Deyi Secondary School Principles of Accounts Secondary 4E5NA Prelim Exam 2022

Loss for the year

Mark Scheme : Paper 2

(37 050)

Question 1

1(a) **[10]**

Karen Tours Statement of financial performance for the year ended 31 March 2022 \$ \$ Service fee revenue 55 140 **[1]** Other income: Commission income (\$3 000 - \$600) 2 400 [1] 57 540 Less: Other expenses Depreciation of office equipment 19 500 **[1]** Depreciation of motor vehicles 15 900 **[1]** Interest expense (\$5 000 + \$4 500) 9 500 [1] Wages and salaries (\$2 400 + \$9 000) 11 400 **[1]** Rent expense (48 000 - \$9 600) 38 400 [1] Reversal [1] of impairment loss on trade receivables (1 310) [1] General expense 1 200 [1] 94 590

Karen Tours Statement of financial position as at 31 March 2022

	\$ Cost	\$ Accumulated	\$ Net Book
		Depreciation	Value
Assets			
Non-current assets			
Office equipment	195 000	79 500 (60 000 + 19 500)	115 500 [1]
Motor vehicles	190 000	99 900 (84 000 + 15 900)	90 100 [1]
			205 600
Current assets			
Trade receivables (\$20 700 - \$800)	19 900		
Less: Allowance for impairment of trade receivables (\$4 100 - \$800 - \$1 310)	(1 990)	17 910 [1]	
Prepaid rent expense		9 600 [1]	
Cash in hand		3 200	30 710
Total Assets			236 310
Fauity and liabilities			
Shareholder's equity			
Share capital, 100 000 ordinary shares		100 000	
Retained earnings (\$53 160 -\$3 000 – 37 050)		13 110 [1]	113 110
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Non-current liabilities			
Long-term borrowings (95 000 – 19 000)			76 000 [1]
Current linkilition			
		40.400	
Trade payables		19 100	
Commission income received in advance		600 [1]	
Interest expense payable		4 500 [1]	
Dividend payable		3 000 [1]	
Bank overdraft (\$8 000 - \$9 000)		1 000 [1]	
Current portion of long-term borrowings		19 000	47 200
Total equity and liabilities			236 310

Question 2

2(a) [5]

Cash at bank account

Date	Particulars	Dr \$	Cr \$	Balance \$
2022				
Apr 30	Balance b/d			10 006 Cr
	Trade payable Sammy (correction of error)	18 [1]		9 988 Cr
	Insurance expense		105 [1]	10 093 Cr
	Trade receivable- Gilbert Retailer (dishonoured cheque)		1 776 [1]	11 869 Cr
	Trade receivable-Cliff Success	1 776 [1]		10 093 Cr
May 1	Balance b/d			10 093 Cr

2(b) [4]

Marcus Trading Bank Reconciliation Statement as at 30 April 2022

		\$	\$
Balance	e as per bank statement		(12 731) [1]
<u>Add:</u>	Deposit in transit		
	Trade receivable -Nic & Tom Trading		7 780 [1]
			(4 951)
Less:	Cheques not yet presented		
	Repair expense	672 [1]	
	Salaries	4 470 [1]	5 142
Adjuste	d balance as per cash at bank account		(10 093)
		-	

2(c) [1] Adjusted profit = \$9 320 - \$105 = **\$9 215 [1]**

2(d) [1]

On 1 May 2021, Marcus Trading recorded a reverse entry for insurance expense paid but not yet incurred last year. The amount will be added to the current year's insurance expense. [1].

2(e) [1]

Insurance expense incurred for the year ended 30 April 2022:

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$900 + $4 000 + $300 + $800 = $6000 [1].
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2(f) [1]

Accrual basis of accounting concept states that income is recorded in the financial period when it is earned, regardless of when it is received. Expenses are recorded in the financial period that they are incurred, regardless of when payment is made. [1m for complete correct answer]

OR

Matching theory states that expenses must be matched against income earned in the same period to determine the profit for that period. [1m for complete correct answer]

2(g) [2]

Date	Particulars	Dr \$	Cr \$				
2022							
 May 1	Insurance expense payable	800 [1]					
	Insurance expense		800 [1]				

General Journal

Timeline:

1 May 202 OE: \$4500 Acc Depn	2 0 20 20 : \$980	0		Nev	28 I w OE	-ebru (Unit /	ary 20 A): \$14	21 4000	Dep Dep	30 April 2021 n (existing) = \$5 280 n (Unit A) = \$2 100	0
										··· (•·····) ••= ···	

1 May 2021

OE: \$59 000 Acc Dep: 9800 +5280+2100

30 April 2022

Depn (existing) = \$19 568 Depn (Unit A) = \$1 785 Depn (Unit B) = \$780

New OE (Unit B) \$5 200 (1 Jul 2021)

Working:

End of Year	Depn	Remarks
2021 Mar 30	Depreciation for existing= 15% x (45 000 – 9 800) = \$5 280	Acc. Depn (existing) = 9 800 + 5 280 = \$15 080
	Depreciation for Unit A= 15% x 14 000 x 2/12= \$350	Acc. Depn (Unit A) = \$350
	Depn for 30 April 2021 = \$5 280 + \$350 = \$5 630	
2022 Mar 30	Depreciation for existing= 15% x (45 000 – 9 800 – 5 280) = \$4 488	Acc. Depn (existing) = 9 800 + 5 280 + 4488 = \$19 568
	Depreciation for Unit A= 15% x (14 000 – 350) = \$2 048	Acc. Depn (Unit A) = \$350 + \$2 048= \$2 398
	Depreciation for Unit B= 15% x 5 200 x 10/12= \$650	Acc. Depn (Unit B) = \$650
	Depn for 30 April 2022 = \$4488 + \$2 048 + \$650 = \$7186	

