

MASTER
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of ACCOUNTS

2019 O LEVEL
POA PAPER 2

SUGGESTED SOLUTIONS



Income statement for the year ended 30 April 2019

	\$	\$	
Sales revenue (147215+2000)	149215		1
Less: Sales returns	1280		0.5
Net sales revenue		147935	
Less: cost of sales		99720	0.5
Gross Profit		48215	
Add: Other income			
Commission income (5470+250)	5720		1
Discount received	450		0.5
		6170	
Less: Expenses			
Rental expense (12/18*14400)	9600		1
Wages and salaries expense (23000+1250)	24250		1
Motor van expense (3610-1500)	2110		1
General expense	3100		0.5
Discount allowed	285		0.5
Depreciation on Motor vehicles (20% x [62,000-22320])	7936		1
Impairment loss on trade receivables (545-340)	205		1
		47486	
Profit for the year		6,899	9.5
		Format	0.5
		Total	10

Special thanks to Aaron Chiang and Dion Lee for assistance.

Ziqian
Balance Sheet as at 30 April 2019

<u>Assets</u>	\$	\$	\$	\$
<u>Non-current assets</u>	Cost	Acc. Dep	Net book value	
Motor vehicles	62,000	30,256	31,744	
Office equipment	350		350	
Total non-current assets				32,094
 <u>Current assets</u>				
Inventory			10,245	
Trade receivables (13,290+2,000)		15,290		
Less: Allowance for impairment of trade receivables		545		
Net Trade receivables			14,745	
Commission receivable			250	
Prepaid rent expense			4,800	
Cash at bank			5,041	
Total current assets				35,081
Total Assets				67,175
 <u>Equity and liabilities</u>				
Owner's equity				
Capital, 1 May 2018			5,791	
Add: Profit for the year			6,899	
Less: Drawings (7,550+1,500)			9,050	
Total equity				55,760
 <u>Current Liabilities</u>				
Trade payables			981	
Accrued wages and salaries expense			1,250	
Other payable			350	
Total current liabilities				11,415
Total Equity and Liabilities				67,175
				Format
				Total

Special thanks to Aaron Chiang and Dion Lee for assistance.

2 a) Ownership of company that is issued to shareholders to raise capital for the business.

b) Advantages of a company:

Investment and returns	Shareholders' losses are capped at the amount invested
Ability to raise funds	Banks are more willing to lend a business. It is easier to raise capital via the issuance of shares.
Transfer of ownership	Easy of transfer. Shares can be transferred easily on the consent of all partners.

c) Stewardship: A steward does not own but is given the responsibility to manage the business. The accounting information system provides the owner with information on how the business is performing.

d)

Issued share capital				
		Dr(\$)	Cr(\$)	Bal(\$)
2018				
Apr 1	Balance b/d			195,000 Cr
2019				
	Cash at bank			
Mar 31	(50000 shares x \$1.30)		65000	260,000 Cr
Apr 1	Balance b/d			260,000 Cr

e) Journal Entries

Dr Retained earnings	85,800
Cr Profit and loss	85,800

Being the transfer of loss for the year to the retained earning account

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3 (a)

	31 July 2018	31 July 2019
i)	Net sales revenue - Cost of sales = Gross profit	
	Gross profit margin = 21%. Therefore, gross profit is 21% and net sales revenue is 100%	Gross profit margin = 18.5%. Therefore, gross profit is 18.5% and net sales revenue is 100%
	Net sales revenue 87150/21*100 = \$415,000	97125/18.5*100 = \$525,000
	Gross profit margin - % expenses to net sales revenue = Profit margin	
	Expenses = 21%-12% = 9%	Expenses = 18.5%-7.5% = 11%
ii)	Expenses 9% x \$415,000 = \$37,350	11% x \$525,000 = \$57,750

The gross profit is on a downward trend. The gross profit margin has worsen from 21% in 2018 to 18.5% in 2019.

The decreasing trend is likely due to the changing of suppliers many times within the year. Fatin may not have been able to suggests that the cost of sales has increased due to a new supplier.

(b) This is supported by the increase in NSR from 415000 in 2018 to 525000 in 2019

The profit margin has worsen from 12% in 2018 to 7.5% in 2019.

Correspondingly, the percentage of expenses to turnover has increased from 9% in 2018 to 11% in 2019.

This is likely due to the increased rental cost from the expansion as well as the increase in advertising and promotions undertaken to drive up the sales revenue.

Another reason for the decrease in profitability is due to the increased amount of additional staff costs to provide personal services

Overall, even though there is a higher gross profit in 2019 at \$97125 as compared to the gross profit in 2018 at \$87150, the profit for the year for 2018 is still higher than the profit for the year in 2019 on absolute terms.

The significant jump is due to the a significant increase in expenses from \$37350 in 2018 to \$57750 in 2019.

In terms of both absolute and profitability figures, Fatin's expansion plans is not as effective at generating profit in 2019 compared to 2018 with the new locations and increasing cost of goods as well as staff costs.

(c)

(d)

Any two:

Move to a cheaper location

Narrow down a supplier for a long term relationship

Purchase goods in bulk for trade discount

Evaluate iif a retail business truly requires a high level of personal service as differentiator

Automate labour-intensive processes to save on staff costs

Special thanks to Aaron Chiang and Dion Lee for assistance.

4a) Rent income = \$12,500 - \$950 + \$1,200

Wages expense = \$21,000 - \$320 + 410

b)

Wages expense A/C

Date	Particulars	Dr(\$)	Cr(\$)	Bal(\$)
2015				
Jul 1	Accrued wages expense		320	320 Cr
2016				
Jun 30	Cash at bank	2100		1780 Dr
	Accrued wages expense	410		2190 Dr
	Profit and loss		2190	0

c) Matching concept. Expenses incurred is matched against income earned in the same accounting period to find the accurate profit

d) General ledger

e) Uses of general journal (any two from):

Correction of error

Balance day adjustments

Withdrawal of goods for personal use

Contribution of capital in all assets other than cash

Special thanks to Aaron Chiang and Dion Lee for assistance.

5a) Cash discount is given to encourage prompt payment

b) Invoice

c) Purchases returns journal

d)

Trade payable control - Yi Ling				
Date	Particulars	Dr(\$)	Cr(\$)	Bal(\$)
2019				
Aug 1	Balance b/d			5,700 Cr
2	Inventory (90% x 8,000)		7,200	12,900 Cr
10	Cash at bank (98% x 5700)	5586		7,314 Cr
	Discount received (2% x 5700)	114		7,200 Cr
15	Inventory (90% x 500)	450		6,750 Cr
Sept 1	Balance b/d			6,750 Cr

e) owners are two separate entities. Transactions are recorded from the business point of view.

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