Asset has debit nature

Biz: Meng
Supplier: Zane

Answers – 2021 POA Prelims 4EXP P1

<table>
<tr><td>1a</td><td>

Inventory account

Date 2020	Particulars	Debit ($) + Inventory	Credit ($) - Inventory	Balance ($)
Apr 5	Trade payable – Zane	105 000 [1]		105000Dr
8	Cost of sales		25 600 [1]	79400 Dr
11	Trade payable – Zane		10 210 [1]	69190 Dr
19	Cost of sales		21 700 [1]	47 490 Dr
May 1	Balance b/d			47 490 Dr

</td></tr>
<tr><td>1b</td><td>Invoice [1]</td></tr>
<tr><td>1c</td><td>

Name: Prudence theory [1]

Explanation:
Prudence theory states that assets and profits should not be overstated and expenses and losses should not be understated. [1]

Inventory should be valued at the lower of cost or net realizable value. [1] Hence, when the net realizable value has fallen below the original cost, inventory should be valued at the net realisable value.
[1] – Explaining prudence theory
[1] – Explaining the valuation rule for inventory

</td></tr>
<tr><td>1d</td><td>

- Meng's rate of inventory turnover has worsened from 5.91 times in 2019 to 3.48 times in 2020.
- Elsa's rate of inventory turnover has worsened from 7.24 times in 2019 to 5.62 times in 2020.
- This means that both Meng and Elsa is getting **less efficient in** managing its inventory over the two years.
- Elsa has a **better** rate of inventory turnover compared to Meng in both years, implying that Elsa is better in managing its inventory.

1 mark per suitable comment, up to a **maximum of three marks**

</td></tr>
<tr><td>1e</td><td>

Sell inventory faster by
- reduce selling price for slow-moving goods
- provide trade discounts to encourage customers to buy in bulk
- attract more customers through marketing campaigns

Keep sufficient inventory on hand by
- Use technological tools to improve accuracy of predictions about customer demand in order to know when and how much inventory to buy

[1] – Mentioning strategy
[1] – Explain strategy

</td></tr>
</table>

Use:
worsen/
improve/
better

Don't use:
Decrease/
increase/
lower/
higher

Must have conclusion!

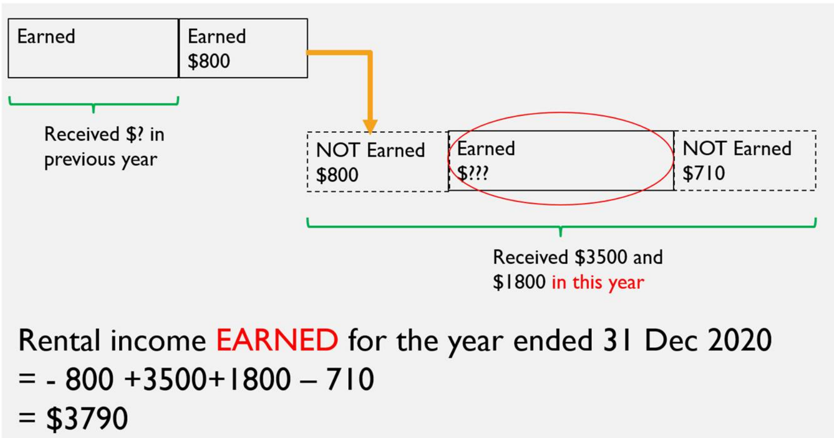
<table>
<tr><td></td><td></td></tr>
<tr><td>2ai</td><td>The business has estimated trade receivables balance of $4500 to be uncollectible in the previous year. [1]</td></tr>
<tr><td>2aii</td><td>The business wrote off $150 owing from Jolly to be irrecoverable. [1]</td></tr>
<tr><td>2aiii</td><td>The business reviewed its trade receivables and estimated a decrease in allowance for impairment of trade receivables by $50. [1]</td></tr>
<tr><td>2b</td><td>Profit increase by $50. [1]

