

**2022 Principles of Accounts Preliminary Examination****4E / 5N(A) Paper 2 Answer Key**

1 (a)

## Drawings

Date	Particulars	Debit \$	Credit \$	Balance \$
2021				
Dec-1	Cash in hand	360		
2022				
Jan-21	Inventory	324		
Aug-0	Cash at bank	905		
Oct-3	Capital		1589	0

(b) Accounting Entity theory states that the transactions of a business should be separated from its owners. Hence, when an owner draws out cash or goods, drawings need to be recorded to represent a decrease in owner's capital.

(c) No effect

(d) 1. Easier and less expensive to set up and maintain.  
2. Entire / 100% of the profit of the business belongs to the sole proprietor.

(e) 1. The maximum amount that the shareholders lose is their investment.  
2. Banks are more willing to lend to a company.  
**3. A company is also able to issue its shares to raise funds.**  
4. Easier for a shareholder in a company to transfer his ownership to another. It is especially easy for a listed company where the shares are traded on the stock exchange as there are many people willing to buy over his ownership of the company.

2 (a)	To facilitate the preparation of financial statements <b>(1)</b> as this is a list of all account balances at a particular date and can also be a proof of <b>arithmetic accuracy</b> . <b>(1)</b>		
(b)	A trial balance is not an absolute proof of accuracy of transactions recorded in ledger accounts (1) because there may be errors which would not affect the balancing of the trial balance and thus would not be revealed (1).		
(c)	Profit is understated [1] by \$54 [1].		
(d)	Integrity		
	Integrity is being straightfoward and honest in all professional and business relationships.[1]		
	or		
	Objectivity		
	Objectivity is not letting bias, conflict of interest or undue influence of others override professional judgement.		
(e)	Going concern		

3 (a) (i)	The original cost of equipment sold in the period							
(ii)	The total depreciation to date on the equipment sold in the period							
(iii)	Disposal proceeds of the equipment sold on credit to DJ Equipment							
(iv)	Loss made on sale of equipment in the year							
(b) (i)	Profit for the year has been understated <b>(1)</b> by \$17 000 <b>(1)</b>							
(ii)	The value of non-current assets has been understated <b>(1)</b> by \$17 000 <b>(1)</b>							

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1

**Ruth Pte Limited****Statement of Financial Performance for the year ended 31 July 2022**

							\$	\$
Sales revenue								337000
Less: Sales returns								-12400
Net sales revenue								324600
Less: Cost of sales								-93300
Gross Profit								231300
Add: Other Income								
Interest income	(1000+800)							1800
								233100
Less: Expenses								
Wages and salaries	(79960+460)					80420		
Machinery repairs	(7600+2000)					9600		
General expenses	(37700-250)					37450		
Depreciation of machinery	(0.25 X 194000)					48500		
Depreciation of motor vehicles	(0.2 X 53760)					10752		
Impairment loss on trade receivables						450	187172	
Profit for the year								45928

**Ruth Pte Ltd****Statement of Financial Position as at 31 July 2022**

<b><u>Assets</u></b>								
<b><u>Non-current assets</u></b>					<b><u>Cost</u></b>	<b><u>Accum.</u></b>	<b><u>Net Book</u></b>	
Machinery	(196000-2000)				194000	-146500	47500	
Motor vehicles					84000	-40992	43008	
							90508	
<b><u>Current assets</u></b>								
Inventory						41320		
Trade Receivables					21000			
Less: Allowance for impairment of trade receivables					1050	19950		
Cash at bank						24300		
Prepaid general expenses						250		
Interest income receivable						800	86620	
Total assets							177128	
<b><u>Equity and liabilities</u></b>								
<b><u>Owner's equity</u></b>								
Issued Share Capital, 100000 ordinary shares							100000	
Retained earnings (18260+45928[1]-10000[1])							54188	
Total equity							154188	
<b><u>Non-current liabilities</u></b>								
<b><u>Current liabilities</u></b>								
Trade payables						12480		

