Total</td><td>16</td></tr>
<tr><td></td><td>Total for Paper 1</td><td>40</td></tr>
</table>

4E5N PRELIM POA Paper 2 | **Marks**

Q 1 (a)

Dong Boutique

Statement of financial performance for year ended 31 May 2023

Marks: 11

			$	$
Sales revenue			832600	
Less Sales returns			6470	
Net sales revenue		**[1]**		826130
Less Cost of sales				291400
Gross profit		**[1]**		534730
<u>Add: Other income</u>				
Commission income		**[1]**		3200
<u>Less: other expenses</u>				
Rent expense			42250	
Wages and salaries	132000-5000	**[1]**	127000	
Utilities	16450+1960	**[1]**	18410	
Insurance	22100/13 x 12	**[1]**	20400	
Interest on loan	4%x100000	**[1]**	4000	
Depreciation of fixtures and fittings	10%x(150000-2000)	**[1]**	14800	
Depreciation of equipment	20%x(370000-133200)	**[1]**	47360	
Impairment loss on inventory	3100-1300	**[1]**	1800	
Impairment loss on trade receivables	(5%x216900)-9820	**[1]**	1025	277045
Profit for the year				260885
		[11]		

(b)

Dong Boutique

Statement of financial position as at 31 May 2023

Marks: 9

			$	$	$
Assets			Cost	Accumulated depreciation	Net book value
<u>Non-current assets</u>					
Fixtures and fittings		**[1]**	150000	40800	109200
Equipment		**[1]**	370000	180560	189440
					298640
<u>Current assets</u>					
Trade receivables			216900		
Less allowance for impairment of trade receivables		**[1]**	10845	206055	
Cash at bank				9550	
Inventory	98420-1800	**[1]**		96620	
Commission income receivables		**[1]**		3200	
Prepaid insurance	22100-20400	**[1]**		1700	
					317125
Total assets					615765
Equity and Liabilities					
<u>Owner's equity</u>					
Capital	110000+260885 [½] -19200-5000 [½]	**[1] See working**			346685

	<u>Non-current liabilities</u> Long-term borrowing 100000 <u>Current liabilities</u> Trade payables 165200 Utilities payable **[1]** 1960 Interest payable 4000-2080 **[1]** 1920 169080 Total equity and liabilities 615765 **[9]**	
	Total	**20**

Q2 (a) (i) On 23 May 2023, Uma Store withdrew $1500 from the business bank account for office use.
(ii) On 30 May 2023, owner of Uma Store contributed to the business by depositing $4000 in the business bank account. — 2

(b) Any one difference: — 1

Bank loan is fixed amount borrowed for more than one financial year

- money is deposited in business bank account
- repayable in equal instalments or one-time lump sum
- presented as non-current liabilities as long-term borrowings
-

Bank overdraft is amount borrowed for less than one financial year

- overdrawn on the bank account up to the limit agreed with the bank
- Repay by depositing cash into bank account within the year
- presented as current liabilities as bank overdraft

(c) — 5

Cash at bank					
2023			Dr $	Cr $	Bal $
May 31	Balance b/d	[1]			1170 Cr
	Insurance expense	[1]		860	
	Trade receivable – Renee Lee	[1]	1260		
	Interest income	[1]	35		
	Rent expense	[1]		200	
Jun 1	Balance b/d				935 Cr

(d) — 4

Bank Reconciliation Statement as at 31 May 2023			
		$	$
Balance as per bank statement	[1]		5255
Add: Deposit in transit			
Trade receivable – Kele Co.	[1]		3400
Less: Cheques not yet presented			
Trade payable – Nano Tech	[1]	1290	
Salaries	[1]	8300	9590
Balance as per adjusted cash at bank			(935)

(e) Any one explanation of internal controls: — 2

- Segregation of duties helps to 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 helps to secure cash and cheques in a locked storage and limit access to authorised personnel only.

Authorisation ensures that business obtains proper approvals for all payments from authorised personnel by having at least two persons to approve payments supported by valid source documents.

Total **14**

<table>
<tr><td>Q3
(a)</td><td>Rent income received = 92500 -19700 -18300 = $54500</td><td>1</td></tr>
<tr><td>(b)</td><td>Revenue recognition theory states that revenue is recognised in the period when services have been provided, regardless of whether payments are received or not. [1] Hence, the rent income $18300 earned but not yet received for the year ended 31 August 2022 should be recorded as revenue for that year.[1]</td><td>2</td></tr>
<tr><td>(c)</td><td><table>
<tr><td colspan="2">Enterprise Ltd
Statement of financial position as at 31 August 2021</td></tr>
<tr><td>Current assets [1]</td><td>$</td></tr>
<tr><td>Rent income receivable [1]</td><td>18300</td></tr>
</table></td><td>2</td></tr>
<tr><td>(d)</td><td>(i) Retained earnings are all the retained profit or loss of the company from the beginning of its operations which are not distributed to the shareholders. [1]
(ii) Dividends are profits distributed to the shareholders / portions of retained earnings distributed to shareholders [1]</td><td>2</td></tr>
<tr><td>(e)</td><td>Share capital increase by $12000 [½]
Retained earnings increased by (183900-20000) = $163900 [½]