3(a) [2]

Depreciation for 30 April 2021 = \$5 280 + \$350 = \$5630 [1]

Depreciation for 30 April 2022= \$4 488 + \$2048 + \$650 = **\$7 186 [1]**

3(b) Non- current assets will be overstated. [1]

3(c) [2]

(i) Current assets = \$10 000 + \$15 000 + \$800 = \$25 800

Current liabilities = \$3 500 + \$200 + \$6 800 = \$10 500

Current ratio = 25 800 / 10 500 = **2.46 [1]**

(ii) Quick assets = \$10 000 Current Liabilities = \$3 500 + \$200 + \$6 800 = \$10 500

Quick ratio = 10 000 / 10 500 = **0.95 [1]**

3(d) [7]

SA Design's <u>current ratio</u> of 2.46 is better than Great Design's current ratio of 1.75. This means that SA Design has increased excess of current assets over current liabilities [1].

This could be due to SA Design having more inventory, trade receivables that Great Design. [1]

But since both businesses' current ratios are above the general benchmark of 2, this suggests that both businesses have sufficient current assets to meet their short-term commitments. **[General Info]**

However, SA Design's **<u>quick ratio</u>** of 0.96 is worse than Great Design's of 1.12 This means than SA Design has lesser quick assets to cover its immediate debts**[1]**.

This could due to higher inventory held by SA Design which resulted in the business having lesser liquid assets to pay off its short term debts. **[1]**

SA Design's quick ratio is below the general benchmark of 1 while Great Design's is above the benchmark. **[General Info]**

In terms of <u>cash</u>, SA Design is in a worse position that Great Design due to its bank overdraft of \$3 500. [1] This indicates that SA Design will have problem paying its immediate debts and operating expenses on time [1]

In conclusion, SA Design's liquidity is worse than Great Design's for the year ended 30 April 2022[1]

3(e) [2]

SA Design's rate of trade receivables turnover of 23.25 times is worse than Great Design's rate of trade receivables turnover of 34 times. This means that SA Design is less efficient [1] in collecting outstanding amount from trade receivables and use the funds to to pay for its immediate debts and operating expenses [1]

SA Design should consider the following to improve its efficiency in the management of its trade receivables:

- Offer cash discount
- Charge interest for all overdue amount
- Offer different credit limit to different customers, based on repayment records.

[1m for any of the following points]

Question 4

4(a) [4]

Trade payable – Focus Trading

Date	Particulars	Dr \$	Cr \$	Balance \$
2022				
Jun 1	Balance b/d			3 200 Cr
11	Inventory		2 945 [1]	6 145 Cr
15	Cash at bank	2 800		3 345 Cr
	Discount received	400 [1]		2 945 Cr
29	Interest expense		50 [1]	2 995 Cr
30	Inventory (return)	475 [1]		2 520 Cr
Jul 1	Balance b/d			2 520 Cr

4(b) [7]

Joseph Security should buy from Genesis Ausie. [1]

[Any 3 basic statements and developments below]

Genesis Ausie provides lower delivery cost if Joseph Security is able to order the security cameras in larger batches since it offers free delivery for 100 units or more, compared to Aimee Trading that charges a flat rate of \$100 [1m for basic statement 1]. The savings will reduce the cost of sales and increases profit for Joseph security [1m for development].

The average list price from Genesis Ausie is \$1 200 and is \$100 lower that Aimee Trading's list price **[1m for basic statement 2].** The lower cost will leave more cash for Joseph Security to spend on other operating expenses of the business **[1m for development]**.

Genesis Ausie allows longer repayment period of 45 days compared to 30 days from Aimee Trading [1m for basic statement 3]. This will allow Joseph Security to have more liquidity for longer period and can use the cash to pay for more urgent expenses of the business. [1m for development].

Genesis Ausie allows hassle-free refund within 14 days compared to Aimee Trading's nonguaranteed refund policy that requires submission of supporting documents **[1m for basic statement 4].** Genesis Ausie's policy gives Joseph Security more flexibility when managing its inventory. It will also better serve its customers in the event they want to change their order. This will increase overall customers' satisfaction **[1m for development]**.

Genesis Ausie has a better reputation of 4.7 starts than Aimee Trading's of 3.8 stars **[1m for basic statement 5]**. This shows that Genesis Ausie is more trusted and will be able to provide better quality goods and service to Joseph Security **[1m for development]**

Joseph Security should buy from Aimee Trading. [1]

Aimee Trading is a local business while Genesis Ausie is based in Australia. [1m for basic statement 1].

Development of basic statement 1:

This will make it easier for Joseph Security to view the goods and seek face-to-face clarifications on any of the products [1] **OR**

In the event that there are disputes, they could be settled more promptly too. This will help Joseph Security to be more efficient when attending to customer's queries and increase overall customer's satisfaction. [1] **OR**

Goods might take longer to arrive from Australia if buying from Genesis Ausie. [1]

Aimee Trading provides a higher cash discount of 6% within 25 days instead of Genesis' 3 % within 40 days **[1m for basic statement 2].** This is will be a significant saving if outstanding amounts are large and will increase the overall liquidity and profitability for Joseph Security **[1m for development]**.

Aimee Trading allows replacements of goods compared to Genesis Ausie's no replacement policy **[1m for basic statement 3].** Joseph Security will be able to provide better service to its customers in the event that its customers are not satisfied with their purchases and request for replacement. This will help to increase Joseph Security's customer base. **[1m for development].**

END OF MARKING SCHEME