CTSS 2024 4E5N Prelim

Paper 2 Suggested Solutions

Question 1

(a)

Ping Consultancy Services Pte Limited
Statement of financial performance for year ended 31 December 2023

	$	$	
Consultancy fee revenue (-8200)		106 800	✓
Other income			
Advertising income		4 700	✓
Less: Other expenses			
Rental expense	36 000		✓
Utilities expense (-600)	23 000		✓
Wages and salaries (+2000)	29 000		✓
Depreciation of fixtures and fittings [(90 000 – 20 000)/10]	7 000		✓
Depreciation of office equipment [15% x (22 000 – 8 000)]	2 100		✓
Reversal of impairment loss on trade receivables [5% x (22 500 -0) – 2 200]	(1 075)		✓
Interest expense (9/12 x 6% x 10000)	450	96 475	✓
Profit for the year		15 025	

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(b)

Ping Consultancy Services Pte Limited
Statement of financial position as at 31 December 2023

Assets	Cost	Acc Dep	NBV	
Non-current assets	$	$	$	
Fixture and fittings	90 000	(42 000)	48 000	✓
Office equipment	22 000	(10 100)	11 900	✓
			59 900	
Current assets				
Trade receivables	22 500			
Less: allowance for impairment of trade receivables	(1 125)	21 375		✓
Prepaid utilities		600		✓
Cash at bank		7 400	29 375	
Total assets			89 275	
Equity and liabilities				
Shareholder's equity				
Issued share capital, 120 000 ordinary shares		30 000		
Retained earnings (17 700+15 025 OF ✓– 3 600✓)		29 425	59 425	
Non-current Liabilities				
Long term borrowings			10 000	✓
Current Liabilities				
Trade payables		5 900		
Consultancy fee received in advance		8 200		✓
Wages and salaries payable		2 000		✓
Dividends payables (120 000 x 0.03)		3 600		✓
Interest payable		450	19 850	✓
Total equity and liabilities			89 275	

[Total: 20]

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Question 2

(a) Any two of the following: ✓✓

- Usage
- Wear and tear
- Obsolescence
- Legal limits

(b) Any two of the following: ✓✓

- Purpose of non-current asset
- Features of non-current asset
- Customer's review
- Warranty

(c) Matching Theory ✓
In line with the matching theory, a portion of the original cost of the non-current asset is recorded as depreciation expense, so as to match against the income earned in the same financial period to determine the profit for the period. ✓

(d) Depreciation for first year = 10% x (8000 – 0) = 800
Depreciation for second year = 10% x (8000 – 800) = 720
Total depreciation = 800 + 720 = 1520 ✓
Loss on sale of motor vehicle = 4600 – (8000 – 1520) = - 1880 ✓

(e) Depreciation expense = 10% x [(72000 – 8000) – (34000 – 1520)] ✓ = 3152 ✓

(f) Any one of the following: ✓

	Capital expenditure	**Revenue expenditure**
Definition	Expenditure incurred to increase earning capacity of the business	Expenditure incurred to maintain productive life of non-current assets
Consists of	• Costs to buy and bring the non-current assets to their **intended use** • Costs to **enhance** the non-current assets	• Costs to **operate, repair and maintain** the non-current assets in working condition
Benefits	Provides benefits for **more than a year**	Provides benefits which will be **used within one year**
Recorded as	**Non-current assets** in the Statement of Financial Position	**Expense** in the Statement of Financial Performance

(g)

(i) The profit will be understated by $26700 ✓

(ii) The non-current asset will be understated by $26700 ✓

[Total: 14]

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Question 3

(a) Rate of inventory turnover
= cost of sales / average inventory ✓
= 109000 / (42500 + 47400)/2
= 2.42 times ✓

(b)
P
Leon's rate of inventory turnover of 2.42 times is worse than Kid's World of 3.71 times. ✓
E
This will imply that Leon is selling the clothes slower than Kid's World. ✓

E
Leon is also more likely to incur excessive storage costs and inventory obsolescence. ✓
L
In conclusion, Leon is managing his inventory less efficiently.✓

(c) Any one of the following: ✓✓
- Reduce selling price for slow moving goods.
- Provide trade discounts to encourage customers to buy in bulk and regularly.
- Attract more customers through marketing campaigns.
- Use technological tools to implement inventory monitoring system to replace inventory on a timely basis and accurately predict customer demand.

(d) Error 1

	Debit $	Credit $
Cash at bank	180 ✓	
Salaries		180 ✓

Error 2

	Debit $	Credit $
Cash in hand	1400✓	
Interest income		1400 ✓

(e)

	Overstated $	Understated $	No effect
Error 3		270 ✓	
Error 4	4700 ✓		

[Total: 14]

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Question 4

(a) A business buys sufficient inventory to keep on hand **to prevent at stock-out situation**✓, which often results in a loss of sales.

(b)

Account to be debited	Account to be credited
Inventory ✓	Trade payables ✓

(c) Cost of sales = $3600 + $6000 + $7000 (✓for any 2) = $16600 ✓
(90) (125) (155)

(d)

Decision	Kalina should buy B Strong. ✓
Basic statement	The cost per tin is $25. This is cheaper than HS Energy, which cost $30. ✓
Development	The cost savings can be used for other business expenses or business operations. ✓
Basic statement	The days sales in inventory turnover at 12.3 days is better than that of HS Energy at 14.9 days. ✓
Development	This means that B Strong is popular and is selling faster than HS Energy allowing Kalina to have potential increase in sales.✓
Basic statement	B Strong contains A2 protein that can help babies to digest easily. ✓
Development	As customers are looking for milk powder that helps with babies digestion, this will suggest that B Strong will have a strong demand and is likely to enjoy strong sales.

1 decision + any 3 pairs of basic statement & development points for 7 marks.

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Alternative:

Decision	Kalina should buy HS Energy. ✓
Basic statement	HS Energy's gross profit margin at 50% which is higher than B Strong's at 30%. ✓
Development	The higher gross profit margin will mean that Kalina is making more gross profit for every dollar of net sales revenue. ✓ OR This suggests that Kalina can charge a higher selling price for the HS Energy as the customers are willing to pay for the higher price. ✓
Basic statement	HS Energy must be consumed within 21 days after the container is opened compared with 45 days for B Strong.✓
Development	As the customers prefer milk powder with a shorter expiry date, this will mean that HS Energy will be a better choice which will translate to higher sales.✓
Basic statement	HS Energy contains DHA that helps brain and eye development.
Development	As customers are looking for milk powder that helps with growth development, this will suggest that HS Energy will have a strong demand and is likely to enjoy strong sales.

1 decision + any 3 pairs of basic statement & development points for 7 marks.

[Total: 12]

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