

ST. MARGARET'S SECONDARY SCHOOL Preliminary Examinations 2023

CANDIDATE NAME

CLASS

REGISTER NUMBER

PRINCIPLES OF ACCOUNTS

Paper 1

25 August 2023

7087/01

1 hour

Secondary 4 Express / 5 Normal (Academic)

Additional Materials: Nil

READ THESE INSTRUCTIONS FIRST

Do not turn over the pages until you are told to do so.

Write your name, class and index number on all the work you hand in, including the cover page.

Write in dark blue or black pen.

Do not use staples, paper clips, highlighters, glue or correction fluid.

The use of an approved calculator is allowed.

Answer **all** questions in the spaces provided in the Question Paper.

Where the columnar format is used, the running balance column should be updated for the first and last entries. Where applicable, the balance should be brought down to the next financial year.

All calculations must be shown adjacent to the answer.

The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

Answer all questions.

1 Zen wishes to set up a business selling curtains. He approaches you for the following advice.

REQUIRED

(a) Give two features of a sole proprietorship.

(b) State one difference between a bank loan and a bank overdraft.

On 31 July 2023, after preparing the trial balance, Zen discovered the following errors.

- 1. Utilities of \$345 was recorded on the wrong side of both the cash at bank and utilities accounts.
- 2. Zen withdrew \$1 200 worth of curtains from the business as samples for his clients. This was recorded in the drawings account.

REQUIRED

(c) State the journal entries to correct the above errors. Narrations are **not** required.

(d) The profit for the year before discovering the errors was \$28 900. Calculate the correct profit for the year ended 31 July 2023, after the correction of the above errors 1 and 2. Show your workings.

[2] [Total: 10] 2 Fast Forward Pte Ltd provided following account balance on 1 August 2020.

	1			1
Date	Particulars	Debit	Credit	Balance
2020		\$	\$	\$
Aug 1	Balance b/d			45 400 Cr
2021				
Jul 31	Income summary		9 800	55 200 Cr
Jul 31	Dividends	2 500		52 700 Cr
Aug 1	Balance b/d			52 700 Cr
2022				
Jul 31	Income summary	5 000		47 700 Cr
Jul 31	Dividends	3 000		44 700 Cr
Aug 1	Balance b/d			44 700 Cr

Retained earnings a/c

REQUIRED

- (a) Define the following terms
 - (i) dividends

.....[1]

(ii) retained earnings

.....[1]

(b) Explain how the shareholders' equity of Fast Forward Pte Ltd changed from 2020 to 2021.

.....

(c) Explain how the shareholders' equity of Fast Forward Pte Ltd changed from 2021 to

2022.

.....[2]

On 1 August 2020, the share capital of Fast Forward Pte Ltd was \$100 000, made up of 100 000 ordinary shares. On 9 September 2021, the business issued 10 000 shares at \$2 per share.

REQUIRED

(d) Prepare the business' share capital account for the two years ended 31 July 2021 and 2022.

	[3]

[Total: 9]

3 Janice runs a restaurant, Yummy Bites. The business' financial year ends on 31 July.

On 1 August 2020, the business bought a delivery van for \$50 000. Janice is not sure if she should depreciate the delivery van based on straight-line or reducing-balance method.

REQUIRED

(a) Define depreciation.

- (b) Calculate the difference in the business' profits between the two depreciation methods, if the depreciation rate for the year is 20% per annum, for the years ended
 - (i) 31 July 2021

(ii) 31 July 2022

[3]

On 31 July 2022, Janice sold the delivery van and received a cheque of \$32 800. Janice has decided to adopt the reducing-balance method to depreciate all the business' motor vehicles, at the rate of 20% per annum.

REQUIRED

(c) Prepare the sale of non-current asset account for the year ended 31 July 2022.

[4] [Total:11] **4** Beautiful Homes Co is in the business of selling paintings. On 31 July 2022 the business had an inventory balance of \$25 000. Unfortunately, the store experienced a fire and one-fifth of the inventory was damaged.

The insurance company informed Beautiful Homes Co that the business would be able to receive a full compensation. As at 31 July 2022, the claim had not yet been received.

The business' financial year ends on 31 July.

REQUIRED

(a) State the valuation rule of inventory.

.....[1]

(b) Calculate the amount of inventory loss due to the fire. Show all workings.

.....[1]

(c) Prepare the journal entries to adjust the value of the inventory on 31 July 2022. Narrations are **not** required.

[2]

On 31 July 2023, the following information is extracted.

	\$
Inventory	18 000
Net sales revenue	290 000
Cost of sales	155 000

REQUIRED

(d) Calculate the rate of inventory turnover for the year ended 31 July 2023. Show your answer to two decimal places.

(e) Evaluate Beautiful Home Co's efficiency in inventory management against its competitor, Bling Supplies, given that Bling Supplies' rate of inventory turnover is 10 times.

 (f) Suggest one way to improve Beautiful Home Co's efficiency in inventory management.

