

## CTSS 2024 4E5N Prelim

### Paper 1 Suggested Solutions

#### Question 1

a) Trading business ✓

b)

	Source document
6 June	Invoice ✓
9 June	Credit note ✓
15 June	Receipt/ remittance advice/ payment voucher ✓

c) The purpose of a trade discount is to encourage (Any one of the following ✓):

- Customer to buy in bulk
- Customer's patronage
- Customer's loyalty

d)

Amount owing =  $(3000 - 600) \times 90\% = 2160$  ✓

Percentage of discount received

=  $2160 - 1836 / 2160 \times 100\% = 15\%$  (For correct answer ✓)

e) Any two of the following ✓✓:

- Payer's bank account has **insufficient funds** / is closed / is **frozen**
- Cheque has **expired**
- Cheque is **post-dated**
- **Incomplete** information on the cheque (missing date / signature / amount paid)
- **Inconsistent** information on the cheque (amount written in figures does not match amount written in words)

[Total: 9]

## Question 2

- (a) Revenue recognition theory. ✓

Revenue is earned when goods have been delivered or services have been provided. ✓

- (b)

### Journal

Date 2024		Debit \$	Credit \$
Jun 30	Plumbing fee income (86400+1760)	88 160 ✓	
	Income summary		88 160 ✓

- (c)

### Extract of Statement of Financial Position as at 30 June 2024

<u>Current asset</u> ✓	\$
Plumbing fee income receivable	1 760 ✓

- (d)

- (i) 1 July 2023

Rent expense payable of \$3 000 was **still owing from the previous financial year** ending 30 June 2023 to **be paid in this financial year** ✓.

- (ii) 23 March 2024

There is a **cheque payment** ✓ of \$23 000 for rent expense.

- (iii) 30 June 2024

Rent expense of \$5 000 **incurred but not yet paid** ✓ for the current financial year ending 30 Jun 2024.

- (e)

- (i) Profit for the year will be **overstated by \$5000**. ✓

- (ii) The **current liabilities** will be **understated by \$5000**. ✓

[Total: 11]

### **Question 3**

- (ai) CA =  $14200 + 25000 - 1700 + 800 + 1500 = \$39800$   
CL =  $2300 + 9100 + 10000 = \$21400$

Current ratio  
= current assets / current liabilities ✓  
=  $39800 / 21400$   
= 1.86 ✓

- (aii) Quick ratio  
= current assets – inventory – prepayments / current liabilities ✓  
=  $39800 - 14200 - 1500 / 21400$   
= 1.13 ✓

(b)

**P**

The current ratio has worsened from the three years from 2.13 in 2022 to 1.92 in 2023 to 1.86 in 2024. ✓

**E**

This is below the general benchmark of 2 in 2024, which suggest that the business have insufficient current assets to pay for its immediate debts in 2024. ✓

**P**

However, the quick ratio of the business has improved over the three years from 0.72 in 2022 to 0.98 in 2023 to 1.13 in 2024. ✓

**E**

This is above the bench of 1 in 2024, which suggest that the business is has sufficient quick assets to pay for its immediate debts in 2024. ✓

**L**

In conclusion, the liquidity of the business has improved from 31 July 2022 to 31 July 2024. ✓

- (c) Sofia could:  
1) Increase sources of cash by obtaining cash contribution from owner or shareholders/ obtain a long-term loan/ sell excess non-current assets for cash. ✓  
2) Manage cash outflow by reducing operating expenses/ Negotiating for better credit terms from supplier. ✓

**[Total: 11]**

### **Question 4**

- (a) When the sole proprietor, incurred debts and losses incurred, the sole owner is obliged to pay them using his personal assets. ✓
- (b) Any one of the following ✓

- Limited liability partnership
- Private limited company

(c) Any one of the following ✓

- Shareholders
- Managers
- Employees
- Lenders
- Suppliers
- Customers
- Government
- Competitors

(d) Going concern theory ✓

(e) Equity is the claim by the owner on the net assets of the business. ✓

(f) Capital = (16400+ 9700 + 20800 + 13400) – (7900+17000) = 35400 ✓

(g)

Capital				
Date	Particulars	Dr (\$)	Cr (\$)	Bal (\$)
2023				
Jan 1	Bal b/d			35400 CR
<b>Jun 4</b>	<b>Motor vehicle</b>		<b>16000</b> ✓	51400 CR
<b>Dec 31</b>	<b>Drawing</b>	<b>1200</b> ✓		50200 CR
<b>Dec 31</b>	<b>Income summary</b>	<b>8 500</b> ✓		41700 CR
2024				
Jan 1	Bal b/d			41700 CR

[Total: 9]