

Issued share capital (100 000 ordinary shares)	150000	
Retained earnings	10530	
Sales revenue	129920	
Sales returns	9500	
Inventory	22980	
Rental income	1250	
Trade payables	13740	
Trade receivables	20410	
Cost of sales	31480	
Salaries expenses	22960	
Interest on loan	1100	
Cash at bank	25720	
Rental expenses	30500	
Fixtures and fittings, at cost	60200	
Motor vehicles, at cost	120000	
Accumulated depreciation:		
Fixtures and fittings	2910	
Motor vehicles	16500	
8% bank loan (repayable 30 September 2024)	20000	
	344850	344850

Inventory	3800	8600
Prepaid expenses	4500	7300
Trade receivables	5550	11620
Cash in hand	1600	900
Cash at bank	13600	-
CA	29050	28420
Bank overdraft	-	6200
5 year Bank loan	20 000	16 000
Current portion of long-term	-	4000
Trade payables	4400	10800
CL	4400	21000
		12520
WC Ratio	6.60	1.35
Quick Ratio	4.72	0.60

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Statement of Financial Performance for the year ended 31 December 2021

	\$	\$	
Sales Revenue	129,920		1
Less: Sales Returns	9,500		1
Net sales Revenue		120,420	
Less: Cost of sales		31,480	1
Gross Profit		88,940	1
<u>Add: Other Income:</u>			
Commission income		1,600	2
<u>Less: other expenses</u>			
Salaries expense (22960+2040)	25,000		2
Interest Expense (8% x 20000)	1,600		2
Rental Expense (30500-1900)	28,600		2
Depreciation of fixtures and Fittings (60200 x	6,020		2
Depreciation of motor vehicles (120000-16500)	20,700		2
Impairment loss on trade receivables (800+410)	1,210	83,130	2
Profit for the year		7,410	18

Statement of Financial Position as at 31 December 2021

<u>Assets</u>			
<u>Non-current assets</u>	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
			,mn
<u>Fixtures and Fittings</u>	60,200	8,930	51,270
Motor vehicle	120,000	37,200	82,800
Office Equipment			134,070
<u>Current assets</u>			
Trade receivables (20410-410)	20,000		1
Less: Allowance for impairment on trade receivab	800		
Net Trade receivables		19,200	1
Inventory		22,980	1
Rental expense prepaid		1,900	1
Rental income receivable		350	1
Cash at bank (25720+80000)		105,720	150,150
Total assets			284,220
<u>Equity and liabilities</u>			
<u>Shareholders' equity</u>			
Share Capital 150 000 Ordinary Shares		230,000	1
Retained Earnings (10530+7410-7500)		10,440	2
Total Shareholders Equity		240,440	
<u>Non-current liabilities</u>			
Long-term borrowings (20000-5000)		15,000	1
<u>Current liabilities</u>			
Trade Payables		13,740	1
Salaries expense payable		2,040	1
Interest expenses payable (1600-1100)		500	1
Current portion of long term borrowing		5,000	1
Dividends Payable		7,500	28,780
Total equity and liabilities			284,220

