

4E5N PRELIMS 2022 PAPER 1

1(a) Accounting provides accounting information for stakeholders to make informed decisions. **[1]**

1(b) i. Integrity is being straightforward and honest in all professional business relationships. **[1]**

ii. Objectivity is not letting bias, conflict of interest or undue influence of others to override professional judgment. **[1]**

1(c) A business is assumed to have indefinite economic life **[1]** unless there is credible evidence that it may close down. **[1]**

1(d) i.

Date 2021	Particulars	Debit \$	Credit \$
Dec 31	Capital [1] 500+800	1 300	
	Drawings [1]		1 300

ii.

Date 2021	Particulars	Debit \$	Credit \$
Dec 31	Income summary [1]	65 000	
	Capital [1]		65 000

1(e)

Sanjith

Statement of financial position as at 31 December 2021

<u>Owner's equity</u>	\$
Capital (50000+65000-1300) [1]	113 700

2(a) Payment is made immediately during a cash sale or purchase for cash transactions while payment is delayed during a credit sale or purchase for credit transactions.

2(b) 6 June: Krystal returned goods worth \$1 000 to Valerie Supplies. **[1]**

16 June: Paid Valerie Supplies \$6 080 by cheque **[1]** and received a discount of \$ 320.**[1]**

2(c) $320 / (6800 + 320) \times 100 = 5\%$ **[1]**

2(d) Source documents are evidence that transactions have taken place. **[1]**
According to the objectivity theory, transactions must be supported by reliable and verifiable evidence to ensure that financial statements are free from opinions and biases. **[1]**

2(e) 3 June: Invoice **[1]**
6 June: Credit note **[1]**

3(a) i.

Date 2021	Particulars	Debit \$	Credit \$
May 1	Cash at bank [1]	150 000	
	Loan from bank [1]		150 000

ii.

Date 2022	Particulars	Debit \$	Credit \$
Apr 30	Interest expense (4% X 150 000) [1]	6 000	
	Cash at bank [1]		6 000

iii.

Date 2022	Particulars	Debit \$	Credit \$
Apr 30	Loan from bank [1]	30 000	
	Cash at bank [1]		30 000

3(b) $(4\% \times 150\,000 \times 4/12)$ **[1]** + $(4\% \times 120\,000 \times 8/12)$ **[1]** = \$5200.

3(c) Business activities that have occurred, regardless of whether cash is paid or received **[1]** should be recorded in the relevant accounting period. **[1]**

4(a) i. Current ratio: $(9900 + 14000 + 1200) / (500 + 7100 + 5000) = 1.99$ **[1]**

ii. Quick ratio: $9900 / (500 + 7100 + 5000) = 0.79$ **[1]**

4(b) Current ratio has worsened from 2.54 in 2020 to 2.20 in 2021 to 1.99 in 2022. **[1]***

Quick ratio has worsened from 1.62 in 2020 to 0.91 in 2021 to 0.79 in 2022. **[1]***

Therefore, the liquidity position of the business has worsened over the three years. **[1]***

Reasons why liquidity has worsened

Buying goods in bulk may lead to funds being tied up in inventory. **[1]**

Trade payables position has worsened due to bulk purchases on credit. **[1]**

The business could be facing difficulties collecting payment from their trade receivables. **[1]**

Cash at bank could have deteriorated to a bank overdraft due to the purchase of motor vehicles. **[1]**

A portion of long-term borrowings is now due within the next one year. **[1]**

*** + any 3 reasons**

4(c) The owner could contribute additional capital in the form of cash. **[1]**

The business could sell excess non-current assets for cash. **[1]**