Shareholders’ equity increased by (12000+163900) = $175900 [1]</td><td>2</td></tr>
<tr><td>(f)</td><td>Any one advantage
• Better able to obtain loans from lenders owing to high value of assets to serve as collaterals
• Shareholders are not liable for debts and losses incurred by the company
Any one disadvantage
• Shareholders has no control over the running of the business.
• More statutory requirements to comply to</td><td>2</td></tr>
<tr><td></td><td>Total</td><td>11</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>Q4
(a)</td><td>Average TR = (93200+72800)/2 = $83000

(i) Rate of trade receivables turnover = credit service fee/ave TR
= 462600 / 83000 = 5.57 times [1]

(ii) Trade receivables collection period = ave TR/credit service fee x 365
= 83000/462600 x 365 = 65.49 days [1]</td><td>2</td></tr>
<tr><td>(b)</td><td><table>
<tr><td></td><td>2021</td><td>2022</td><td>2023</td></tr>
<tr><td>Rate of trade receivables turnover</td><td>11.37 times</td><td>8.13 times</td><td>5.57 times</td></tr>
<tr><td>Trade receivables collection period</td><td>32 days</td><td>45 days</td><td>65.49 days</td></tr>
</table>
Any 5 points:
The rate of trade receivables turnover for Leroy’s business worsened from 11.37 times in 2021 to 8.13 times in 2022 and 5.57 times in 2023. [1]
This indicates that the business is collecting payment from its credit customers less frequently over the 3 years. [1]
Similarly, its trade receivables collection periods also worsened from 32 days in 2021, to 45 days in 2022 and 65.49 days in 2023. [1]
This indicates that its credit customers are taking more days to pay the business over the 3 years. [1]
The poorer efficiency in managing its trade receivables could be due to lack of manpower/proper monitoring of credit customers who do not pay promptly/lack of proper procedure to check customers’ credit worthiness before selling to customers. [[1] for each</td><td>5</td></tr>
</table>

<table>
<tr><td></td><td>possible reason]</td><td></td></tr>
<tr><td>(c)</td><td>Any <u>one</u> action to improve efficiency in managing trade receivables: (besides reviewing credit worthiness)
• provide monetary incentives by offering cash discounts to encourage customers to pay early
▪ increase debt collection effects by
    ▪ sending regular reminders to credit customers who tend to delay payment
    ▪ engaging professional debt recovery agencies to collect payment from financially distressed customers</td><td>1</td></tr>
<tr><td>(d)</td><td>1 m for explicit decision/recommendation
1 m for each evidence and 1 m for development

<table>
<tr><td>To grant credit to Besla [1]</td><td>Do not grant credit to Besla [1]</td></tr>
<tr><td>1) Besla is well-established and leading in selling electric vehicles in the European market. [1]
With its good track record, it would likely to be able to establish its brand in Singapore and generate sufficient sales to continue to operate. Leroy can be assured of a continued business with Besla. [1]</td><td>Besla is an overseas business and had not establish an office in Singapore. [1]
It would be difficult for Leroy to collect the amount due from overseas if Besla failed to pay on time.[1]</td></tr>
<tr><td>2) Singapore is encouraging the purchase of electric vehicles in the country by providing additional grants for purchase of electric vehicles. [1]
This will encourage more customers to buy electric vehicles hence increasing revenue for Besla. Leroy can be more assured that Besla would be able to pay for its debts. [1]</td><td>Although Besla’s current ratio of 3.5 is above acceptable norm of 2, its quick ratio of 0.84 is below acceptable norm of 1. [1]
This indicates that Besla had insufficient readily available cash to pay its supplier and expenses. Leroy may have difficulty getting payment from Besla on time.[1]</td></tr>
<tr><td>3) Leroy can earn $5600 consultation service fee from Besla per month and increase its profit margin by 10%. [1]
This would further secure income and enable Leroy to derive more profit from his revenue earned and improving the profitability of the business. [1]</td><td>The normal repayment period in Europe is after 40 days and the outlook of European economic seems poor owing to high inflation in the countries. [1]
There is uncertainty whether Besla would be able to pay on time and Leroy may run a risk of an uncollectible trade receivable if Besla default on its payment. [1]</td></tr>
</table>
</td><td>7</td></tr>
<tr><td></td><td align="right">Total</td><td>15</td></tr>
<tr><td></td><td align="right">Total for Paper 2</td><td>60</td></tr>
</table>