Answer Scheme- POA Sec 4Exp/ 5NA Paper 1 Prelim 2022

1(a)

	30 June 2020 (1 July 2019 – 30 June 2020)	30 June 2021 (1 July 2020 – 30 June 2021)
Rate of inventory turnover (times)	Cost of sales/ Average inventory = 70000/ (20500 + 28200)/2 = 70000/ 24350 (1m) = 2.87 times (1m)	45000/ (28200 + 7500)/2 = 45000/ 17850 (1m) = 2.52 times (1m)

(b) The rate of inventory turnover has worsened from 2.87 times in 2020 to 2.52 times in 2021. (1m)

This shows that the business is taking a longer time to sell and replenish its goods in 2021 as compared to 2020./ the business is selling its goods more slowly in 2021 as compared to 2020/ the business has slowed down in replacing its inventory to be sold in 2021 as compared to 2020. (1m)

Hence business has become less efficient at managing its inventory over the two years. (1m)

(c) -Reduce selling price for slow-moving goods to sell inventory faster.

-Provide trade discounts to encourage customers to buy in bulk and regularly.

-Attract more customers through marketing campaigns to sell inventory faster.

-Keep sufficient inventory on hand: Use technological tools to improve the accuracy of predictions about customer demand in order to know when and how much inventory to buy. (1m)

(Any 2 of the above 1m each)

(d) Cost of sales for the year ended 30 June 2022

= 7500 (1m) + 6000 (1m) = \$13 500

(e) Gross profit for the year ended 30 June 2022

= Sales revenue – Cost of sales

= 25000 - 13500 = \$11 500 (1m)

(f)	Journal		
2022	Particulars	Dr (\$)	Cr (\$)
Jul 2	Impairment loss on inventory (1m)	5 000	
	Inventory (1m)		5 000

(g)	Journal		
2022	Particulars	Dr (\$)	Cr (\$)
Jul 15	Insurance claim receivable (90% X 5000) (1m)	4 500	
	Impairment loss on inventory (1m)		4 500

2(a) Matching theory (1m)

income earned during an accounting year has to be matched with the expenses associated with earning that income to obtain an accurate profit for the accounting year. (1m)

OR

Accrual basis of accounting (1m)

Business activities that have occurred, regardless of whether cash is paid or received, should be recorded in the current accounting period. (1m)

Accept any plausible answer.

(b) Amount of advertising expense incurred for the year ended 31 May 2022

= Expenses paid during the accounting year + Expense payable at the end of the accounting year – Expense payable at the beginning of the accounting year

= 10500 (1m) + 8200 (1m) - 5700 (1m) = \$ 13 000

(C)

2022		\$
May 31	Rent income earned but not yet received for the financial year (1m)	2 200
	Transfer rent income balance to Income Summary (1m)	23 100

(d) Revenue is earned when goods have been delivered (1m) or services have been provided. (1m)

(e) If rent income receivable was not adjusted,

Rent income receivable  $\downarrow$ 2200  $\rightarrow$  Current asset  $\downarrow$ 2200

Rent income  $\downarrow 2200 \rightarrow Profit \downarrow 2200$ 

Profit: understated by \$2 200. (1m)

Asset: understated by \$2 200. (1m)

## 3(a) Shaggy sells goods on credit to Rogers.

	Books of Shaggy's business		Books of Rogers's business	
	Account to be debited	Account to be credited	Account to be debited	Account to be credited
Invoice	Trade receivable- Rogers	Sales revenue	Inventory	Trade payable- Shaggy
Credit note	Sales returns	Trade receivable- Rogers	Trade payable- Shaggy	Inventory

## (b)

Cash transaction	Credit transaction		
A business activity whereby immediate	A business activity whereby payments is		
payment is made. (1m)	postponed to a later date. (1m)		

## (c)

2022	Effects of transactions on			
	Assets (\$)	Liabilities (\$)	Owner's equity (S)	
21	-10800 (Cash at bank) (1m)	No effect	-10800 (Drawings) (1m)	
25	-125 (Cash at bank) (1m)	No effect	-125 (Bank charges) (1m)	
30	+7100 (Cash at bank) (1m) -7250 (Trade receivable- Furballs Café) (1m)	No effect	-150 (Discount allowed) (1m)	