

Marking Scheme
2022 Prelims P1 Sec 5NA

- 1 Wanda runs Scarlet Witch Bakery. She rents a shop to expand her business. Her business has a financial year end of 31 March. The following information has been provided.

Rent expense account

Date	Particulars	Debit \$	Credit \$	Balance \$
2021				
Apr 1	Rent expense payable		600	600 Cr
2022				
Jan 31	Cash at bank	30 500		29 900 Dr
Mar 31	Prepaid rent expense		5 900	24 000 Dr
31	Income summary		24 000	

REQUIRED

- (a) Interpret the entries on the following dates.

- (i) 1 April 2021

Rent expense payable of \$600, incurred for the year ended 31 March 2021/ previous financial year, was reversed and deducted from rent expense in the current year. [1]

- (ii) 31 March 2022

\$5900 of rent expense which was paid in advance but not yet incurred was deducted from the rent expense account in the current year. [1]

Scarlet Witch Bakery/ The business incurred rent expense of \$24000 and the amount is closed/transferred to income summary account. [1]

On 1 April 2021, Scarlet Witch Bakery has \$800 of commission received in advance.

During the year ended 31 March 2022, the business received cheques amounting to \$4 200 for commission income.

On 31 March 2022, the business still has not received \$1 200 of commission income earned.

REQUIRED

- (b) Calculate the amount of commission income earned for the year ended 31 March 2022. Show your workings clearly.

Commission income earned = -800 (commission received in advance) [1] + 4200 (commission received) [1] + 1200 (commission receivables) [1] = 6200

- (c) Prepare journal entries to adjust the commission income for the year ended 31 March 2022. A narration is **not** required.

Journal			
		Debit \$	Credit \$
2022			
Mar 31	Commission receivables	1200 [1]	
	Commission income		1200 [1]

- (d) State and explain the accounting theory that is applied when adjusting the commission income for the year ended 31 March 2022.

Name: Accrual basis of accounting theory [1]

Explanation: Income is recorded when it is earned regardless of whether cash has been collected or not. Since commission income is earned although cash has not yet received, it has to be recorded. [1]

OR

Name : Matching theory [1]

Explanation: Income earned is matched against the expense incurred so that profit can be calculated. Since commission income is earned, it has to be recorded. [1]

[Total:10]

- 2 The following trial balance was extracted from the books of Dr Strange Ltd on 31 July 2022.

	\$
Sales revenue (I)	51 500
Cost of sales (Ex)	25 600
Motor vehicles (A)	29 700
Bank overdraft (L)	2 900
Share capital (Eq)	10 000
Trade receivables (A)	8 100
Trade payables (L)	2 400
Commission income (I)	300
Motor vehicle expenses (Ex)	5 700
Retained earnings (Eq)	2 000

The following errors were discovered after the trial balance was prepared.

- 1 Payment of \$150 for motor vehicle expenses was charged to motor vehicles.
Dr (+) Motor vehicles expenses 150 Cr (-) Motor vehicles 150
- 2 Debit note of \$500 issued to a credit customer has not been recorded.
(undercharge – have to top up)
Dr (+) Trade receivables 500 Cr (+) Sales revenue 500
- 3 Commission received of \$540 had been debited to the commission income account and credited to the cash at bank account.
Dr (+) Cash at bank 540X2 Cr (+) Commission income 1080

REQUIRED

- (a) Explain the limitation of a trial balance.

A balanced trial balance is not an absolute proof of accuracy. There may be errors not revealed by trial balance. [1]

- (b) Complete the table to show the effect of the errors 1-3 on the profit for the year. Where there is no effect, tick (✓) the 'no effect' column.

The first one has been completed as an example.

	Profit is overstated \$	Profit is understated \$	No effect \$
Error 1	150		
Error 2		500 [1]	
Error 3		1080 [1]	

[2]

[Turn over

- (c) Prepare the adjusted trial balance as at 31 July 2022, after correction of errors.