SPS Prelim 2022 Paper 2				
Q 2				
a (i)	Dr Cash @ hand			1
	Cr Sales revenue			
(ii)	Dr Trade receivables			1
	Cr Sales revenue			
b				
Journal				
(i)	Date	Dr	Cr	
	2021	\$	\$	
	Jul 04 Allowance for impairment on trade receivables	1620		
	Brandon		1620	2
(ii)	31-Dec Allowance for impairment of trade receivables	475		
	Impairment loss on trade receivables		475	2
c				
Statement of Financial Performance for the year ended 31 December 2021				
	Other expenses			
	Reversal of impairment loss on trade receivables		(475)	2
d i	an estimate of debts that may be uncollectable and is deducted from trade receivables			1
d ii	the change in allowance for impairment of trade receivables and is treated as an expense			1
e	the customers current debt obligations to determine the customer's ability to pay			2
	References on the customers history of repayment			
	economic and specific industry outlook			12
Q 3 a	Liquidity - ability of the business to pay for short term debts when they are due			1
Q 3 bi	Current Ratio:28420/21000		1.35	1
3 b ii	Quick Ratio: 12520/21000		0.60	1
3 c	The current ratio has deteriorated from 6.60 in 2020 to 1.35 in 2021 and is below the acceptable norm of 2.			1
	The quick ratio has deteriorated from 4.72 in 2020 to 0.60 in 2021 and is below the acceptable norm of 1.			1
	The cash at bank balance has also deteriorated from a bank balance of \$13 600 to a bank overdraft of \$6 200.			1
	Inventory has also increased from \$3 800 to \$8 600 suggesting that the business is either overstocking or having difficulty sell its stock.			1
	Trade Payables has also increased from \$4800 to \$10 800 suggesting that the business is having difficulty paying its trade payables on time			1
	The trade receivables have also increased from \$5 500 to \$11 620 indicating that the business may be selling more on credit but having difficulty collecting the amount due.			1
3 d	The rate of inventory turnover has been declining and the days in sales inventory has been increasing over the three years			1
	The trend of both ratios suggest that the business has not been managing the inventory efficiently efficiently.			1
3 e	Reducing selling price of slow moving items			
	· Provide trade discounts to encourage customers to buy in bulk and build patronage.			2
	· Attract customers through regular sales promotion/marketing campaigns			13
	· Use technology to manage and improve levels of inventory management			
4a	Decision: Add Brew coffee			1
	Basic Point 1: Cost per sachet is \$0.4 when compared with New Towns \$0.5 per sachet			1
	Development 1: With a lower cost of \$0.1 per sachet, Brew Coffee can have a better Gross Profit margin if it sells at the same price as New Town.			1
	Basic Point 2: 20% discount is given for orders above 500 packets			1
	Development 2: The business need not overstock to get a trade discount.			1
	Basic Point 3: Has an expiry period of 1 year			1
	Development 3: Customers are assured that they can store for a longer period			
	Basic Point :Cash Discount: 8%/10 days & All outstanding balance must be settled within 30 days			
	Development : As the credit terms are better the business can have higher liquidity			1
	Decision: Add New Town coffee			1
	Basic Point 1: no preservatives are used.			1
	Development 1: This product will appeal to health conscious customers			1
	Basic Point 2: It is available in 4 varieties when compared with New Town's two varieties			1
	Development 2: More varieties may attract more customers resulting in higher sales revenue			1
	Basic Point 3: Several positive reviews especially from younger customers			1
	Development 3: This brand is favourable among the young who may have higher buying power			
	Favourable reviews is an assurance of quality			
4 b				
i	2021 Cumulative depreciation on all the motor vehicles that are in the business			1
	Jul 01			
ii	2022 depreciation on the motor vehicle sold			1
	Mar-31			
iii	Annual depreciation on the motor vehicles that are still in the business			1
	Jun-30			
c				1
	Prudence Theory			1
	· assets should not be overstated in value.			
	It should be recorded at an amount that is more realistic to its current disposable price.			
	Matching Theory - the cost of using a non-current asset, depreciation, must be matched with the income earned for the period to arrive at the profit.			2
d	Reducing Balance is more suitable for assets that fall in value the greatest in the initial years.			
e	According to the consistency theory the rate and method of depreciation cannot be changed as it would affect a fair comparison of the profit over the years.			1
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POA Prelims 2022 Paper 1

Q1	Cash at bank account			
Qa	Date	Dr+	Cr	Balance
	2022	\$	\$	\$
	Apr-30 Balance b/d			331 Dr 0.5
	Rental income (Correction)	9		1
	Insurance		450	1
	Dividends	780		1
	Krishiv (Unpaid cheque)		520	1
	Bank Charges	40		110 Dr 1
	May-01 Balance b/d			110 Dr 0.5

b	Bank Reconciliation Statement as at 30 April 2022			
			\$	
	Balance as per bank statement		-300 Dr	1
	Add: Deposits in transit-Ouji	640		1
	- Fawzan	770	1410	1
			1110	
	Less: Cheques not presented -Repairs		-1000	1
	Balance as per cash at bank account		110 Dr	1

c From the bank's point of view, deposits by customers into the bank is an amount owing by the bank to the customer. 1

d Current Asset (110 DR) 1
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Q 2	Inventory Account			
a	Date	Dr+	Cr-	Balance
	2022	\$	\$	\$
	Jul-01 Balance b/d			1500 Dr 0.5
	4 Cash at bank	1800		0.5
	10 Cost of sales		1500	0.5
	15 Cost of sales		1800	0.5
	19 Cost of sales	300		1
	23 Trimmen Traders	2400		0.5
	27 Trimmen Traders		150	2550 Dr 1
	Aug-01 Balance b/d			2550 Dr 0.5

b i Cost of sales: 1500+1800-300 \$3,000 1

b ii Net Sales Renenue: 3500+4500-750 \$7,250 1
Gp=4250

c	Journal			
	Date	Dr	Cr	
	2022	\$	\$	
	Jul-31 Impairment loss on inventory	130		
	Inventory		130	2

d i Gross Profit: No effect 1

ii Profit for the year: overstated by \$130 1

iii Total assets: overstated by \$130 1

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3 a	Journal			
	Date	Dr	Cr	
	2021	\$	\$	
	Feb-16 Rental	850		
	Capital		850	1
	28-Jun Drawings	6700		
	Cash at bank		6700	1
	yDec 31 Income Summary	8500		
	Capital		8500	1

3b	Capital			
	Date	Dr	Cr	Balance
	2021	\$	\$	\$
	Jan-01 Balance b/d			35000 Cr 0.5
	Feb-16 Rent expenses		850	1
	Dec-31 Drawings (300+6700)	7000		1
	Income Summary	8500		37350 Cr 1
	Jul-05			
	Jan-01 Balance b/d			37350 Cr 0.5

3 c Accounting Entity Theory 1

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Q 4 a (i) Salaries incurred: 64800-2500+4380 66680 2

ii Rent income earned: 9460-1100-930 7430 2

b Accrual Basis of Accounting 1

Expenses are recognised in the period that they are incurred reardless 1

Income is recognised in the period that they have been earned regardless 1

whether the amount has been received 1

c) Current liabilities 1

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