PRELIM 2023
Principles of Accounts
4E5N P2

Table of Specifications (60 m)

Q		knowledge with understanding	Knowledge with application	Analysis	Evaluation	Total
1a 1b	C5: Financial statements with adjustments for Sole Proprietorship		10	10		20
2a	C6: define income receivable & expense payable	2				
2b	C6: recognition of income	1				
2c	C6: calculate rent income		2			
2d	C7: journal to adjust expense payable		2			
2e	C7: accrual basis of accounting	2				
2f	C11: Examples of non-accounting info	2				11
3a	C16 – Caluclate profitability ratios			4		
3b	C16 – Comment on profitability				6	
3c	C14 – prepare retained earnings a/c		3			13
4a	C12 – interpret trade payable ac/		2			
4b	C9 – effect of inventory decision on gross profit, profit, current assets			5		
4c	C9 – accounting theory applied in inventory	2				
4d	SBQ: Trade receivables				7	16
P2		9	19	19	13	
Total		9 %	19 %	19 %	13 %	60 %
P1		15	12	8	5	

PRELIM 2023
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4E5N P2 Answer Key

Q1a

Giri Store
Statement of Financial Performance for the year ended 30 June 2023

Sales revenue	132,990		
Sales returns	2,220		
Net sales revenue		130,770	[1]
Cost of sales		51,150	
Gross profit		79,620	[1]
Add: Other income			
Rental income (12,440 + 2,320)	14,760		[1]
Discount received	720	15,480	
Less: Other expenses			
Interest on bank loan	2,160		[1]
Salaries [28,400 + 650]	29,050		[1]
Insurance [2320/16 x 12]	1,740		[1]
General expense	570		
Repairs and maintenance	860		
Impairment loss on trade receivables (reversal) [500 - 3% x 15600]	(44)		[1]
Depreciation on office equipment [20% x 54,500]	8,500		[1]
Depreciation on motor vehicles [25% x (128,000 - 46,080]	16,384		[1]
Advertising expense	500	59,720	[1]
Profit for the year		35,380	

[10]

CamScanner

Q1b

Giri Store
Statement of financial position as at 30 June 2023

	Cost	Accum Deprec	Net book value	
Assets	$	$	$	
Non-current assets				
Office equipment	42,500	25,500	17,000	[1]
Motor vehicles	128,000	62,464	65,536	[1]
	170,500	87,964	82,536	
Current assets				
Trade receivables [25,600 - 450]	25,150			
Less: Allowance for impairment of trade receivables	1,006	24,144		[1]
Inventory [21,340 - 500]		20,840		[1]
Prepaid insurance		580		[1]
Rental income receivable		2320		[1]
			47,884	
Total assets			130,420	
Equity and liabilities				
Owner's equity				
Capital [49,330+35,380-4,190]			80,520	[1]
Non-current liabilities				
Long-term borrowing			36,000	[1]
Current liabilities				
Bank overdraft		1,210		
Trade payables		11,880		
Salaries expense payable		650		[1]
Interest on mortgage loan payable		160	13,900	[1]
Total equity and liabilities			130,420	

[Total: 20]

Q2a (i)
Income receivable refers to the income which a business has earned but has not collected for the current financial year. [1]

Q2a (ii)
Expense payable refers to the expenses which a business has incurred but has not paid in the current financial year. [1]

Q2b
It will be recognized in the period the services are rendered and earned. [1]

Q2c
Rent income earned
= 24,800 + 1,530 + 1,190 [1]
= $27,520 [1]

Q2d

Journal

Date	Particulars	Dr $	Cr $	
2023				
April 30	Salaries expense	450		[1]
	Salaries expense payable		450	[1]

Q2e
Accrual basis of accounting [1]
-states that all income earned whether, received or not, should be reported and all expenses incurred, whether paid or not, should be recorded. [1]

Q2f
-features of motor vehicles eg automatic parking, safety features
-warranty
-customer's reviews on vehicle performance eg fuel consumption,
[any 2 points – 1m each] [2]

[Total: 11]