Why? The reversal of impairment loss on trade receivables of $50 will cause a decrease in overall expenses, therefore profit will increase by $50.</td></tr>
<tr><td>2c</td><td>The rate of trade receivables turnover has improved from 11.82 times in 2019 to 12.38 times in 2020 to 15.56 times in 2021.
The trade receivables collection period has improved from 80.45 days in 2019 to 74.31 days in 2020 to 65.18 days in 2021.
This indicates that Zeth Trading is taking a shorter time to collect its debt from its credit customers.
This indicates that Zeth Trading is getting more efficient in managing its trade receivables.
Conclusion

1 mark per suitable comment, up to a maximum of three marks</td></tr>
<tr><td>2d</td><td><table><tr><th></th><th></th><th>True</th><th>False</th></tr><tr><td>(i)</td><td>A trading business can only earn income from the sale of goods.</td><td></td><td>✓</td></tr><tr><td>(ii)</td><td>A service business shows gross profit in the trading portion of its statement of financial performance.</td><td></td><td>✓</td></tr></table>Can earn other income too!
Service biz has no trading portion!</td></tr>
<tr><td></td><td></td></tr>
<tr><td>3a</td><td><table><tr><th>Sole Proprietorship</th><th>Private Limited Company</th></tr><tr><td>It is owned by one person who contributes capital to set up the SP;</td><td>It is owned by 50 or less shareholders where each investor buys shares and contributes capital</td></tr><tr><td>It is less likely for banks and other lenders to lend money to SP;</td><td>It is more likely for banks and other lenders to lend money to PLC as there are more business assets of high value to serve as collaterals.</td></tr><tr><td>The SP exists as long as the owner is alive and desires to continue operation.</td><td>The company exists forever until wound up or struck off.</td></tr></table>Any one pair of reasonable corresponding points – 2m</td></tr>
<tr><td>3b</td><td>Types of storage
Nature of product
Customer preference
Economic outlook
Any other reasonable points – 1m
Non-accounting information is usually a consideration that is not related to the price of the item.</td></tr>
<tr><td>3c</td><td>The non-accounting information provides a qualitative view of the business and provides information about the business operations.</td></tr>
</table>

<table>
<tr><td>3d</td><td>Non-current liabilities are due to be paid beyond one financial year [1], while current liabilities are due to be paid within one financial year. [1]</td></tr>
<tr><td>3e</td><td>Helps in the preparation of financial statements – [1]
Check for arithmetic accuracy in recording – [1]</td></tr>
<tr><td>3f</td><td>Trial balance is not an absolute proof of accuracy. There may be errors not revealed by trial balance. [1]</td></tr>
<tr><td>3g</td><td>Assets = Liabilities + Capital + Income – Expense – Drawings
2240 + 8000 + 42000 = 2500 + 6000 + 240 + 35000 + 630 + 21350 – 11400 – 1300 – 500 – D
52240 = 52520 – D
D = 280

Use expanded accounting equation

[1] – Total assets
[1] – Total liabilities / equities tallied correctly
[1] – answer</td></tr>
<tr><td></td><td>
</td></tr>
<tr><td>4a</td><td>Amount of rental income earned = -800 + 3500 + 1800 – 710 = $3790 [2]
1m each for adding any two amounts. 2m in total.</td></tr>
<tr><td>4b</td><td><table>
<tr><th>Date
2020</th><th>Particulars</th><th>Debit
($)</th><th>Credit
($)</th></tr>
<tr><td>Dec 31</td><td>Rental income [1] - income</td><td>3790</td><td></td></tr>
<tr><td></td><td>Income summary [1]</td><td></td><td>3790</td></tr>
</table></td></tr>
<tr><td>4c</td><td>Accrual basis of accounting theory states that business activities that have occurred, <u>regardless of whether cash is paid or received</u>, should be recorded in the relevant accounting period. [1]</td></tr>
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