2023 5NA POA PRELIMS PAPER 1 ANSWERS

P1Q1 — 10

a Maverick Engineers Limited made a loss of $8000 and — 1
the total dividends declared during the year amounting to 15000 — 1
were transferred to the retained earning account. — 1

bi Shares that a company has issued to its shareholders and in return, it receives cash. — 1
ii Return on shareholders' interest in the company through distribution of profits to them. — 1
iii Accumulation of the company's past profit less declared dividends. — 1

c Extract of Statement of Financial Position as at 30 April 2023

		$	
Shareholders' Equity			
Share capital, 15000 ordinary shares [(10000x1.50)+(5000x1.70)]	23,500		2
Retained earnings (140250-8000-15000)	117,250		2
		140,750	

P1Q2

a Bradley's business sold motor vehicles with accumulated depreciation of $4800. — 1

b Matching theory — 1
Depreciation should be charged to match the cost of using the non-current asset during the period with the income that the non-current asset generated for the business during the same period to ensure accurate profit for the period. — 1

c Gain/Loss on sale of NCA = SP - (Cost - AD)
= 24000 - (30000-4800) — 1
=$(1200)
Loss $1200 — 1

d Dep 2023 = Dep old MV + Dep new MV
Cost old MV = 120000
AD old MV = 35850
Dep old MV = (120000-35850)x10%
=$8415 — 1
Dep new MV = 22680x10%x7/12
=$1323 — 1
Dep 2023 = Dep old MV + Dep new MV
=8415+1323
=$9738 — 1

e Extract of Statement of Financial Position as at 31 January 2023

Non-current assets	Cost ($)	Accumulated depreciation ($)	Net book value ($)	
Motor vehicles	142,680	(45,588)	97,092	2

P1Q3 — 10

a Accept any reasonable answer. — 1
To optimise its resources. Instead of using up its resources to pay for the item, it can delay the payment. E.g. a business buys goods on credit may pay for the goods after they have sold them at a profit.

b

Date	Particulars	Dr ($)	Cr ($)	
2022				
1-Mar	Inventory (+A)	6,535		1
	Marketing expense (+E)	265		1
	Trade payables (+L)		6,800	1

c Cost of sales = Cost Mar 1 + Cost Apr 8
= 6535 (b) + (4300x98%)
=$10 749 — 1

d Ending inventory = Cost Aug 12 + Cost Nov 3
= 4000+4100
=$8100 — 1

e ROIT = Cost of sales/Av. Inventory
= 10749/[(8100+0)/2] — 1 OF
= 2.65 times — 1

f The rate of inventory turnover for Penelope Storytime of 2.65 times was worse than Benjamin Reads of 3.74 times. — 1 OF
This indicates that Penelope Storytime took longer to sell its inventory and replenished its inventory less often. — 1 OF
Hence, Penelope Storytime is less efficient in inventory management.

P1Q4 10

a Difference in purpose:

A bank loan is a fixed amount borrowed from the bank usually for a specific purpose e.g. to buy non-current assets or to expand the business. 1

A bank overdraft is a situation where the bank allows the business to pay out more than the amount that it had deposited up to an agreed limit with the bank to overcome a temporary cash shortage. 1

OR Difference in repayment duration

A bank loan is usually repayable over a few years.

A bank overdraft must usually be settled within one accounting period

b Loan repayment = 50000/10 = $5000

Outstanding loan after Y1 = 50000-5000 = $45000

Interest on loan

Y1 = 2% x 50000 = $1000

Y2 = 2% x 45000 = $900

<u>Loan usage for 2022 (Y2)</u>

Before repayment = 3 months (1 Jan - 31 Mar)

After repayment = 9 months (1 Apr - 31 Dec)

EOY adj = interest expense payable

= 9/12 x 900

= $675

Interest expense incurred Y2 = 3 months Y1 interest + 9 months Y2 interest

= 3/12x1000 + 9/12x900

= $925

Date	Particulars	Dr ($)	Cr ($)	
2022				
Dec-31	Interest expense (+E) (9/12 x 900)	675		1
	Interest expense payable (+L)		675	1
Dec-31	Income summary (3/12x1000 + 9/12x900)	925		2
	Interest expense (-E)		925	1

ci Interest expense understated $1000. 1

Profit overstated $1000. 1

ii Non-current liabilities overstated $1000. 1