Q3a

	2022 $	2023 $
Net sales revenue	**152 400**	**174 000**
Cost of sales	84 000	95 500
Gross profit	68 400	78 500
Operating expenses	39 600	47 500
Profit for the year	**28 800**	**31 000**
Gross profit margin = Gross profit/net sales revenue x 100	68,400/152,400 x 100 = 44.88 % **[1]**	78,500/174,000 x 100 = 45.11 % **[1]**
Profit margin = Profit/net sales revenue x 100	28,800/152,400 x 100 = 18.90 % **[1]**	31,000/174,000 x 100 = 17.82 % **[1]**

Q3b

Joey Pte Ltd's gross profit margin improved from 44.88 % in 2022 to 45.11 % in 2023 by 0.23%. [1]

The business earned more gross profit per dollar of net sales revenue in 2023. [1]

The business has either set higher selling prices for its goods or it bought its goods at a lower cost price.

[1]

Joey Pte Ltd's profit margin worsened from 18.90 % in 2022 to 17.82 % in 2023 by 1.08%.

[1]

The business earned profit per dollar of net sales revenue in 2023. [1]

Though the business enjoyed better gross profit margin in 2023, its profit margin worsened in 2023.

The business faced higher operating expenses in 2023 resulting from poorer operating efficiency. [1]

Overall, Joey Pte Ltd is less profitable in 2023 than in 2022. [1]

Q3c

Retained earnings account				
Date	Particulars	Dr $	Cr $	Bal $
2022				
July 1	Balance b/d			215,500 Cr
2023				
Jun 30	Dividends [300,000 x 0.12] **[1]**	36,000		
Jun 30	Income summary **[1]**		31,000	220,500 Cr
July 1	Balance b/d **[1]**			220,500 Cr

[Total: 13]

Q4a
On 26 April 2023 Sachin paid supplier Marcus $7,760 by cheque **[1]**
after receiving a cash discount of $240. **[1]**

Q4b (i) [1]
No effect

Q4b (ii)
Profit is overstated [1]
by $1,250 [1]

Q4b (iii)
Current assets is overstated [1]
by $1,250 [1]

Q4c
Sachin violated the prudence theory. [1]
-which states that all assets and profits should be understated rather than overstated.
Sachin should have adjusted the inventory value to its net realisable value. [1]

Q4d
Sachin should extend a longer credit period to Cas. [1]

Cas has a **larger trade receivable balance of $30,500** which is double of Nat's trade receivable balance, showing that she is a **relatively more important credit customer** to Sachin. Sachin should extend the longer credit period to Cas to sustain the business relationship. [2]

Cas has a **longer business history**. Her business started in 1990, 30 years earlier than Nat who started in 2020. As such, she will probably have better and more established business relationships with her customers, ensuring more stable sales revenue. This in turn will help Sachin ensure stability of sales revenue. [2]

Cas supplies her goods to customers in the household and vehicle industries with **a high and stable demand unlike Nat whose customers face unstable demand.** Cas will continue to sell her goods well and enjoy a **more stable cash flow.** Once Sachin extends the credit period, she will be able to meet payment on time. [2]

[any 3 reasons]

Sachin should extend a longer credit period to Nat. [1]
Nat has a **better credit history**, the **number of late payments she made was only two** whereas Cas committed five late payments. [2]
or
Nat has a **better credit history**, **her average collection period is 27 days**, three days earlier than Cas. The risk of her making **late payments** after the credit extension will be lower than Cas which may will help business reduce any loss from non-collection of debts. [2]

The **economic outlook in Vietnam is better** than in Malaysia. **Vietnam's economy is projected to grow at 6.3%, which this is 1.8% better than Malaysia.** Nat's business is likely to prosper better than Cas with a more positive outlook in Vietnam. By extending the credit period to Nat, Sachin will be able to benefit from a higher sales volume from Nat. [2]

The **financial risk** of extending a longer credit period to Nat is lower than to Cas as her **trade receivable balance is $15,200, half the amount owed by Cas.** Should Nat's debt become uncollectible, Sachin will not face a large financial loss. [2]

[any 3 reasons]

[Total: 16]