MASTER PRINCIPLES of ACCOUNTS

2019 O LEVEL POA PAPER 1

CROWD SOURCED SOLUTIONS

SPECIAL THANKS TO ALL 2019 MASTER POA STUDENTS!

ISSUED ON 30/10 DURING MASTER PRINCIPLES OF ACCOUNTS RECORDED WEBINAR .

2019 GCE O LEVEL PREDICTIONS

		2019 PREDICTIONS
1	Double Entries	Double Entries for setting up business. Find capital
2	A=L+E	Find capital
3	PP and Acc	Paper 2 Question 2. 12 Marks
4	Dep	Depreciation expense account. 4 - 6 marks
5	AFI	Likely won't come out
6	Cap v Rev	Effect of wrong classification
7	Special Journals	5M
8	IS B/S Svc Business	Service business, sole trader business
9	Sale rev sales ret	Transfer to trading account instead of P&L 6 marks
10	COE	
11	COE effect on profit	
12	COE Statement	Statement to show adjusted profit 4 marks
13	Inv FIFO	Inventory - FIFO
14	TB w Adj	Trial balance with adjustments
15	Drawings Cap	Drawings and capital account (transfer entries)
16	Trade rec	Trade receivable - Damian
17	Trade pay	Trade payable - single supplier 6M
18	Interest exp	Interest expense (HBUL + ACAP) - revise with Portal
19	Cash & Trade Disc	Together with TP ctrl
20	Working Capital	Calculation + what it means (theory) 4m
21	Sale of non-current asset	Unlikely to come out
22	Inc rec - ratios	Use GP margin to find COS/Sales Rev. Remb NSR-COS=GP
23	Profitability	14-16 marks. Use structure
24	Liquidity	14-16 marks. Use structure
25	Inventory mgmt	Inventory management (turnover)+theory
26	Retained earnings	ISC - B/D + CAB, RE = HBUL, DivP = DIV, CAB,B/D

1a) Explain FIFO

Inventory which are purchased first assumed to be sold first

b) Basis of valuating inventory :

i) Either

- the lower of cost and net realisable value; or

I- Inventory should be valued at cost or net realisable value, whichever is lower

ii) Concept : prudence concept

c) calculate value of inventory at year end:

W1 - $375- $50

W2 - $12,220 - ($400-$325) = $12,125 (4m)

d) State the effect of Xuan's decision on

i) Gross profit: No effect

ii) Profit for the year: Overstated by $75 ($400-$325)

iii) Current assets at 31 March 2019: Overstated by $75 ($400-$325) - Total 13 marks

2a) how to calculate working capital

- Working capital is derived from taking current assets less current liabilities

b) 2 reasons for working capital

i) To pay for day-to-day operating expense

ii) To pay for short term debts when they fall due

c) What is the difference between current ratio and quick ratio?

The difference between the current and quick ratios is that the current ratios includes prepayments and inventory while the quick ratio includes only quick assets such as cash in hand, cash at bank and receivables.

d) $19,879/ ($3250 + $24500 + $3700) = 0.63:1

e) Working capital ratio of the business has worsened from 2.63:1 in 2017 to 1.96:1 in 2019 , which is above the acceptable norm of 2:1, in 2015 to 1.95:1, which is below the acceptable norm, in 2016.

The more stringent test of liquidity, quick ratio, also worsened from 1.78:1 in 2017 which is above the acceptable norm of 1:1 to 0.63:1, which is below the acceptable norm, in 2019. This indicates that the business does not have sufficient quick assets to repay its current liabilities/ cashflow difficulties.

f) 1. The decline in liquidity was also in part due to the business locking up funds in the form of inventory, where inventory made up to 64.0% of total current assets.

2. If suppliers are unable to collect from Nashua in a timely manner, they may stop supplying to Nashua on credit. This will exacerbate the already strained liquidity position and may even the availability of goods for resale.

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3a) State two differences between bank loan and bank overdraft

	Bank Loan	**Bank overdraft**
1.Cash transference	Cash is transferred from the bank to the business upon acceptance of loan.	Cash is not transferred to the business. The business withdrew more than the available balance in the bank.
2. Amount borrowed	The amount is agreed before the loan is granted thus it is a fixed amount.	The amount borrowed is not fixed however is limited. The amount borrowed must not exceed the maximum overdraft facility offered by the bank.
3. Repayment period	The loan is repayable over its term which usually spans over more than a year.	The amount is repayable within a few months or days from the withdrawal.
4. Payment method	Loan is repayable over its loan term in fixed cash repayments. (Example monthly repayment)	No fixed cash payment is required. Any deposits into the bank account will reduce the outstanding balance.
5. Reporting	Non-current liability. The current portion (payable within a year) is under current liability	Current liability. Spans over less than a year.

6. Interest expense	Subject to interest based on loan amount.	Subject to interest if overdraft facility is used more than the agreed period. Example: 3 months overdraft allowed however overdraft goes on for 4 months. The one extra month would be subjected to interest.

B) State one stakeholder interested in how a business to borrow funds and give a reason

- Bankers
- Other lenders

Reason:

To see the credit worthiness of the business.

C)

Date	Particulars	Dr	Cr
2017			
Oct 1	Cash at bank	150000	
	Long term borrowings		150000
2018			
Sept 30	Long term borrowing/ Current portion of Long term borrowing Cash at bank	30000	30000

d) Calculate interest expense for year ended 31 March 2019

6/12 x 150000 x 5% + 6/12 x 120000 x 5% = $6750

e) Prepare the balance sheet extract for 31 March 2018 show liabilities section only

	Balance sheet as at 31 March 2018 (extract)				
		$	$		
	Non-current Liabilities				
	Long term borrowings		**90,000**		
	Current liabilities				
	Current portion of long term borrowings		30,000		
	Accrued interest expense ($120000 x 5% x 6/12)		3,000		