Answer **all** questions**.**

1 Refer to the Insert for data for Question 1.

REQUIRED

(a) Prepare the statement of financial performance for the year ended 31 July 2024.

Tulip Ltd
Statement of Financial Performance for the year ended 31 July 2024

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[10]

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(b) Prepare the statement of financial position as at 31 July 2024.

Tulip Ltd
Statement of Financial Position as at 31 July 2024

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[10]
[Total: 20]

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2 Lamech provided the following information for the financial year ended 30 June 2024:

	$
Gross profit	25 800
Operating expenses	6 450
Average equity	215 000
Mark-up on cost	25%

REQUIRED

(a) Calculate the following for the year ended 30 June 2024.

(i) Cost of sales **[1]**

.....

.....

(ii) Net sales revenue **[1]**

.....

.....

(iii) Gross profit margin **[1]**

.....

.....

(iv) Profit margin **[1]**

.....

.....

(v) Return on equity **[1]**

.....

.....

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Japheth is a direct competitor of Lamech in the same industry. Its financial ratios for the year ended 30 June 2024 are as follow:

Gross profit margin	22%
Profit margin	12%
Return on equity	8%

REQUIRED

(b) Compare and comment on the profitability of both businesses for the year ended 30 June 2024. **[4]**

(c) State two ways in which a business could increase its gross profit margin. **[2]**

(d) Suggest two ways in which a business could reduce its expenses. **[2]**

[Total: 13 marks]

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3 Lumberstone buys and sells furniture. His accounting period ends on 30 April. The following information was extracted from the books of Lumberstone for 2023 and 2024:

	Year ended	
	30 April 2023	30 April 2024
	$	$
Inventory	80 000	100 000
Cost of Sales	400 000	350 000
Inventory turnover rate	8.0 times	?

REQUIRED

(a) State the formula and calculate, to **one** decimal place, the inventory turnover rate for the year ended 30 April 2024. **[2]**

.....

.....

.....

.....

(b) With your answer to **(a)**, comment on the efficiency of the business in managing its inventory over the two years from 2023 to 2024. **[3]**

.....

.....

.....

.....

On 1 May 2024, Lumberstone had 20 units of wine racks valued at $1800.

During the month of May, the following purchases (paid by cheque) took place:

5 May	Bought 20 units of wine racks for $1500.
13 May	Bought 30 units of wine racks for $1950.
25 May	Bought 10 units of wine racks for $1400.

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During the month of May 2024, Lumberstone sold 70 units of wine racks for $13 500. Lumberstone assumes FIFO (First In First Out) for recording cost of inventory sold.

REQUIRED

(c) Prepare the inventory account for May 2024. Show the balance brought down to the next month. **[3]**

Inventory

(d) Explain, with an accounting concept, how inventory is valued. **[2]**

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(e) At the end of the financial period 30 April 2023, the ending inventory of wine racks was $2500 while the net realisable value was $2200.

Complete the following table by stating the effects of the **unadjusted** inventory.

State the amount 'overstated' or 'understated' for gross profit and profit for the year. Write 'No effect' where there is no effect. **[2]**

	Gross Profit	Profit for the year
30 April 2023		
30 April 2024		

(f) On 31 May 2024, Lumberstone's warehouse caught fire and destroyed some wine racks worth $5200.

Prepare the journal entries to record the wine racks destroyed on 31 May 2024. **[2]**

[Total: 14]

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4 Buster Boy Toys is a supplier of soft toys and cushions with local designs.

The following is the allowance for impairment of trade receivables account of Buster Boy Toys for the year ended 31 December 2023.

Allowance for impairment of trade receivables account

Date	Particulars	Debit	Credit	Balance
2023		$	$	$
Jan 1	Balance b/d			9 400 Cr
Apr 19	Trade receivable: Casper	3 300		6 100 Cr
Dec 31	Impairment loss on trade receivables	4 100		2 000 Cr
2024				
Jan 1	Balance b/d			2 000 Cr

REQUIRED

(a) Explain the matching theory. **[1]**

.....

.....

.....

(b) Name the source document that Buster Boy Toys would issue if a credit customer returns goods to Buster Boy Toys. **[1]**

.....

(c) State the effect of the 19 April 2023 entry on profit. **[1]**

.....

.....

(d) State **one** reason for the 19 April 2023 entry. **[1]**

.....

