



PEI HWA SECONDARY SCHOOL
Principles of Accounts
Secondary Four

Non-Current Assets
Quiz 1

Name: _____ () Date: _____

Class: _____ Teaching Group Name: _____

Question 1 (16 Marks)

On 1 April 2023, Dan Ser Transport Services purchased a coach on credit from Hung Enterprise at a list price of \$80 000 and was given a trade discount of 10%.

On 18 May 2023, Dan Ser Transport Services made the following payments by bank transfers.

	\$
(i) Painting of business name on the coach	320
(ii) Annual motor insurance	640
(iii) Annual road tax	450
(iv) Cost of installing seat belts in the coach	230

REQUIRED

- (a) Identify if the items marked (i) to (iv) are **capital expenditure or revenue expenditure**. [4]
- (b) Prepare **journal** entries to record the transactions on **1 April 2023** and **18 May 2023**. Narrations are not required. [6]
- (c) Explain why non-current assets need to be depreciated with the support of an accounting theory. [2]
- (d) Explain how a business should decide which depreciation method to use for each type of non-current asset. [2]
- (e) Name and explain the accounting theory which requires the same depreciation method to be used to depreciate the non-current asset over different financial periods. [2]

[Total: 16]

Adapted from East Spring 2021 4N Prelim

Question 2 (4 marks)

During the year ended 30 April 2023, the business purchased two tables for office use at \$3 000 each. Delivery and installation expenses amounted to a total of \$500. The business depreciates its fixtures and fittings at 10% per annum using the straight-line method.

REQUIRED

- (a) Prepare the **journal** entries to record the **depreciation expense** for the year ended 30 April 2023. A narration is not required. [2]
- (b) State **two** causes of depreciation [2]

[Total: 4]

Adapted from Damai 2021 4N Prelim

SOLUTIONS

Question 1

(a) (i) Capital, (ii) Revenue, (iii) Revenue, (iv) Capital

(b) Journal			
Date	Particulars	Dr	Cr
2023		\$	\$
Apr 1	Motor vehicles (90% X 80000) [1]	72 000	
	Trade payable Hung Enterprise [1]		72 000
May 18	Motor vehicles [1] → Painting	320	
	Cash at bank		320
May 18	Vehicle expenses / Insurance [1]	640	
	Cash at bank		640
May 18	Vehicle expenses / Road tax expense [1]	450	
	Cash at bank		450
May 18	Motor vehicles [1] → Installation of seat belts	230	
	Cash at bank		230

[6]

- (c)** Non-current assets provide benefits over more than one accounting period, therefore their costs should be allocated as expenses over their useful lives to calculate profit fairly for each period. **[1]** This is to comply with the matching theory which states that the income earned should be matched with the expenses incurred in the same period to calculate profit for that period. **[1]**

Or

Non-current assets provide benefits over more than one accounting period and depreciation decreases the net book values of the non-current assets systematically over their useful lives to show that the non-current assets are losing their benefits over the periods of use. **[1]** This is to comply with the prudence theory which states that the accounting treatment chosen should be the one that least overstate profits and assets and least understate losses and liabilities. **[1]**

- (d)** The depreciation method chosen should reflect the pattern of usage of the benefits from the non-current assets by the business. **[1]** If the benefits are consumed evenly over the

non-current assets' useful lives, the straight-line method is more suitable, If more or better quality benefits are used each year in the earlier years of the non-current assets' useful lives, the reducing-balance method is more suitable. A suitable method will result in a fairer matching of expenses against income to calculate profit for each period. **[1]**

- (e) The accounting theory is consistency theory. **[1]** It states that once an accounting method is chosen, this method should be applied to all future accounting periods to enable meaningful comparison. **[1]**

Question 2

a)

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Journal			
Date	Particulars	Debit	Credit
2023			
Apr 30	Depreciation of fixtures and fittings [(3000x2)+500]x10%	650	
	Accumulated depreciation of fixtures and fittings	[2]	650

(b)

Any 2 of the following:

Wear and Tear

Usage

Obsolescence

Legal Limits