

Prelim Examination 2022
Sec 4E5N P1 Answer Key

- 1 (a) (i) Retained earnings is the accumulation of profits that has not been distributed to shareholders. [1]
(ii) Dividends are profits distributed to the shareholders based on the amount declared. [1]

(b)

Particulars	Debit \$	Credit \$
Cash at bank (\$2.50 X 50 000 shares)	125 000	
Share capital		125 000

[2]

(c)

Retained earnings

Date	Particulars	Dr \$	Cr \$	Bal \$
2021				
Aug 1	Balance b/d			*143 600 Cr
2022				
Jul 31	Dividends (\$0.03 X 250 000) [1]	7 500		136 100 Cr
Jul 31	Income summary [1]		22 790	158 890 Cr
Aug 1	Balance b/d *[1OF]			*158 890 Cr

(d) Either 1 of the following : [2 marks]

Features	Sole Proprietorship (SP)	Private Limited Company (PLC)
Ownership	Owned by one person who contributes capital to set up the SP.	Owned by 50 or less shareholders where each shareholder buys shares and contributes capital.
Access to funds	Less likely for banks and other lenders to lend money to the SP due to the lack of personal assets that can serve as collaterals. Hence, access to funds is usually limited to the personal funds of the owner.	More likely for banks and other lenders to lend money to the PLC as there are more business assets of high value to serve as collaterals. Alternatively, the company may issue more shares to raise funds.
Extent of liability	When the SP incurs debts and losses, the sole owner is obliged to pay them using his personal assets.	When the company incurs debts and losses, shareholders are not obliged to pay them using their personal assets and may not receive dividends. In the worst-case scenario, they will only need to forfeit their investments.
Level of control	The only owner usually runs the business by himself and has absolute control over it. The owner may hire professionals to help him.	The shareholders have no control over the running of the business unless they are part of the management team. The company hires professionals to manage the business on behalf of shareholders.
Lifespan	The SP exists as long as the owner is alive and desires to continue operation.	The PLC exists forever until wound up or struck off.
Transferability of ownership	The sole owner can easily update the particulars of the new owner to notify the corporate regulatory authority of the transfer of ownership.	Shareholders can pay a stamp duty to the tax authority to give their shares to another person or organisation.
Formalities and procedures	The SP has minimal administrative duties to adhere to.	The PLC must comply with statutory requirements and file its annual financial reports.

[Total: 9]

2 (a) Cost of sales for May 2021 = \$9 900 + \$7 300 = \$17 200 [1]

(b) Gross profit = \$42 000 – \$17 200 = \$24 800 [10F]

(c) Any 1 of the following: [1]

- Nature of product
- Types of storage
- Customer preference
- Customer review of product quality

(d) Prudence theory [1] states that inventory is recorded at lower of cost and net realisable value so that not to overstate profits or assets. [1]

(e) If the damaged inventory was not adjusted.

Effect on	Understated	Overstated	No effect
Current asset		✓	
Income			✓ [1]
Profit		✓ [1]	

[2]

(f) [Any 5 - 5marks]

1. Funzone's rate of inventory turnover has **improved** from 17 times in 2020 to 20 times in 2021.
Or
Funzone's days sales in inventory has **improved** from 21.47 days in 2020 to 18.25 days in 2021. [1]
2. This means that Funzone has become **more efficient in managing its inventory** and is taking a **shorter time to sell its inventory** in 2021. [1]
3. Happy Land's rate of inventory turnover has **worsened** from 17 times in 2020 to 15 times in 2021.
Or
Happy Land's days sales in inventory has **worsened** from 21.47 days in 2020 to 24.33 days in 2021. [1]
4. This means that Happy Land has become **less efficient in managing its inventory** and is taking a **longer time to sell its inventory** in 2021. [1]
5. In 2021, Funzone's rate of inventory turnover (20 times) is **better** than Happy Land's (15 times). This is in line with the **better** days sales in inventory of Funzone's (18.25 days) compared to Happy Land's (24.33 days). [1]
6. This means that **Funzone is more efficient** than Happy Land **in managing its inventory** and is taking a **shorter time** to sell its inventory. [1]

[5]

[Total: 12]

3 (a) (i) Assets refer to resources a business owns or controls that are expected to generate future benefits. [1]

(ii) Liabilities refer to obligations owed by a business to others that are expected to be settled in the future. [1]

(b) Total assets
 = \$4 500 + \$8 900 - \$1 335 + \$8 000 - \$1 900 + \$30 000
 = \$48 165 [½]

Total liabilities
 = \$2 000 + \$360
 = \$2 360 [½]

Capital = Assets – liabilities
 = \$48 165 - \$2 360
 = \$45 805 [1]

(c)

Energy Waterway

Statement of financial position as at 31 December 2022

<u>Current liabilities</u>		\$
Current portion of long term borrowings (\$30 000/5)	[1]	6 000
Interest expense payable (\$30 000 X 2% X 5/12)	[1]	250

[2]

(d) Any 1 of the following: [2 marks]

	Bank loan	Bank overdraft
Amount of borrowing	Amount borrowed is fixed.	Amount borrowed is not fixed but it must not exceed limit agreed with the bank.
Transference of cash	Cash is transferred to the business.	No cash is transferred to the business. Business withdrew more than what is deposited in its bank account.
Repayment	Usually regular fixed cash repayments to reduce the amount borrowed. Sometimes the business is allowed to pay off entire amount only at the end of loan period.	No cash repayment. Any deposit into the bank account reduces the amount borrowed.
Double entry recording	Loan from bank account is credited	Reflected as a credit balance of the cash at bank account
Classification in statement of financial position	Shown as long term borrowing under non-current liabilities.	Shown as bank overdraft under current liabilities.

(e) Accrual basis of accounting [1]

- Interest expenses should be recognised in the year incurred when the benefits of the loan was enjoyed, regardless of whether they have been paid or not. [1]
- OR
- Business activities that have occurred, regardless whether cash is paid or received, should be recorded in the relevant accounting year. [1]

(f)

Effect on	Understated	Overstated	No effect
Expense	✓		
Current liability	✓ [1]		
Profit		✓ [1]	

[Total: 12]**4 (a)** Any 1 of the following: [1 mark]

- Wrong amount is recorded.
- The transaction is not recorded at all.
- The transaction is recorded in the wrong account of a different accounting element.
- The transaction is recorded in the wrong account of the same accounting element.
- The transaction is recorded on the wrong sides of the accounts involved.

(b) Cash discount is given to encourage credit customers to pay promptly, within a specific date. [1]**(c)**

Error	Particulars	Debit \$	Credit \$
1	Cash at bank (963 - 936) [1]	27	
	Discount received [1]		27

[2]

(d)

Statement to show adjusted profit for the year ended 31 July 2022	
Profit for the year before correction of errors	\$ 9 700
Error 1 [1]	27
Error 2 (213 -123) [1]	90
Adjusted profit for the year [1OF]	9 817

[3]

[Total: 7]