.....

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(e) Prepare the expenses section of the statement of financial performance for the year ended 31 December 2023. **[2]**

Two existing credit customers have approached the business to negotiate for credit extension, from 30 days to 45 days. Help Buster Boy Toys decide who it should offer credit extension to.

	Best Gifts	Novelty Hub
Nature of business	• Sells gifts, cards, decorative items and toys. • Located at a major shopping mall in Orchard.	• Sells books, stationery, gifts and toys. • Located at a major shopping mall in Woodlands.
Annual sales revenue made to customer	• $45 000	• $23 000
Repayment history over the past year	• Within 40 days	• Within 35 days
Reputation of business	• Popular with working adults. • Has been in business for 15 years.	• Popular with students. • Has been in business for 6 years.
Industry outlook	• Facing stiff competition from online retailers. • No plans to have an online presence.	• Facing stiff competition from online retailers. • Online store will be operational next month.
Rent expenses	• $20 000 per month • The rent rate has been consistent for the past 5 years.	• $14 000 per month • The rent rate has been increasing over the past 5 years.

REQUIRED

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(f) Recommend which business should Buster Boy Toys grant the extension to. Justify your decision with **three** reasons. **[7]**

[Total: 13]

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Answers

1 (a)

Tulip Ltd
Statement of financial performance for the year ended 31 July 2024

	$	$
Sales revenue	**[1]**	402 645
less Sales returns	**[1]**	30 246
Net sales returns		372 399
less Cost of sales	**[1]**	209 856
Gross profit		162 543
less Other Expenses		
Rent	37 000	
Salaries (80 388 + 700)	81 088	**[1]**
Interest on bank loan (2% x 50 000)	1 000	**[1]**
Insurance (17 600 /15 x12)	14 080	**[1]**
Depreciation of office furniture (40 300 x 10%)	4 030	**[1]**
Depreciation of motor vehicle [(120 800 – 30 200) x 20%]	18 120	**[1]**
Impairment loss on trade receivables [2200 – (2300 – 326)]	226	**[1]**
		155 544
Profit for the year	**OF [1]**	6 999

Tulip Ltd
Statement of financial position as at 31 July 2024

	$	$	$
Assets			
Non-current assets	Cost	Acc Dep	NBV
Motor vehicles (AD + 18 120) **[1]**	120 800	48 320	72 480
Office furniture (AD + 4030) **[1]**	40 300	8 060	32 240
Total Non-Current Assets	161 100	56 380	104 720
Current assets			
Inventory		11 920	
Trade receivables (– 326)	14 994	**[1]**	
less Allowance for impairment of TR	2 200		
Net trade receivables		12 794	**[1]**
Prepaid insurance		3 520	**[1]**
Total current assets			28 234
Total assets			132 954
Equity and Liabilities			
Shareholders' equity			
Share capital, 100 000 ordinary shares		50 000	
Retained earnings (20 000 + 6999 – 5000)		21 999	**[1]**
Total equity			71 999
Non-current liabilities			
Long-term borrowings (– 30 000)		**[1]**	20 000

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Current liabilities			
Trade payable		2 543	
Current portion of long-term borrowings		30 000	
Salaries payable		700	**[1]**
Dividends payable (100 000 x 0.05)		5 000	**[1]**
Short-term borrowings		2 212	
Interest payable (1000 – 500)		500	**[1]**
Total Current liabilities			40 955
Total equity and liabilities			132 954

2(a)(i) Cost of sales = $25 800/0.25 = $103 200 [1]

2(a)(ii) Net sales revenue = $(103 200 + 25 800) = $129 000 [1]

2(a)(iii) Gross profit margin = $(25 800/129 000) x 100% = 20% [1]

(a)(iv) Profit margin = 20% – 5% = 15% [1]

(a)(v) Return on equity = $[(25 800 – 6450)/215 000] x 100% = 9% [1]

2(b) Lamech's gross profit margin of 20% is worse than Japheth's gross profit margin of 22%.
This may be due to a more expensive supply of goods for Lamech.
Lamech has a better profit margin of 15% than Japheth's profit margin of 12%.
This suggests that Lamech is more efficient in the management of expenses to generate sales.
Lamech's better return on equity of 9% suggests that Lamech is better at generating profits for his investors.
[2 marks each – Comparison followed by explanation]

