Deyi Secondary School
Principles of Accounts
Secondary 4E5NA Prelim Exam 2024 **Mark Scheme : Paper 2**

Question 1

1(a) **[10]**

Clifford Legal Pte Limited
Statement of Financial Performance for the year ended 31 March 2024

	$	$
Service fee revenue ($35 800 – $500)		35 300 **[1]**
Other income:		
Commission income ($6 200 - $600)		5 600 **[1]**
Gain on sale of non-current asset		500 **[1]**
		41 400
Less: Other expenses		
Rent expense (12 000 - $2 400)	9 600 **[1]**	
Wages and salaries	18 600 **[1]**	
General expense	1 200 **[1]**	
Interest expense ($8 000 + $2 500)	10 500 **[1]**	
Depreciation of office equipment	14 000 **[1]**	
Depreciation of motor vehicles	16 200 **[1]**	
Impairment loss on trade receivables	3 775 **[1]**	73 875
Loss for the year		(32 475)

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1b. **[10]**

Clifford Legal Pte Limited

Statement of Financial Position as at 31 March 2024

	$ Cost	**$ Accumulated Depreciation**	**$ Net Book Value**
Assets			
Non-current assets			
Office equipment	96 000	42 000 *(28 000 + 14 000)*	54 000 **[1]**
Motor vehicles	248 000	156 200 *(140 000 + 16 200)*	91 800 **[1]**
			145 800
Current assets			
Trade receivables ($80 300 - $2 000)	78 300		
Less: Allowance for impairment of trade receivables (5% x $78 3000	(3 915) **[1]**	74 385	
Prepaid rent expense		2 400 **[1]**	
Cash at bank		8 000	
Cash in hand		3 200	87 985
Total Assets			233 785
Equity and liabilities			
Shareholder's equity			
Share capital, 100 000 ordinary shares		100 000	
Retained earnings ($50 160 -$3 000 – $32 475)		14 685**[1]**	114 685
Non-current liabilities			
Long-term borrowings (105 000 – 21 000)			84 000 **[1]**
Current liabilities			
Trade payables		8 000	
Commission income received in advance		600 **[1]**	
Interest expense payable		2 500 **[1]**	
Dividend payable		3 000 **[1]**	
Current portion of long-term borrowings		21 000 **[1]**	35 100
Total equity and liabilities			233 785

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Question 2

2(a)(i) [1]

On 30 November 2022, the business provided services for $21 000 to customers on credit. **[1]**

2(a)(ii) [2]

On 30 September 2023, the business received service fee revenue of $1 000 in advance for service that it has not rendered for the accounting year **[1].**

On 30 September 2023, the business earned service fee revenue of $83 000 for the current accounting year **[1].**

2(b) [2]

Revenue recognition theory **[1].**

Revenue is earned when goods have been delivered or when services have been provided **[1].**

OR

Accrual basis of accounting **[1]**

According to the accrual basis of accounting, income is recognised when it is earned rather than when the amount is received **[1]**

OR

Matching theory **[1]**

Expenses incurred must be matched against income earned in the same period to determine accurate profit for the period **[1]**

2(c) [6]

Journal

Date		Debit $	Credit $
2023 Sep 30	Trade payable Raja	100 **[1]**	
	Discount received		100 **[1]**
Sep 30	Loan interest expense	5 000 **[1]**	
	Bank loan / long-term borrowings		5 000 **[1]**
Sep 30	Cash in hand	3 000 **[1]**	
	Capital		3 000 **[1]**

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2(d) [3]

Error 1 : Profit is understated by $100 **[1]**

Error 2 : Profit is overstated by $5 000 **[1]**

Error 3 : No effect **[1]**

2(e) [1]

Adjusted profit = $8 700 + $100 - $5 000 = **$3 800 [1]**

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Question 3

3(a) [5]

Trade receivable Jade account

Date	Particulars	Dr $	Cr $	Balance $
2024				
July 1	Balance b/d			500 Dr **[1]**
4	Cash at bank (98% x $500)		490 **[1]**	10 Dr
	Discount allowed (2% x $500)		10 **[1]**	0
12	Sales revenue (75% x $800)	600 **[1]**		600 Dr
13	Sales revenue (75% x $120)	90 **[1]**		690 Dr
Aug 1	Balance b/d			690 Dr

3(b) [1]

This is because the level of trade receivables will indicate the business' ability to pay for the goods that it bought from the suppliers on credit **[1]** **OR**

If trade receivables are high, it may indicate adequate funds to pay trade payables eventually **[1] OR**

If trade receivables are high, it may be a sign of good business and this will give suppliers the confidence to trade with the business. **[1] OR**

Trade payables might be concerned if trade receivable amount is high due to risk of default payments and this will affect the liquidity of the business. **[1]**

