POA S4 Prelim 2022 Paper 2
Mark Scheme

1(a)

Spencer Pte Ltd Statement of financial performance for the year ended 30 June 2021			
	$	$	
Sales revenue	85 800		
Less: Sales returns	4 300		
Net sales revenue		81 500	✓
Less: Cost of sales		57 700	
Gross profit		23 800	✓
Add: Other income			
Rent income (6 000/15 x 12)		4 800	✓
Less: Other expenses			
General expenses (3 600+2 700)	6 300		✓
Salaries and wages expense (11 800 – 900)	10 900		✓
Depreciation of office equipment (15% x 80 000)	12 000		✓
Depreciation of motor vehicles [(20% x (105 000 – 17 000)	17 600		✓
Interest expense (7% x 40 000)	2 800		✓
Reversal of impairment loss on trade receivables [3% x 23 800 – 1 700]	(986)	48 614	✓
Loss for the year		(20 014)	✓

[10✓ x 1m = 10m]

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1(b)

Spencer Pte Ltd Statement of financial position as at 30 June 2021				
Assets	$	$	$	
Non-current assets	Cost	Accumulated Depreciation	Net book value	
Office equipment (5 000 + 12 000)	80 000	17 000	63 000	✓
Motor vehicles (17 000 + 17 600)	105 000	34 600	70 400	✓
	185 000	51 600	133 400	
Current assets				
Trade receivables	23 800			
Less: Allowance for impairment of trade receivables (3% x 23 800)	714	23 086		✓
Cash at bank		31 500		
Inventory		44 900		
Prepaid wages and salaries		900	100 386	✓
Total assets			233 786	
Equity and liabilities				
Shareholder's equity				
Share capital, 100 000 ordinary shares		140 000		
Retained earnings [49 400 – 20 014 – (0.08 x 100 000)		21 386	161 386	✓
Non-current liabilities				
Long-term borrowings			40 000	✓
Current liabilities				
Trade payables		17 700		
General expenses payable		2 700		✓
Rent income received in advance (6 000/15 x 3)		1 200		✓
Interest expense payable		2 800		✓
Dividends payable (0.08 x 100 000)		8 000	32 400	✓
Total equity and liabilities			233 786	

[10✓ x 1m = 10m]

[Total: 20m]

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2(a)
Yr 1: 20% x 38000 = 7600
Yr 2: 20% x (38000 – 7600) = 6080
Total depreciation = 7600 + 6080 = $13 680 ✓

Loss on sale = 38000 – 13680 – 23700 = $620 ✓

[2m]

2(b)

Journal

Date	Particulars	Dr	Cr
2021		$	$
Jun 30	Sale of non-current assets ✓	38 000	
	Motor vehicles ✓		38 000
	Accumulated depreciation of motor vehicles ✓ **OF**	13 680	
	Sale of non-current assets ✓ **OF**		13 680
	Cash at bank ✓	23 700	
	Sale of non-current assets ✓		23 700

[6m]

2(c)

Jackson Enterprise
Statement of financial performance for the year ended 31 March 2022 (extract)

		$
Less: Other expenses		
Depreciation of motor vehicles ✓ 20% x (38000 – 7600 – 6080)		4 864
Loss on sale of non-current asset ✓ **OF**		620

[2m]

2(d)
According to the matching theory, expenses incurred must be matched against the income earned in the same period to determine the profit for the period. ✓
As the non-current assets are being used to generate income, a portion of the cost of using the non-current asset (depreciation expense) should be matched to the income earned in the same financial period to determine the profit for the period. ✓

[2m]

2(e)
Motor vehicles are used more in the earlier years and less in the later years as they become inefficient. ✓ The reducing balance method is suitable as higher depreciation is charged in the earlier years. ✓

[2m]

[Total: 14m]

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Mark Scheme

3(a)

	Kongcha	**Leeho**
(i)	Mark-up on cost = 28500 / (132000 – 28500) x 100 = 27.54% ✓	Mark-up on cost = 19400 / (109000 – 19400) x 100 = 21.65% ✓
(ii)	Gross profit margin = 28500 / 132000 x 100 = 21.59% ✓	Gross profit margin = 19400 / 109000 x 100 = 17.80% ✓
(iii)	Profit margin = 12345 / 132000 x 100 = 9.35% ✓	Profit margin = 11565 / 109000 x 100 = 10.61% ✓

[6m]

3(b)

- The mark-up on cost of Kongcha at 27.54% is better than that of Leeho at 21.65%. ✓
- This could be due to Kongcha selling its goods at a higher selling price, or buying its goods at a lower cost compared to Leeho. ✓
- The gross profit margin of Kongcha at 21.59% is better than that of Leeho at 17.80%. ✓
- The ability of Kongcha to generate profit from buying and selling of goods is better than that of Leeho. ✓
- Kongcha's profit margin is 9.35%, which is worse than Leeho's of 10.61%. ✓
- This shows that Kongcha is less efficient at controlling its expenses to generate net sales revenue as compared to Leeho. ✓
- Overall, Kongcha is less profitable as compared to Leeho. ✓

[1m per point, max 6m]
[Accept any other reasonable answer]

3(c)

- Sublet excess space to another business to earn rental income. ✓
- Pay early to take advantage of cash discounts. ✓
- Buy in bulk to obtain trade discount. ✓
- Switch to another supplier that offers lower prices, without compromising on quality. ✓
- Relocate to another premise that charges lower rental. ✓
- Reduce the use of electrical appliances to lower utilities expenses. ✓

[Any two of the above, 2m]

[Accept any other reasonable answer]

[Total: 14m]

POA S4 Prelim 2022 Paper 2
Mark Scheme

4(a) I would give Nam Seng a longer repayment period. ✓

Reason 1
Nam Seng is located in the manufacturing industry which is expected to grow by 50% over the next 2 years. ✓
Given that the industry is booming, Nam Seng is expected to do well and thus can be more assured to repay its debts. ✓

Reason 2
Nam Seng has a smaller average trade receivables balance of $65 000 compared to that of Boon Heng average trade receivables of $88 000. ✓
The business will suffer a smaller loss if there is a situation where debts have to be written off.✓

Reason 3
Nam Seng has been in the business for 10 years and has received many positive reviews. ✓
This indicates that Nam Seng is stable and less likely to close down, the business can be assured that Nam Seng can pay its debts. ✓

OR

I would give Boon Heng a longer repayment period. ✓

Reason 1
Boon Heng is located in a developed country with a stable economy. ✓
When the economy is doing well, Boon Heng is more likely to able to repay its debts. ✓

Reason 2
Boon Heng has a shorter collection days of 21 days, which is 15 days shorter than Nam Seng.✓
The shorter time to collect debts reduces the risks of non-collection from Boon Heng. ✓

Reason 3
Boon Heng has only repaid late twice compared to Nam Seng, which has repaid late five times.✓
The better track record of making prompt payments gives Wilfred more assurance of Boon Heng's ability to repay debts. ✓

[7m]

(b)(i)
On 1 January 2021, the business reversed the rent expense of $900 paid in advance as at 31 December 2020. ✓

(b)(ii)
On 31 August 2021, the business paid rent expense of $4 000 by cheque. ✓

(b)(iii)
On 31 December 2021, the business adjusted $1 300 of rent expense paid in advance but not incurred this year. ✓ Rent expense incurred for the year amounts to $3 600. ✓

[4m]

(c)
Business activities that have occurred, regardless of whether cash is paid or received, should be recorded in the relevant accounting period. ✓ [1m]

[Total: 12m]

POA S4 Prelim 2022 Paper 2
Mark Scheme