Deyi Secondary School
Principles of Accounts
Secondary 4E5NA Prelim 2022 **Mark Scheme for Paper 1**

Question 1

1(a) [6]

	Transaction	Source Documents	Account to be debited	Account to be credited
(i)	Payment of staff salaries through bank's standing order.	Bank statement / Payment voucher **[1]**	Salary expense	Cash at bank
(ii)	Import duty imposed on uniforms from China.	Invoice **[1]**	Inventory	Trade payable
(iii)	Shirley, a credit customer returned damaged goods.	Credit note **[1]**	Sales returns	Trade receivable- Shirley

1m for correct set of double-entry

1(b) [2]

(i) owner's equity will decrease **[1]**
(ii) total assets will decrease **[1]**

1(c) [2]

Total Debits = Total Credits
Total Debits = $18 930 + $3 000 + $8 910+ Cash at bank
Total Credits = $2 800+$800+$28 640
$30 840 + Cash at bank = $32 240 **[1m for working].**

Cash at bank = $32 240 – 30 840 = **$1 400 [1]** **OR**

Assets = Liabilities + Owner's Equity
$18 930 + $3 000 + $8 910+ Cash at bank = $2 800+$800+$28 640 **[1m for working].**
Cash at bank = $32 240 – 30 840 = **$1 400 [1]**

1(d) [1]

Working:

- Prepaid salary expense will be deducted from the salary expense figure for the year.
- This will understate the salary expense for the year.
- Hence profit for the year will be **overstated by $800**. **[1]**

Question 2

2(a) [2]

Cost of sale : 6 June = $22 490

Cost of sale for 20 June = $13 120 + $24 920 = $38 040

Total cost of sales for June 2022 = **$22 490 [1]** + **$38 040 [1]** = $60 530

2(b) [2]

Value of inventory at 30 June 2022= **$15 540 [1]** + **$22 460 [1]** = $38 000

2(c) [2]

Revised value of inventory at 30 June 2022 = $15 540 **[1]** + ($18 000) **[1]** = $33 540

2(d) [2]

General Journal

Date	Particulars	Dr $	Cr $
2022 June 30	Impairment loss on inventory (38 000 – 33 540)	4 460 **[1]**	
	Inventory		4 460 **[1]**

2(e) [2]

Perpetual inventory system is a system whereby the quantity and availability of inventories are updated on a continuous basis. **[1]**

It provides computerised records for the business to monitor the inventory balances so that the business can maintain just enough inventories to meet customer demand. **[1]**

<u>Question 3</u>

3(a) [2]

Interest expense from 1 Jan 2021 – 30 Sept 2021:
Based on outstanding Loan amount = $72 000
(3% x $72000) x 9/12 = $1620

Interest expense from 1 Oct 2021 – 31 Dec 2021;
Based on outstanding Loan amount = $54 000
(3% x $54 000) x 3/12 = $405

Total interest expense as at 31 December 2021= **$1620 [1]** + **$405 [1]** = $2025

3(b) [1]

Non-current liabilities are **obligations** owed by business that are due to be paid **beyond one** financial year while current liabilities are **obligations** due to be paid back **within one** financial year. **[1]**

3(c) [3]

Geneco
Statement of financial position as a 31 December 2021 (extract)

	$	**$**
<u>Non-current liabilities</u>		
Long-term borrowings (54 000 – 18 000)		36 000 **[1]**
<u>Current liabilities</u>		
Current portion of long-term borrowings	18 000 **[1]**	
Interest payable (3% x $54 000) x 3/12	405 **[1]**	18 405

3(d) [2]

(i) Increase by $90 000 (since WC= CA-CL) **[1]**
(ii) Increase by $90 000 **[1]**

3(e) [2]

Dr. Capital $5 000 **[1]**

Cr Income summary $5 000 **[1]**

<u>Question 4</u>

4(a) [3]

	31 July 2022
(i) Gross profit margin	(Gross profit / net sales revenue) x 100 = (82 000 / 600 000) x 100 = **13.67% [1]**
(ii) Profit margin	(Profit for the period / net sales revenue) x 100 = (25 500 / 600 000) x 100 =**4.25% [1]**
(iii) Return on equity	(Profit for the period / average equity) x 100 = (25 500 / 660 000) x 100 = **3.87% [1]**

4(b) [5]

Net sales revenue has improved from $400 000 in 2020 to $$600 000 in 2022. This shows an increase of 50%. This could be due to higher volume of sale or higher selling price. **[1]**

Gross profit margin remained at a constant of 15% for two years but worsened by 1.33% in 2022. This means that the business is earning 1.33 cents gross profit lesser in 2022 for every dollar of net sales revenue that it generated <u>OR</u> This could be due to the higher net sales revenue or lower cost of sale. **[1]**

Unfortunately, profit margin has worsened over the three years with 5% in 2020 to 4.8% in 2021 to 4.25% in 2022. This is an overall decrease of 0.75% from 2020. This means that the business is earning lesser profit over the years for every dollar of its net sales revenue <u>OR</u> This could be attributed by less efficiency in managing expenses. **[1]**

Return on equity has also worsened over the three years with 5.13% in 2020 to 4.62% in 2021 and 3.87% in 2022. This shows an overall decrease of 1.26% from 2020. This means that the business is earning lesser profit from the amount of capital that the owner has invested into the business over they years <u>OR</u> This shows that the business is less efficient at generating profits for its owner over the years. **[1]**

In conclusion, the business is less profitable over the three years. **[1]**

4(c) [1m for any of the following points]

- To attract potential investors to invest in the business
- Boost stakeholder's confidence in the business that will give rise to positive corporate image
- To support its daily business operations such as paying for expenses and buying of inventories

END OF MARKING SCHEME