H

millennia institute

2020 Preliminary Exams
Pre-University 3

PRINCIPLES OF ACCOUNTING **9593/01**

Paper 1 **16 September 2020**

3 hours

Additional Materials: Answer Booklet

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your name and class on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
Do not use staples, paper clip, glue or correction fluid.
You may use a calculator.
DO **NOT** WRITE ON ANY BARCODES

Section A and Section B
Answer **all** questions.

All calculations must be shown adjacent to the answer.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **10** printed pages

Section A

Answer **all** questions.

1 Perfect 10 Pte Ltd is a small business that owns retail outlets trading in gifts and novelties for the tourist industry.

The accountants have recently advised the company that in 2020 the business's banking facility will be reviewed and this process will require a revaluation of all the non-current assets being employed in its current operations.

You are a bookkeeper for the business. The directors have asked you to provide a range of information in preparation for the banking review.

REQUIRED

(a) Explain how the non-current assets of the business are currently valued in the accounts. [3]

(b) Describe how any increase in the value of the non-current assets upon revaluation would be shown in the existing balance sheet. [3]

Additional information

The following balances on the ledgers are provided for the existing assets and liabilities on 31 December 2019:

	$
Property at cost	420 000
Accumulated depreciation on property	280 000
Office equipment at cost	106 000
Accumulated depreciation on office equipment	54 000
Trade receivables	13 750
Allowance for impairment of trade receivables	2 250
Trade payables	87 100
Bank overdraft	32 320
Long-term loan	75 000
Inventory held	116 590
Cash in hand	24 771

The current valuation for property provided by an external surveyor is $510 000.

REQUIRED

(c) Prepare a draft balance sheet as at 31 December 2019 for the existing business using the surveyor's latest valuation of non-current assets. Include a separate value for:

(i) Shareholders capital and reserves

(ii) Asset revaluation reserve [8]

Additional information

The directors now propose to pay a cash dividend of $200 000 to the shareholders on the basis of the property revaluation.

REQUIRED

(d) Recommend to the directors whether the dividend should be paid or not. Explain your decision based upon:

(i) Uses of reserves upon revaluation [2]

(ii) Solvency reasons [4]

[Total: 20]

2 As an accountant working for Mykaelin, an international food company, you are required to update the cash at bank transactions for the week ended 30 June 2020 using the following information.

1 The opening balance on cash at bank account for the company is $23 475 overdrawn.

2 Credit customer receipts totalling $67 068 paid into the bank.

3 Monthly wages of $60 750 paid by bank transfer into the employees' personal bank accounts.

4 An invoice for inventory with a list price of $38 600, before claiming a trade discount of 2.5%, has been paid to Mindi Mok on goods purchased. Currently, no credit agreement exists with this company and goods are paid for upon delivery.

5 Transfer of $5 000 from the bank account into the company's cash in hand account.

REQUIRED

(a) Record the journal entries for transactions 2 to 5 above. Narratives are **not** required. [5]

(b) Calculate the updated balance on the cash at bank account at 30 June 2020. [2]

Additional information

A comparison of the cash at bank account and the online bank statement at 30 June 2020 showed the following differences:

1 Cheques paid by the company amounting to $17 435 have been posted to the ledgers but have not yet been presented to the bank for payment.

2 A customer cheque for $65 010 has been debited to the cash at bank account. This receipt will be credited by the bank on the next working day.

3 The bank has credited $9 525 to the company's account in error.

4 A cheque from a credit customer for $40 070 has been returned by the bank due to 'insufficient funds'.

5 Overdraft interest has been charged for the previous three months for $2 167 and is yet to be recorded in the company accounting system.

6 A customer cheque for $3 144 has been entered in the cash at bank account as $8 144. The online bank statement shows the correct amount as $3 144.

REQUIRED

(c) **(i)** Analyse 1 to 6 above and separately explain each item that needs updating on the company's cash at bank account and recalculate the closing balance accordingly. [5]

(ii) Reconcile the differences between your updated cash at bank account and the balance being held by the bank. [3]

(d) State **three** reasons why businesses reconcile the difference between their updated cash at bank balance and the balance held by the bank. [3]

(e) The bank overdraft limit is currently set at $120 000. Refer to your answer in **(c) (ii)** and advise the company if they need to make any adjustment to this limit and by how much. [2]

[Total: 20]

3 Ascendo Pte Ltd is considering raising borrowings to purchase a new building for its distribution business during 2021.

The estimated cost is $1.5 million for the building and an extra $300 000 worth of new inventory to be held inside.

The costs will be met from the following funding methods:

1 Raise $750 000 from a 20-year mortgage secured upon the new building. No interest or repayments will be due during the year of commencing the mortgage.

