2024 4E5N Prelim Exam Paper 1 Marking Scheme

1 (a) (i) Accountants

- Prepare and provide accounting information for decision-making / set up an accounting information system [1]
- act as stewards of the business in managing the resources of the business on behalf of the owners. [1]

(ii) An accountant with integrity [1] is straightforward and honest in all professional relationships. [1]

OR

An accountant who is objective [1] will not let bias, conflict of interest or the undue influence of others override his or her professional judgement. [1]

(b)

Stakeholders	Decision stakeholder may make
Owners and shareholders	Whether to continue to invest in the business or sell the business, depending on the risks and returns related to the business
Managers	Whether to consider ways to improve the performance of the business
Employees	Whether to continue working at the business
Lenders	Whether to grant loans to the business, depending on the business' ability to repay the loan principal and pay interest
Suppliers	Whether to sell to the business on credit, depending on its ability to pay
Customers	Whether to buy from the business, depending on the business' ability to provide the goods and/or services that they need and good after-sales service
Government	Whether the business complies with the tax regulations and decides the amount of tax to collect from the business
Competitors	Whether they are comparable to the business and how to improve their own performance

Any one of the stakeholders above [1] with the explanation. [1]

(c) 2. Journals [1]
3. Ledgers [1]
4. Trial balance [1]

(d) Accounting entity theory. [1] The activities of a business are <u>separate</u> from the actions of the owner. [1] OR All transactions are recorded from the point of view of the business. [1]

2(a)

Cash at bank account

Date	Particulars	Debit (+) $	Credit (-) $	Balance $
2023				
Sep 30	Balance b/d			19 000 Dr [1]
	Rent expense (Error)	810 [1]		
	Marianne Ho		4 170 [1]	
	Interest income	40 [1]		
Oct 1	Balance b/d			15 680 Dr

(b)

Bank Reconciliation statement as at 30 September 2023

	$
Balance as per bank statement	11 090 [1]
Add: Deposit in transit – CH Agency [1]	7 540
Less: Unpresented cheques – Utilities expense [0.5]	(550)
- WK Retail [0.5]	(2 400)
Adjusted balance as per cash at bank account [1] of	15 680

(c) Adjusted profit = $8 400 + $810 [1] + $40 [1] = $9 250

3 (a)

Capital Expenditure	Revenue Expenditure
Cost to buy and bring the non-current asset to a ready-to-use condition	Cost to operate, repair and maintain the non-current asset in working condition
Provides benefits that last for more than one year	Provides benefits which will be used up within one year
Recorded as a non-current asset in the statement of financial position	Recorded as an expense in the statement of financial performance

Any pair of difference above. [2]

(b) (i)

Matching theory [1]
When a business uses non-current assets to generate income, a portion of the cost of the non-current asset has to be recorded as depreciation expense so as to match this expense against the income earned in the same financial period to arrive at the profit for the period. [1]

OR
Prudence theory [1]
Non-current assets are depreciated so as not to overstate the profit and asset. [1]

(ii) Gain or loss on sale of non-current asset = Sale proceeds – Net book value
Net book value = Cost – Accumulated depreciation
= $60 000 – (20% x $60 000) [1]
= $48 000 [1]
Loss on sale of non-current asset = $48 000 - $10 000 = $38 000 [1]

(iii) Profit will be overstated by $38 000. [1] of

(iv) Motor vehicles account

Date	Particulars	Debit (+) $	Credit (-) $	Balance $
2023				
Jan 1	Balance b/d			120 000 Dr [1]
Feb 7	Sale of non-current asset		60 000 [1]	
Apr 1	Trade payable - Lee Motors	88 000 [1]		
2024				
Jan 1	Balance b/d			148 000 Dr

4 (a) (i) Working capital = Current assets – Current liabilities

= (\$9 000 + \$7 400) – (\$2 100 + \$10 000 + \$16 000 + \$1 000)
= \$16 400 - \$29 100
= - \$12 700 [1]

(ii) Current ratio = CA / CL = \$16 400 / \$29 100 = 0.56 [1]

(iii) Quick ratio = (CA – Inventory – Prepayments) / CL = \$9 000 / \$29 100 = 0.31 [1]

(b) *Working capital has worsened from - \$1 850 to -\$12 700 over the two years, 2022 to 2023. [1]

*Current ratio has worsened from 1.62 to 0.56 from 2022 to 2023. [1]

This implies the business has lesser assets to cover the liabilities. [1]

For both 2022 and 2023, the business' current ratio falls below the benchmark of 2. [1]

*Quick ratio has worsened from 0.85 to 0.31 over the two years, 2022 to 2023. [1]

This implies that the business has lesser quick assets to cover its liabilities. [1]

For both 2022 and 2023, the business' quick ratio falls below the benchmark of 1. [1]

Hence, the liquidity has been bad and deteriorated from 2022 to 2023. [1]