3(c) [1]

Rate of inventory turnover for 31 December 2023:

$$\text{Cost of sales / average inventory} = \frac{145\,000}{(12\,000 + 5\,000)/2}$$

= **<u>17.06 times</u>** **[1]**

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3(d) [5]

	31 December 2021	31 December 2022	31 December 2023
Rate of inventory turnover	22.67 times	12.22 times	**17.06 times**

The rate of inventory turnover has worsened from 22.67 times in 2021 to 12.22 times in 2022. However, it improved from 12.22 times in 2022 to 17.06 times in 2023. **[1]**

This means that in 2022, business sold and replaced its inventory fewer times compared to 2021. **[1]**

The business may be buying too many goods and was unable to sell them due to reasons such as poor promotion efforts**.[1]**

In 2023, the business' efficiency in managing its inventory improved slightly and this means that the business was able to sell and replace its inventory faster than in 2022. **[1]** This could be due to reasons such as lower selling price and better marketing campaigns to increase sales volume.

In conclusion, the business' efficiency in managing its inventory is not consistent over the three years. It got worse in 2022 and improved in 2023. **[1]**

3(e) [3] [1m for one <u>reasonable</u> and <u>logical</u> explanation, maximum 3 points]

Suggestion 1:

Offering trade discount will make Adam's goods attractive to the customers. The business might be able to achieve higher sales volume, and this will have a positive impact of the business's profitability. **[1]**

However, offering trade discount to **<u>all</u>** customers may diminish its appeal to loyal customers, as it would no longer be a special privilege for them. This could lead to losing these loyal customers to competitors who provide more attractive incentives to encourage regular patronage and loyalty. **[1]**

Suggestion 2:

Offering credit terms to customers can be very attractive, as it allows them to obtain goods without immediate cash payment. This will be an incentive for them to buy more goods, thus leading to higher inventory turnover. **[1]**

However, one possible setback is the lack of thorough screening for creditworthiness of trade receivables. This could lead to higher payment defaults and impairment loss on trade receivables, which will affect profitability and liquidity of the business. **[1]**

Another possible setback is not all customers may prefer buying on credit terms. Some might prefer to pay cash and not worry about monitoring the payment date and risk incurring interest on late payments. **[1]**

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Question 4

4(a) [2]

Cost price of the batch = $ 4 800

Net Realisable value of the batch = $3 000 - $800 = $2 200

So, value of this batch of inventory must be adjusted from $4 800 to $ 2 200. Hence, reduce by $2 600.

Overall value of inventory = $15 500 **[1]** - $2 600 **[1]** = $12 900

4(b) [1m for full set of double-entry]

Dr. Insurance claim receivable $1 900

Cr. Impairment loss on inventory $1 900

4(c) [7]

1m for decision
1m for each basic statement (maximum of 3m)
1m for development of each basic statement (maximum of 3m)

Decision : Shona should buy Power X6 to sell.

Basic Statement 1:
Power X6 has stronger vacuum suction compared to Slim Xtra.

Development 1:
Although SlimXtra is equipped with a dust brush, it is average in terms of effectiveness. The stronger vacuum suction from Power X6 will appeal more to customers since many have young families and hygiene will be a priority. This will eventually lead to higher sales revenue for the business in the long run.

Basic Statement 2:
Power X6 has an adaptor that can clean the tight spaces and will be more effective in cleaning compared to Slim Xtra that has a floor head that is big and less versatile for cleaning corners.

Development 2:
This feature enables effective cleaning with minimal bending, significantly reducing the risk of back pain. Consequently, it will attract health-conscious customers who value both efficiency and wellness, thereby broadening the business' customer base.

Basic Statement 3:
The gross profit from selling Power X6 is higher than from selling Slim Xtra by $500 per unit.

Development 3:
Despite the higher cost price of Power X6, its higher selling price will bring about higher gross profit for the business. Customers in this high income neighbourhood would not mind the higher purchase price because of it good features.

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Decision : Shona should buy Slim Xtra to sell.

Basic Statement 1:
Slim Xtra is lighter and cordless compared to a heavier Power X6 that is corded.

Development 1:
Being light weight and cordless will provide more convenience for families with young children. It is easier to move around the house and reduce the possibility of physical strains on the user. This will result in greater customer's satisfaction for the business.

Basic Statement 2:
In terms of storage, Slim Xtra takes up less space compared to Power X6.

Development 2:
This feature will appeal to families with young children who need extra storage space, leading to increased sales volume for the business.

Basic Statement 3:
Slim Xtra has a lower cost price of $1200 instead of $1800 for Power X6.

Development 3:
The lower cost price will result in lower cost of sales, allowing the business to use the cost-savings on other operating expenses of the business.

END OF MARKING SCHEME

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