

# 2023 4G3 and 5G2 Prelim Paper 1 Ans

## Question 1

(a)

Journal				
	Date	Particulars	Dr	Cr
	2023		\$	\$
1	Jul 31	Cash in hand (1320 – 1230)	90✓	
		Drawings		90✓
2	31	Commission income receivable	540✓	
		Cash at bank		540✓
3	31	Sales revenue	5000✓	
		Sale of non-current assets		5000✓

✓ Marks are given only for entries with the correct particulars and amounts. [6]

(b) To facilitate the preparation of the financial statements✓ and ensure arithmetic accuracy in recording.✓ [2]

(c) A balanced trial balance is not an absolute proof of accuracy. There may be errors not revealed by a trial balance. An example of such errors is when a transaction is totally not recorded. ✓ [1]

[Total: 9]

## Question 2

(a)

Expenditure	Capital expenditure	Revenue expenditure	Reason
Purchase of kitchen cabinets	✓		Cost to buy a non-current asset. ✓
Installation of kitchen cabinets	✓		Cost to bring a non-current asset to its intended use. ✓
Upgrading the existing 3-burner stove with a 5-burner stove	✓		Cost to enhance non-current assets. ✓
Servicing for air-conditioning		✓	Cost to maintain the non-current assets in its working condition. ✓

[8]

(b) Materiality theory states that a transaction is considered material if it makes a difference to decision-making.✓ Hence only expenditure that is significant to the business is capitalized. An expenditure which fits the criteria of a capital expenditure but is insignificant to the business is expensed off as a revenue expenditure as it does not affect decision-making.✓ For example, purchase of stapler is recorded as stationery expense. [2]

[Total: 10]

### Question 3

- (a)
- On 6 December 2021, the business made a cash sale of goods for \$35 550 / sold goods and received \$35 550 cash at bank. ✓ [1]
  - On 22 May 2022, the business made a credit sale of goods for \$59 000. ✓ [1]
  - On 31 August 2022, the sales revenue account was closed and \$450 550 of sales revenue was transferred to income summary account. ✓ [1]
  - On 27 Jun 2023, there is a return of goods, \$14 000, by credit customers. ✓ [1]

(b)

Year ended 31 August 2022	Year ended 31 August 2023
Trade receivables collection period	Trade receivables collection period
$= \frac{\text{Average net trade receivables}}{\text{Net credit sales revenue}} \times 365 \text{ days}$ $= \frac{(27000+30000)+2}{(340000+160000+59000)} \times 365 \text{ days} \checkmark$ $= \frac{28500}{415000} \times 365 \text{ days}$ $= 25.07 \text{ days} \checkmark$	$= \frac{\text{Average net trade receivables}}{\text{Net credit sales revenue}} \times 365 \text{ days}$ $= \frac{(30000+29000)+2}{(218000+621000-14000)} \times 365 \text{ days} \checkmark$ $= \frac{29500}{825000} \times 365 \text{ days}$ $= 13.05 \text{ days} \checkmark$

[4]

- (c) Trade receivables collection period improved from 25.07 days in 2022 to 13.05 days in 2023. ✓ OF The business is taking a shorter time to collect payment from its credit customers as compared to the previous year. ✓ Ravine Pte Ltd has become more efficient at managing its trade receivables over the two years. ✓ [3]

[Total: 11]

### Question 4

(a)

Square Town Trading							
Statement of financial position as at 31 December 2022 (extract)							
						\$	\$
<u>Non-current liabilities</u>							
Long-term borrowings							60000
<u>Current liabilities</u>							
Current portion of long-term borrowings							20000
Interest expense payable							1000

✓ 1 mark is given for each correct entry.

[3]

- (b) Interest expense = Loan principal x Annual interest rate x Time

The business took a \$100 000 loan on 1 October 2021. It calculated an interest expense of \$1250 from 1 October 2021 to 31 December 2021. This was the amount of interest expense payable brought down on 1 January 2022.

Hence,

$$1250 = 100000 \times \text{Annual interest rate} \times \frac{3}{12} \text{ Year}$$

$$\text{Annual interest rate} = \frac{1250}{100000} \div \frac{3}{12} \times 100\%$$

$$= 5\% \checkmark$$

[3]

- (c) If the business did not make the adjustment, profit for the year will be overstated by \$1000 ✓ and equity will be overstated by \$1000. ✓ [2]

- (d) Any two of the following:

Cash is transferred from the bank to the business' bank account upon approval of loan. ✓

The loan is an amount agreed between the business and the bank. ✓

The borrowed amount is paid off within a fixed period of time, which is usually more than a year. ✓

Depending on the agreement with the bank, businesses may repay in equal instalments over the loan period or make a one-time lump-sum payment at the end of the loan period. ✓

A bank loan is reported as a long-term borrowing in the statement of financial position. ✓ [2]

[Total: 10]