		Debit $	Credit $
Error 1	Trade receivable – Ling Ling	2 500 [1]	
	Trade receivable – Ming Ming		2 500 [1]
Error 2	Cash at bank	600 [1]	
	Commission income		600 [1]

2023 Sec 4E/5NA Prelim Exam

Suggested Answers

1(a)

1(b)

Shirley
Statement to show adjusted profit
for the year ended 31 December 2022

	$	
Unadjusted profit for the year	12 360	
Add: Commission income – was understated	600	[1]
Less: Utilities expense – was understated	18	[1]
Adjusted profit for the year	12 942	[1]

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2(a)

	Transaction	Source document
(i)	Interest expense on bank overdraft.	Bank statement [1]
(ii)	Purchase inventory on credit.	Invoice [1]
(iii)	Correct an undercharge for sales made to a credit customer.	Debit note [1]

2(b) A source document provides evidence [1] and this is consistent with the objectivity theory which states that accounting information recorded must be supported by reliable and verifiable evidence. [1]

2(c) Assets = 22 500 + 4 000 + 20 100 + 9 200+ 1 800
= $57 600 [1]

Liabilities = 15 600 + 10 000
= $25 600 [1]

Equity = A – L
= $57 600 – $25 600
= $32 000 [1]

2(d)(i) On 14 July 2021, A debtor, Emily Trading, was unable to pay its debt of $2 400 and Flora Cosmetics wrote off that amount. [1]

2(d)(ii) On 31 March 2022, Flora Cosmetics reviewed its trade receivables balance and increased its allowance for impairment of trade receivables by $760 to $2,760.[1]

2(e) Prudence theory states that the accounting treatment chosen should be the one that least overstates assets and profits and least understates liabilities and losses.[1] Accounting for allowance for impairment of trade receivables as a deduction against trade receivables will ensure that trade receivables balance (asset) is not overstated. [1]

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3(a) Profitability is the ability of a business to generate excess income to cover its expenses. [1]

3(b) A business can improve its profitability by

- Selling goods at higher selling price
- Buying goods in bulk to enjoy trade discount
- Paying early to suppliers to take advantage of cash discounts
- Reducing operating costs

(Any 2 ways – 1 way 1 mark)

3(c)(i) Gross profit margin = 149 350 / 250 600 x 100
= 59.6% [1]

3(c)(ii) Profit margin = 57 970 / 250 600 x 100
= 23.1% [1]

3(d) Dannie's gross profit margin of 59.6% is better than Terrie's 51.7%. [1] This shows that Dannie's sales are more profitable than Terrie's. Dannie is able to buy his goods at a lower price or sell them at a higher price as compared to Terrie. [1]
However, Dannie's profit margin of 23.1% is worse than Terrie's 28.9%. [1] Dannie's final profit is only $0.23 for every dollar of net sales revenue whereas Terrie's final profit is $0.29 for every dollar of net sales revenue. Dannie is not able to manage his operating expenses as well as Terrie.[1]
Hence, Terrie is a more profitable business as he is able to manage his expenses better than Dannie. [1]

4(a) Features of a private limited company:

- Owned by 50 or fewer shareholders where each shareholder buys shares and contributes
  capital.
- More likely for banks and other lenders to lend money as there are more business assets of high value to serve as collaterals.
- Hires professionals to manage the business on behalf of shareholders
- Exists forever until wound up or struck off.
- Needs to comply with statutory requirements and file annual financial reports.

(Any **2 features** from pages 4 and 5 of textbook – 1 feature 1 mark)

4(b) Managers/ employees/ lenders/ suppliers/ customers/ government/ competitors [1]
(Any **1 stakeholder** except shareholders)

4(c)(i) Retained earnings - accumulation of profits and losses that has not been distributed to shareholders yet since operation [1]

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4(c)(ii) Dividends - a portion of retained earnings that was distributed to shareholders [1]

4(d) Total share capital = 200 000 + (100 000 x 2.50) [1]
= $450 000 [1]

4(e)

Retained Earnings Account

Date		Debit $	Credit $	Balance $
2022				
Jan 1	Balance b/d			130 800 Cr [1]
Dec 31	Income summary		30 580 [1]	
	Dividends (200000x0.05)	10 000 [1]		151 380 Cr
2023				
Jan 1	Balance bld			151 380 Cr [1]

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