Dividends payable	(0.10 X 100000)				10000	
Wages and salaries owing					460	22940
Total equity and liabilities						<u>177128</u>

(i)

Date	Particulars				Debit \$	Credit \$	Balance \$
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(ii)

Date	Particulars				Debit \$	Credit \$ +	Balance \$
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(b)	Prudence (1)
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(c)

he charges interest on overdue accounts (1)

	·	he	he has strict credit control procedures <b>(1)</b>				
	<i>1 mark per suitable comment to a maximum of 5 marks</i>						

2																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
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3									
a.	Liquidity is the ability of the business to repay its current liabilities when they fall due. (1)								
	Liquidity measures how able a business is to convert current assets into cash to pay for current liabilities. (1)								
b.	2020				2021				
	89600/32750 =	2.74			104750 / 56345=	1.86		[2]	
c.	The current ratio has deteriorated from 3.40 in 2019, to 2.74 in 2020 and 1.86 in 2021. (1)								
	Current assets are greater than current liabilities for each of the three years. (1)								
	Current liabilities have increased to a greater extent than current assets over the period. (1)								
	Inventory holdings have increased from \$40 625 in 2019 to \$59 850 in 2021. (1)								
	Increasing inventory may mean funds are tied up. (1)								
	The quick ratio has deteriorated over the three years from 1.69 to 1.34 to 0.80. (1)								
	This is because the amount of inventory as a proportion of current assets has increased over the years. (1)								
	The trade receivables position has worsened as trade receivables have increased each year from \$27 000 in 2019 to \$44 900 in 2021. (1)								
	Increasing trade receivables runs the risk of a possible loss on impairment of trade receivables. (1)								
	Increasing trade receivables may mean that funds are less readily available. (1)								
	The bank balance has deteriorated each year from \$13 125 in 2019 to an overdraft of \$3 050 in 2021. (1)								
	The trade payables position has worsened as it has increased each year from \$20 000 in 2019 to \$27 750 in 2021. (1)								
	An increase in trade payables may affect the ability to obtain credit. (1)								
	An increase in trade payables may affect the relationship with suppliers if unable to pay invoices on time. (1)								
	A portion of long-term borrowings has now become current as the status has changed from being due in over 1 year to falling due within the next 12 months. (1)								
	Cash may have been used over the period to purchase or place a deposit on non-current assets. (1)								
d.	Lynette might have increased her cash drawings over the period. (1)								
	This will reduce cash but not profit. (1)								
	The business might have spent cash to purchase non-current assets. (1)								
	This will decrease liquidity but have no impact on profit. (1)								
	The business might have high sales revenue but make most of its sales on credit.(1)								
	This may mean a high profit but low levels of cash. (1)								
	There are non-cash items in the statement of financial performance (e.g. depreciation, accruals and accounting adjustments which can affect profit but have no effect on cash) (1) and income/ expenses are accounted for following the matching concept. (1)								
	This means that income/expenses are not the same as cash paid out. (1)								
	Interest on the long-term borrowings might have remained the same. (1)								
	Profit will therefore not be affected, but portions of the loan are becoming payable within 12 months which increases current liabilities and reduces the current ratio. (1)								
e.	Gross profit margin (1)								
	Mark-up on cost (1)								
	Profit margin (1)								
	Return on equity (1)								

4

b.

General Journal			
Date	Particulars	Debit \$	Credit \$
2021			
Dec-31	Allowance for impairment of trade receivables	250	[1]
	Trade receivables - Tam		250 [1]
	Write off of Tan's outstanding balance at 31 Dec 2021 (1)		[1]

c.

At the end of each period, a business may review how much it may not be able to collect from its outstanding receivables. (1) It may estimate the amount that is not likely to be collectible in order to ensure that trade receivables and profit are not overstated. (1)

d.

Prudence (1)

or

Matching (1)