Class Adm No

Candidate Name: ____________________

H

millennia institute

2022 Preliminary Examination

Pre-university 3

PRINCIPLES OF ACCOUNTING **9593/01**

Paper 1 **15 September 2022**

3 hours

READ THESE INSTRUCTIONS FIRST

An answer booklet will be provided with this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer **all** questions.

Section B
Answer **all** questions.

Start each answer on a new page.
You may use a calculator.
All calculations must be shown adjacent to the answer.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **9** printed pages and **1** blank page

Section A

Answer **all** questions in this section

1 Gotham Supplies Limited deals in parts used for maintenance of motor vehicles. The business has the year-end date of 30 June 2022.

At the end of June 2022, their accountant had calculated a net profit for the year of $60 884.

No adjustments had been made for the following transactions.

i. Closing inventory was valued at a cost of $12 760. On inspection, it had a net realisable value of $9 420.

ii. Inventory costing $4 000 had been sent out on a sale or return basis to Joko Pte Limited, had been included in cost of sales. The accountant had also recorded it as a credit sale at a gross margin of 20%.

iii. The business paid $480 to settle a bill of $500 from Black & Yellow, its supplier.

iv. The business issued 100 000 ordinary shares of $0.50 each.

REQUIRED

a Copy the following table into your answer booklet and analyse transactions (i) to (iv) to show the effect upon the appropriate categories.

	Categories							
Transaction	Total assets		Profit		Working capital		Equity	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
	$	$	$	$	$	$	$	$
(i)								
(ii)								
(iii)								
(iv)								

[8]

Gotham obtained the following information on two other business in the same industry with the same long-term finance:

	Gotham	Hot Wheels	Gears N Such
	$	$	$
6% Bonds	400 000	300 000	-
8% Preference shares	400 000	300 000	400 000
$1 ordinary shares	200 000	400 000	600 000

Net profit before calculation of interest is $100 000 in each case.

REQUIRED

b Assume that all of Gotham's profits are to be distributed, how much ordinary dividend is payable by Gotham altogether? [2]

c Which of the three companies is most highly geared? Support your answer with computation of relevant ratios. [2]

d Explain the risks associated with high gearing. [4]

e In years of high profits, is it better to be an ordinary shareholder or bond holder? Why? [2]

f Apart from shareholders and investors, suggest two other stakeholders who may be interested in a company's financial information. [2]

[Total:20]

[Turn over

2 Swee Silk Limited is a small private family company operating in a textile industry. A summary of the accounts for the years ended 31 March 2021 and 2022 is given below:

	2021		2022	
	$'000	$'000	$'000	$'000
Non-current Assets				
Freehold property (Note 1)		60		650
Factory plant and machinery (Note 2)	85		280	
Less: Accumulated depreciation	65		35	
		20		245
		80		895
Current Assets				
Inventory	90		260	
Deposit on new factory (Note 1)	-		30	
Trade receivables	85		195	
Bank	-		90	
		175		575
Total Assets		255		1 470
Equity				
Shareholders' Equity				
Ordinary shares of $1 each	60		130	
Revaluation reserves	-		590	
Retained earnings	55		175	
		115		895
Non Current Liabilities				
Loans (Note 3)		30		360
Current Liabilities				
Trade payables	36		115	
Dividend payable	20		100	
Bank overdraft	54		-	
		110		215
Total Equity and Liabilities		255		1 470

Income statement for the year ended 31 March 2022

	$'000	$'000
Turnover		1 200
Less: Cost of sales (including depreciation)		700
Gross profit		500
Less: Expenses		
Administration expenses	80	
Distribution expenses	120	
Interest paid	60	
		260
Net profit		240

Additional information

Note 1 During the year, freehold property which had cost $60 000 in 1990 was revalued at its current market value of $650 000. A deposit of $30 000 has been placed on a new factory which when completed will cost a total of $300 000.

Note 2 During the year, all the old factory plant and machinery was sold for $15 000 and replaced by new high technology machinery costing $280 000. Annual depreciation is provided on plant and machinery on the last day of the financial year at 12.5%.

Note 3 At 31 March 2021, outstanding loans totaled $30 000 and were repayable in equal instalments over the following three years. During the year, an additional loan of $400 000 was raised. This loan is to be repaid in quarterly instalments over the next five years.

Note 4 Total dividends of $120 000 were declared in the year ended 30 March 2022.

REQUIRED

a A statement of cash flows for the year ended 31 March 2022. [10]

b Comment on the company's cash position and its significant cash flows in and out of the business for the year ended 31 March 2022. [8]

c From your analysis in (b) above and other available information, indicate two financial problems the company may be facing. [2]

[Total: 20]

[Turn over

3 Johnny Limited is a furniture retailer operating in Singapore. On 30 June 2021, it had 3 400 000 ordinary shares in issue and a total of $5 000 000 in shareholders' equity. It did not have any loan at that date.