Trial Balance as at 31 July 2022

	Debit \$	Credit \$
Sales revenue (I) (51500+500[1])		52000
Cost of sales (Ex)	25600	
Motor vehicles (A) (29700-150[1])	29550	
Bank overdraft (L) (-2900+1080[1])		1820
Share capital (Eq)		10000
Trade receivables (A) (8100+500[1])	8600	
Trade payables (L)		2400
Commission income (I) (300+1080[1])		1380
Motor vehicle expenses (Ex) (5700+150[1])	5850	
Retained earnings (Eq)		2000
#	69600	69600
# 1 mark awarded for correct total, format and all accounts are recorded in the correct column		

[7]

[Total:10]

- 3 Wong started his retail business, Sorcerer Supreme Gifts. On 1 July 2021, the business bought toys from an overseas supplier on credit. The following costs were incurred on the purchase of his first batch of books:

	\$
Cost of 30 toys	5 000
Import duties on toys	450
Salaries paid to workers hired to repack the toys	1 500
Expenses paid for marketing the toys	500

REQUIRED

- (a) Calculate the cost of purchases on 1 July 2021. Show all workings clearly.

$$\text{Cost of purchases} = 5000 + 450 + 1500 = 6950 \text{ [1]}$$

In the month of July 2021, the business also carried out the following cash transactions. The business records inventory movement using the First-In-First-Out (FIFO) method.

<u>Purchases</u>		<u>Sales</u>	
6 July	30 toys at \$5 500	14 July	30 books for \$8 500
13 July	40 toys at \$6 800	20 July	30 books for \$8 000

REQUIRED

- (b) Prepare the inventory account for the month ended 31 July 2021 and bring down the balance to the next month.

Inventory account

Date		Debit \$	Credit \$	Balance \$
2021				
July 1	Trade payables	6950 OF [1]		6950Dr
July 6	Cash at bank	5500	[1]	12450Dr
July 13	Cash at bank	6800		19250Dr
July 14	Cost of sales		6950[1]	12300Dr
July 20	Cost of sales		5500 [1]	6800Dr
Aug 1	Balance b/d			6800Dr

[4]

On 30 June 2022, the business discovered that some of the toys were damaged due to humidity. These toys now had a net realisable value of \$5 450. The cost of these toys was \$7 500.

Wong decides to report the inventory value as \$7 500 in the statement of financial position as at 30 June 2022.

REQUIRED

- (c) Evaluate if Wong is making the correct decision. Justify your answer with an accounting theory.

Wong is not making the correct decision. [1] (No mark is awarded if not supported by an explanation)

According to prudence theory, inventory is at cost and net realisable value, whichever is lower so that assets and profit will not be overstated. [1]

In this case, Wong should value the inventory at the net realisable value of \$5450. [1]

Karl, Wong's accountant, is afraid that he will be terminated if he does not agree with his employer's decision.

REQUIRED

- (d) Advise Karl on the correct course of action. Support your answer with a professional ethic of accounting.

Karl should not agree with his employer. [1] (No mark is awarded if not supported by an explanation)

An accountant should be objective, which mean he should not to let bias, conflict of interest or the undue influence of others to override professional judgement. [1]

[Total:10]

- 4 America Chavez is setting up a business selling designers' bags from Europe. She understands that there are three forms of business ownership. They are sole proprietorship, limited liability partnership and private limited company.

REQUIRED

- (a) Explain **one** difference between limited liability partnership and private limited company.

Category	Limited liability partnerships	Private limited company.
Ownership	Owned by two or more partners	Owned by 50 or less shareholders
Level of control	Control of running the business is shared among partners	Shareholders have no control over the running of the business
Access to funds	May get more persons to join as partners and contribute capital	May issue more shares to raise funds

Answer given must be based on the same category. 1 mark for each point

As a sole proprietor, America provided the following information for the year ended 30 April 2022.

		Capital		
		Debit \$	Credit \$	Balance \$
2021				
May 1	Balance b/d			19 000 Cr
Jul 18	Inventory		14 000	
2022				
Feb 1	Cash in hand		120	
Apr 30	Income summary	11 000		
30	Drawings	2 120		20 000 Cr
May 1	Balance b/d			20 000 Cr

REQUIRED

- (a) Interpret the entries on the following dates.

- (i) 18 July 2021
America (owner) bought goods worth \$14000 for the business using her personal funds.[1]

(ii) 30 April 2022

Loss for the year of \$1100 was transferred to/ deducted from capital [1].

Total withdrawals for the year made by America (owner) for her own personal use of \$2120 was transferred to/ deducted from capital.[1]

(b) Explain how the owner's equity changed from 1 May 2021 to 30 April 2022.

Owner's equity increased from \$19000 to \$20000 due to the following reasons.

1. Additional capital contributed by owner of \$14120 (14000- inventory and 120 – cash in hand) [1]
2. Loss of \$11000 [1]
3. Drawings of \$2120 [1]

As a new business owner, America is not sure of the source documents for some transactions.

REQUIRED

(c) Complete the table by indicating the source document for each of the following transactions.

Transactions	Source document
America overcharges one of her credit customer.	Credit note [1]
America sold designers' bags on credit.	Invoice [1]

[2]

[Total:10]

END OF PAPER