2(c) Encourage sales through advertising.
Offer trade discounts to encourage bulk purchases.
Source for a cheaper supply of goods.
Increase the selling price for its products.
[Any two]

2(d) Review its credit policy for customers.
Look for a cheaper source of finance.
Reduce utilities, advertising, rent, or wages expenses to cut costs.
[Any two]

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3(a) Inventory turnover rate for the year ended 30 April 2024
= Cost of sales / Average inventory [1]
= $350 000 / [$(80 000 + 100 000)/2] [1]
= 3.9 times

3(b) The inventory turnover rate has worsened over the 2 years [1] by 4.1 times from 8 times in 2023 to 3.9 times in 2024. [1]
This means the business is taking a longer time to replenish goods. [1] It could be because the business is holding too much inventory or the business is not selling goods fast enough.

3(c)

Inventory

Date	Particulars	Debit ($)	Credit ($)	Balance ($)	
2024					
May 1	Balance b/d			1 800 Dr	
5	Cash at bank	1 500		3 300 Dr	
13	Cash at bank	1 950		5 250 Dr	
25	Cash at bank	1 400		6 650 Dr	
31	Cost of sales (1800 + 1500 + 1950)		5 250 [1]	1 400 Dr	[1]
June 1	Balance b/d [1]			1 400 Dr	[OF]

[3]

3(d) Inventory is valued at cost or net realisable value, whichever is lower. [1]
Prudence concept states that a business must report and adjust for losses that it is likely to incur even when these losses are not confirmed yet. [1] However, the business does not record profits that are likely to occur. Profits are recorded only when they are actually earned.

3(e)

	Gross Profit	Profit for the year
30 April 2023	No effect	Overstated by $300
30 April 2024	Understated by $300	Understated by $300

3(f)

2024		Debit	Credit
		$	$
May 31	Impairment loss on inventory [1]	5 200	
	Inventory [1]		5 200

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4(a) Expenses incurred must be matched against income earned in the same accounting period to determine the profit for that period. **[1]**

4(b) Credit note **[1]**

4(c) No effect **[1]**

4(d) Casper has gone bankrupt and the amount owed had to be written off. **[1]**

4(e)

Buster Boy Toys
Statement of Financial Performance as at 31 December 2023 (extract)

	$	$
less Other Expenses		
Impairment loss on trade receivables (reversal) **[1]**	(4 100) **[1]**	

4 (f) Buster Boy Toys should grant the extension to Best Gifts. **(1 decision)**
Best Gifts is a bigger customer compared to Novelty Hub due to higher sales revenue made to Best Gifts. **(1 basic statement)**
It would be good for Buster Boy Toys so that Best Gifts will choose to continue buying from Buster Boy Toys instead of turning to other suppliers. **(1 development)**
Best Gifts is popular with working adults whereas Novelty Hub is popular with students. **(1 basic statement)**
Working adults have the ability to spend more than students. This could lead to higher revenue for Best Gifts which will help them to pay Buster Boy Toys promptly. **(1 development)**
Best Gifts has been in business for a longer time compared Novelty Hub. **(1 basic statement)**
Best Gifts is more stable compared to Novelty Hub and will be less likely to make late payments to Buster Boy Toys in the long run. **(1 development)**
Best Gifts has a stable rent expense compared to Novelty Hub. **(1 basic statement)**
Even though Best Gifts' rent is higher than Novelty Hub, it has been stable for the past 5 years unlike Novelty Hub' rent. Best Gifts will be able to manage their liquidity more easily and minimise late payments to Buster Boy Toys. **(1 development)**

OR
Buster Boy Toys should grant the extension to Novelty Hub. **(1 decision)**
Novelty Hub has a shorter repayment history. **(1 basic statement)**
As they are relatively prompt with payment compared to Best Books, it would be less risky to grant them the credit extension. **(1 development)**
Novelty Hub' online store will be ready next month, whereas Best Gifts has no plans to set up one. **(1 basic statement)**
An online shop will help Novelty Hub to have a wider reach of customers which will help boost their sales. They will therefore be less likely to make late payments to Buster Boy Toys in the long run. **(1 development)**
Novelty Hub pays lower rent compared to Best Gifts. **(1 basic statement)**
With lower operational expenses, Novelty Hub is better able to pay Buster Boy Toys promptly. **(1 development)**

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