2 Issue additional 400 000 $1 ordinary shares.

3 Take a 6% per annum long-term loan for $350 000. The loan will be repayable in equal instalments over 10 years' time.

Half of the new inventory will be paid from existing company cash and the balance will be raised through increased trade payables.

Balances from the previous accounts are as follows:

	$
Issued share capital $1 ordinary shares	3 000 000
Asset revaluation reserve	1 000 000
Retained earnings	1 700 000
Short-term liabilities	2 400 000
Trade payables	1 200 000

Forecast profit for the year ending 31 December 2021 is $800 000.

Forecast dividend to be paid is $0.15 per share for all shares issued.

As part of the accounting team, you have been asked to consider the impact the new financing will have upon the company based upon the following questions raised by your financial director.

REQUIRED

(a) Calculate the first year's interest payable on the new 6% long-term loan. [2]

(b) Prepare a statement of changes in equity based upon revised balances after the financing is completed. [8]

(c) Calculate the debt-to-equity ratio to **two** decimal places for the company after the purchase is completed. [3]

(d) Evaluate the impact the extra borrowings of the 6% loan will have upon the shareholders of Ascendo Pte Ltd. [3]

Additional information

The company is considering an alternative funding option to the 6% loan for $350 000. In addition to the 400 000 new shares, the directors propose to make a further rights issue of 1 for every 8 ordinary shares held. The proposed dividend will be reduced to $0.14 per share for all shares issued.

REQUIRED

(e) Evaluate this proposal and decide if this alternative is a more cost effective option for Ascendo Pte Ltd. [4]

[Total: 20]

Section B
Answer **all** questions.

4 Solid Pte Ltd is a long-established company which provides building materials to the commercial and retail sectors of the construction industry. The company started as a supplier to construction companies and has expanded over the last ten years. There has also been additional demand from overseas markets.

As part of your accountancy training development programme with the company, you have been asked to undertake a series of tasks based upon the draft financial statements that have been supplied to you as follows:

Solid Pte Ltd
Income Statement for the year ended 31 August 2020

	$000	$000
Sales revenue		28 500
Less: Cost of sales		(17 100)
Gross profit		11 400
Gain on sale of property, plant and equipment		273
		11 673
Depreciation	2 638	
Interest costs	547	
Insurance	1 054	
Office expense	1 102	
Rent and rates	1 316	
Wages and salaries	2 372	
		9 029
Profit for the year		2 644

Balance Sheets as at 31 August	**2020**	**2019**
	$000	$000
Non-current assets		
Property, plant and equipment	19 193	13 350
Current Assets		
Inventories	3 938	2 950
Trade receivables	2 639	2 785
Cash at bank	272	-
Cash in hand	67	113
Total current assets	6 916	5 848
Total assets	26 109	19 198
Equity and liabilities		
Shareholders' equity		
Issued share capital $1 ordinary shares	8 000	6 000
Reserves		
Retained earnings	9 701	7 057
	17 701	13 057
Non-current liabilities		
Long-term borrowings	6 000	2 600
Total non-current liabilities	6 000	2 600

Current liabilities		
Trade payables	2 408	2 247
Bank overdraft	-	1 294
Total current liabilities	2 408	3 541
Total equity and liabilities	26 109	19 198

Property, plant and equipment costing $335 000 with an accumulated depreciation of $142 000 was disposed of during the year.

REQUIRED

(a) Prepare a statement of cash flows for Solid Pte Ltd for the year ended 31 August 2020. [10]

(b) Analyse the significant areas of cash flowing in and out of the company from your answer to part **(a)** and explain how these movements of cash have been used during the year. [6]

Additional information

Following the completion of the annual financial statements for Solid Pte Ltd, the company issues a series of its key ratios to the construction trade press for annual publication.

	The ratios selected are:	Year ended 31 August 2020	Industry standard
(i)	Rate of inventory turnover	?	3.9 times
(ii)	Quick ratio	?	1.15 :1
(iii)	Accounts receivable collection period	?	30 days
(iv)	Return on equity	?	20%

REQUIRED

(c) State the formula and calculate the following ratios to **two** decimal places using the draft financial statements for Solid Pte Ltd for the year ended 31 August 2020.

(i) Rate of inventory turnover

(ii) Quick ratio

(iii) Accounts receivable collection period

(iv) Return on equity [6]

(d) Evaluate the company's performance against the industry standards. [12]

Additional information

The auditors have highlighted a possible question regarding a contract of $250 000 that has been included in the sales figure for the year ended 31 August 2020.

The materials already supplied by Solid Pte Ltd specifically for this contract have been identified as highly toxic in the event of them being in a fire and will be returned as faulty goods in the future.

REQUIRED

(e) **(i)** Advise the financial director of the possible impact of recording the sales in the income statement for the year. [3]

(ii) Recommend **three** adjustments that should be made to the accounts based upon your advice. [3]

[Total: 40]