Question Number	Name	2017 Paper 2	Index No.		Do not write in this margin
	Subject		Class	Date	
Q1a					

Jason Chin

Income Statement for the year ended 31 May 2017

	$	$
Sales revenue (92385 - 195)	92190	
Less sales returns	780	
Net sales revenue		91410
Less Cost of sales		64570
Gross profit		26840
<u>Other income</u>		
Gain on sale of non-current asset		195
<u>Less Expenses</u>		
Rent	3500	
Wages and salaries	8000	
General expenses (2000 + 625)	2625	
Discount allowed	252	
Insurance (450 x 12/15)	360	
Loan interest (7500 x 5%)	375	
Impairment loss on trade receivables (500 - 300)	200	
Depreciation on equipment (28000 x 10%)	2800	
Depreciation on Motor Vehicles ((45000 - 16200) x 20%)	5760	
		23872
Profit for the year		3163

Q1b

Jason Chin's

Balance Sheet as at 31 May 2017

Assets	$	$	$	$
Non-current assets	Cost	Acc. Depn	NBV	
Equipment	28000	8400	19600	
Motor vehicles	45000	21960	23040	
Total non-current assets	73000	30360		42640
Current assets				
Trade receivables		11720		
Less allowance for impairment of trade receivables		500		
			11220	
Cash at bank			1958	
Inventory (12800 - 350)			12450	
Prepaid insurance (450-360)			90	
Total current assets				25718
Total assets				68358
				68553
Equity and Liabilities				(195)
Owner's equity				
Balance balance			52615	
Add Profit for the year			3163	
Less Drawings (4500 + 350)			4850	
Total equity				50928
Non-current liabilities				
Long-term borrowings			7500	
Total non-current liabilities				7500
Current liabilities				
Trade payables			8930	
Accrued general expenses			625	
Accrued loan interest			375	
Total current liabilities				9930
Total equity and liabilities				68358

Question Number	Name 2017 Paper 2	Index No.	Do not write in this margin
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Q2

a) Liquidity is the ability of the business to convert assets to cash to meet its current obligation.

b)

	2016	2017
Working capital ratio	58400 / 20500	68500 / 36230
	= 2.85 : 1	= 1.89 : 1

c) The working capital ratio is on a declining trend from 3.62:1 in 2015 to 2.85:1 in 2016 to 1.89:1 in 2017. This is mainly due to the larger increase in current liabilities as compared to the increase in current assets.

Basing on the working capital ratio calcuated, Jennifer should be able to pay the debts when they are due. However, as the majority of the current assets is made up inventory which is a non-liquid assets, she might face difficulty to pay the current liabilities especially in 2017.

Increasing trend in inventory holding tied up cash, increase trend in trade receivables might result in impairement loss, decreasing cash balances and eventual goes into bank overdraft in 2017 might be the cause for the increasing trend in trade payables and finally the long-term borrowings payable within a year.

d) Profit is derived from income earned less expenses incurred for the period. It will not be affect by collection and payments.

Whereas, liquidity calculation used current assets and current liabilities. Therefore, profit or loss has not impact on liquidity as only the movement in current assets and current liabilities will have impact on liquidity.

e) Two profitability ratios:

1. Gross profit margin
2. Profit margin

Q3

ai) Retained earnings is the accumulated profits over the years that have not been distributed to shareholders.

aii) Dividends is the distribution from the retained earnings to the shareholders.

b) Shareholders' equity will be affected by:

1. Additional shares issued during the year
2. Profit or loss during the year
3. Dividends declared during the year

c) General Journal

Date	Particular	Dr	Cr
2017		$	$
Apr 30	Cash at bank (50000 x $1.50)	75000	
	Issue share capital		75000
	Being Receipt from issue of ordinary shares at $1.50 each.		

b) Retained Earnings Account

Date	Particulars	Debit	Credit	Balance
2016		$	$	$
Jul 1	Balance b/d			175000 Cr
2017				
Jun 30	Profit and loss		75000	250000 Cr
30	Dividends (250000 x $0.10)	25000		225000 Cr
Jun 1	Balance b/d			225000 Cr

Question Number	Name 2017 Paper 2	Index No.	Do not write in this margin
Q4	Subject	Class	Date

a) Trade Payables Control Account

Date	Particulars	Debit	Credit	Balance
2017		$	$	$
Jul 1	Balance b/d			9845 Cr
31	Discount received	324		
31	Cash at bank	10245		
31	Inventory		15382	
31	Inventory	720		
31	Interest		105	14043 Cr
Jun 1	Balance b/d			14043 Cr

b) Interest charge should appear under expenses in the income statement.

c) Usage of a trade payables control account:

1. to prevent overcrowding in the general ledger.
2. to serve as an accuracy check again the purchases ledger.

d) Cash discount might be received to encourage prompt payment.

Question Number	2017 Paper 2	Do not write in this margin

Q5

a) Cost of sales for August 2017 = 1800 + 650

= $2450

b) Value of inventory at 29 August 2017 = 5935 - 2450

= $3485

c) Revised value of inventory at 31 August 2017 = 1625 + 1600

= $3225

d) General Journal

Date	Particular	Dr	Cr
2017		$	$
Aug 31	Impairement loss on inventory (1860 - 1600)	260	
	Inventory		260
	Being loss on inventory revaluation for goods purchased on 29 August 2017.		

e) Net realisable value is the estimated selling price less any additional cost required to make the sale.

f) Prudence concept