[1] [Total: 10]

End of Paper

2023 4E5N Prelim – Paper 1

Solution

1(a) Any 2 of the following = **2m**

- It is owned by one person who contributes capital to set up the SP;
- It is less likely for banks and other lenders to lend money to SP;
- When the SP incurs debts and losses, the only owner is obliged to pay them using his or her personal assets
- The only owner usually runs the business by himself or herself and has absolute control over it.
- The SP exists as long as the owner is alive and desires to continue operation.
- The only owner can easily update the particulars of the new owner to notify the corporate regulatory authority of any transfer of ownership.
- SP has minimal administrative duties to adhere to.

	Bank Loan	Bank Overdraft
How does it arise?	Occurs when the business borrows a fixed amount of money and the cash is transferred to the cash at bank account.	Occurs when the business withdraws more than what is deposited in the cash at bank account, up to the limit with which the business and the bank have agreed upon. Amount withdrawn is not fixed.
How is the loan repaid? (Method of repaying borrowing)	Business makes regular cash payments in equal installments or a one-time lump sum payment at the end of loan period to reduce the principal sum.	Business deposits cash into the business bank account within the year to reduce the overdraft.
How is it presented in the statement of financial statements?	Shown as a non-current liability as long term borrowings . Current portion repaid within a year shown as current liability .	Shown as current liability as bank overdraft.
Length of time to return borrowing	Paid off within a fixed period of time. Repaid more than a year later.	Settled within a few days, or a few months. Repaid within a year.

1(b) Any one pair of difference = **2m**

1(c)

Journal				
2023		Dr (\$)	Cr (\$)	
31 Jul	Utilities expense	690 [1]		
	Cash at bank		690 [1]	
	Advertising/promotional expense	1200 [1]		
	Drawings		1200 [1]	

- 1(d) Corrected profit for the year ended 31 July 2023 = \$28900 - 690 **[1]**- 1200**[1]** = \$27 010
- 2(a) Dividends are profits distributed to the shareholders [1].
- (i)
- 2(a) Retained earnings are the profits of a company NOT distributed to the shareholders **[1]**. (ii)
- 2(b) For the year ended 31 July 2021, the business made a profit of \$9 800[1], after declaring a dividend of \$2 500 to its shareholders[1].

For the year ended 31 July 2022, the business made a loss of \$5 000[1], after declaring a dividend of \$3 000 to its shareholders[1].

2(c)

Share capital a/c

Date	Particulars	Debit	Credit	Balance
2020		\$	\$	\$
Aug 1	Balance b/d			100 000 Cr
2021				
Aug 1	Balance b/d			100 000 Cr [1]
9 Sept	Cash at bank (\$10 000 x \$2)		20 000	120 000 Cr [1]
2022				
Aug 1	Balance b/d			120 000 Cr [1]

- 3(a) Depreciation is the allocation of the cost of a non-current asset[1] over the years of its useful life. [1]
- 3(b) Depreciation based on straight-line method on 31 July 2021:
- (i) = 20% x \$50 000

= \$10 000

Depreciation based on reducing-balance method on 31 July 2021: = 20% x \$50 000 = \$10 000

As the depreciation expense is the same for both depreciation methods[1], hence the profit will remain unchanged for the year ended 31 July 2021 [1]

- 3(b) Depreciation based on straight-line method on 31 July 2022:
- (ii) = 20% x \$50 000 = \$10 000

Depreciation based on reducing-balance method on 31 July 2022: = $20\% \times (\$50\ 000-\$10\ 000)$

= \$8 000

As the depreciation expense based on reducing-balance method is \$2000 lesser[1] as compared to straight-line method, the profit will be **higher** [1] by \$2 000 [1] if the business adopts the reducing-balance method to depreciate the delivery van.

OR

As the depreciation expense based on straight-balance method is \$2000 higher[1] as compared to reducing-line method, the profit will be **lower** [1] by \$2 000[1] if the business adopts the straight-line method to depreciate the delivery van.

3(c) Working:

Accumulated depreciation of delivery van for the year ended 31 July 2022 = \$10000+\$8000 =\$18000

Date	Particulars	Debit	Credit	Balance
2022		\$	\$	\$
July 31	Motor vehicle	50000 [1]		50000 Dr
	Accumulated depreciation		18000 [1]	32000 Dr
	Cash at bank		32800[1]	800 Cr
	Income summary	800 [1]		0

Sale of non-current asset a/c

- 4(a) Inventory is valued at the lower of cost or net realisable value. [1]
- 4(b) 1/5 x \$25000 = \$5 000 **[1]**

4(c)

Journal

Date	Particulars	Debit	Credit
2022		\$	\$
31 Jul	Impairment loss on inventory	5 000 [1]	
	Inventory		5 000 [1]

4(d) Rate of inventory turnover= <u>Cost of sales</u> Average inventory

Average inventory = (inventory at beginning +inventory at end)

$$= \frac{\frac{155\ 000\ [1]}{(20\ 000\ +\ 18\ 000)\ /\ 2}}{(1)}$$

= 8.16 times [1]

4(e) Beautiful Homes Co's rate of inventory turnover of 8.16 times is **worse than** Bling Supplies' rate of inventory turnover of 10 times **[1]**.

Beautiful Homes Co is selling its goods more slowly and hence, is **less efficient** at managing is inventory compared to Bling Supplies **[1]**.

- 4(f) Any one of the following = **1m**
 - Reduce selling price for slow-moving paintings
 - Provide trade discounts to encourage customers to buy in bulk and regularly
 - Attract more customers through marketing campaigns