To expand the business overseas, the company undertook the following on 1 July 2021

1. Took a 10-year, $1 000 000 loan at 5% per annum.
2. Issued 2 000 000 in ordinary shares at $1 each to existing shareholders through a rights issue.

For the year ended 30 June 2022, the company made an operating profit of $320 000. It paid an interim dividend of $60 000 and declared a final dividend of $120 000 out of the year's profit.

At 30 June 2022, the market price of one ordinary share of Johnny Limited was $2.

REQUIRED

a Calculate the total shareholders' equity at 30 June 2022 [4]

b Calculate the return on equity for the year ended 30 June 2022 [2]

c Other than increasing its profits, suggest one other way in which the company could improve its return on equity in future. [2]

Additional Information

Kenny, an investor is thinking of buying shares in Johnny Limited or Lilly Limited, a company in the same industry as Johnny Limited. The following information relates to Lilly Limited:

Earnings per share	$0.10
Dividend yield	3%
Price earnings ratio	50 times

REQUIRED

d Calculate the same three ratios above for Johnny Limited for the year ended 30 June 2022. [6]

e Advise Kenny which company he should invest in. [6]

[Total: 20]

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[Turn over

Section B
Answer all questions

4 Marie Antoinette is a freelance make - up artist who accepts both individual and corporate bookings for her make - up services. She is not trained in accounting and has requested your help, as a professional accountant, to prepare her financial statements for the year ended 30 June 2022. The following information was available:

Summary of bank account – year ended 30 June 2022.

Balance at start	$25 000
Receipts	
Fees from regular customers	87 000
Proceeds from sale of personal property	100 000
Deposit from event organiser	2 000
Less: Payments	
Assistant's wages	16 000
Make up supplies	21 000
Interest free loan to assistant	5 000
Motor vehicle expenses	6 400
Motor vehicle	40 000
Family holiday to Mauritius	9 800
Balance at end	115 800

Additional Information:

1 On 1 July 2021, Marie had $25 000 in her bank account and owned beauty equipment at the value of $30 000. It cost $50 000 when it was first purchased several years ago.

2 The deposit was received for make-up services to be provided for 'Hunk & Babes 2022', an event which will be held in December 2022. The total fee from the event is expected to be $20 000. The cheque for the deposit was received on 30 June 2022.

3 Marie has also received cash of $18 000 for several bridal make – up services performed in the month of June 2022 which she used to pay for advertisement of $1 200 and upgrading of the new vehicle of $16 000. The remainder was left as petty cash for the business. Fees of $500 from bridal make – up services on 30 June 2022 were still outstanding.

4 The motor vehicle was purchased on 2 January 2022 for $100 000. A first instalment of $40 000 was made on that date. The remainder is to be left as a loan, repayable in equal instalments over 5 years. Interest of 5% per annum is to be paid on 1 July and 31 December of each year.

5 All non-current assets are to be depreciated at 20% on cost at year end.

6 Marie paid petrol costs of $2 000 from her private bank account.

7 It was estimated that a quarter of the motor vehicle is for private use. She also took $200 worth of make - up supplies as gifts for her friends.

8 The following matters are to be taken into account:

	1 July 2021	**30 June 2022**
Due from regular customers	$3 500	$2 600
Creditors for make – up supplies	950	1 350
Advertising expense:		
prepaid	400	-
outstanding	-	600

REQUIRED

a Income statement for the year ended 30 June 2022. [10]

b Balance sheet as at 30 June 2022. [12]

c Advise Marie on the advantages of keeping a full set of accounts. [4]

You requested to see the business' bank statement. When Marie found her bank statement for the month ended 30 June 2022, she realised that the balance shown did not tally with the balance in her bank records as shown above. She investigated and discovered the following:

i. Unpresented cheques for make-up supplies at 30 June 2022 totalled $8 916.

ii. Bank charges of $75 had not been entered in the business' records.

iii. A cheque for $1 720 received from a credit customer on 28 June 2022 has been dishonoured and has not been recorded by the business.

iv. The cheque deposit for Hunks and Babes received and banked in on 30 June 2022 after bank opening hours, did not appear in the bank statement.

REQUIRED

d Show the impact of **(i) to (iv)** on the bank balance in the business books. Indicate 'Nil' if there is none. [4]

e Explain to Marie the importance of reconciling the business bank records with the bank statement. [4]

Marie is confident that the market for make-up services will grow and is keen to expand her business. She is planning to apply for $100 000 loan from the bank. To improve her chances, she requests that you include:

i. The total fee of $20 000 for Hunks and Babes as income for the current year as the contract has already been signed.

ii. The HDB apartment jointly owned by Marie and her husband, as a part of business assets as she uses it extensively to run the business.

She also promises you, her accountant, a commission of 5% of the loan if the bank grants her the loan.

REQUIRED

f With reference to accounting concepts and ethical considerations, explain your response, as a professional accountant, to Marie. [6]

[Total: 40]

End of Paper