Name:______________________________ ( )	Class:________

GREENDALE SECONDARY SCHOOL

Preliminary Examination 2022

PRINCIPLES OF ACCOUNTS **7087/01**

SECONDARY 4 EXPRESS/ 5 NORMAL ACADEMIC 30 August 2022

Paper 1 **1 hour**

Candidates answer on the Question Paper.
No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your name, index number and class on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams or graphs.
Do not use staples, paper clips, glue or correction fluid.
The use of an approved calculator is allowed.

Answer **all** questions.

The businesses described in this question paper are entirely fictitious.

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

This document consists of 11 printed pages.

Answer **all** questions.

1 Elise owns a bicycle shop at West Coast Plaza. She provided the following information which took place during the year ended 30 June 2021.

2020	
July 1	Balance in the capital account was $25 500.
Aug 30	Elise withdrew $400 from the business bank account to pay for her son's tuition.
2021	
Jan 14	Elise issued a business cheque, $200, to pay for her apartment's electricity bills.
May 3	Elise contributed her personal laptop worth $800 for the shop's use.
Jun 30	Loss for the year ended 30 June 2021 was $3 000.

REQUIRED

(a) Prepare the capital account for the year ended 30 June 2021.

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(b) Name and explain the accounting theory which is applied to the treatment of drawings.

Name: ....

Explanation: ....

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(c) Elise is thinking of changing the business structure to a private limited company. Give two advantages a company has over a sole proprietorship.

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[Total: 9]

2 Mathew sells household products on credit. He sells goods to his credit customers on a 60-day credit term. The following information was provided.

For the year ended 31 May 2021	$
Credit sales revenue	835 000
Credit sales returns	4 000
Cash sales	75 000
Net trade receivables as at 1 June 2020	143 000
Net trade receivables as at 31 May 2021	237 500

Additional information:

The trade receivables collection period for 31 May 2020 was 75.64 days.

REQUIRED

(a) Calculate the trade receivables collection period for the year ended 31 May 2021. Show your answers to two decimal places.

	31 May 2021
Workings	
Trade receivables collection period (days)	

[2]

(b) Evaluate the management of trade receivables by Mathew's business over the two years ended 31 May 2020 and 31 May 2021.

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On 1 June 2021, the trade receivables balance of Mathew's business was $250 000. The business maintains an allowance for impairment of trade receivables at 5% of the trade receivables balance at the end of every financial year end.

Allowance for impairment of trade receivables

Date	Particulars	Dr ($)	Cr ($)	Balance ($)
2021				
June 1	Balance B/d			12 500 Cr
Aug 13	Trade receivables, Kenny	800		11 700 Cr
2022				
May 31	Impairment loss on trade receivables		1 550	13 250 Cr

(c) Explain, using a suitable accounting theory, why it is necessary for Mathew to account for allowance for impairment of trade receivables.

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(d) Interpret the entries in the allowance for impairment of trade receivables account on:

(i) 13 August 2021 ....

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(ii) 31 May 2022 ....

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(e) State the effect on the profit for the year if allowance for impairment of trade receivables was not adjusted on 31 May 2022.

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[Total: 10]

3 Jennifer sells goods to Natalie on credit. The following transactions took place in the month of March 2022.

2022	
Mar 1	Balance owed to Jennifer is $6 150.
Mar 13	Sold goods on credit to Natalie at a list price of $1 500, less 3% discount.
Mar 15	Issued a cheque to Jennifer for the amount owed on 1 March, less 2% discount.
Mar 17	Natalie returned damaged goods bought on 13 March, valued at list price $500.

REQUIRED

(a) Prepare Jennifer's account in Natalie's books for the month of March 2022.

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(b) Explain the purpose of the discount on 13 March 2022.

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(c) State the effect of the discount on 15 March 2022 on Jennifer's profit for the year.

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(d) State the source document issued by Jennifer on 17 March 2022.

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(e) Suggest a reason why Natalie purchases inventory on credit instead of paying cash for them.

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The following balances were taken from Natalie's books on 1 April 2021:

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Fixtures and fittings	56 000
Accumulated depreciation of fixtures and fittings	13 800

On 1 May 2021, Natalie sold one of the fixtures and fittings which cost $12 000 for $5 000 on credit to Lucas Pte Ltd. The fixtures and fittings sold was bought on 1 April 2019.

On 1 January 2022, Natalie purchased fixtures and fittings and paid $13 600 by cheque.

The business provides depreciation at 10% per annum using the straight line method. No depreciation is charged in the year of sale.

(f) Calculate the gain or loss on the sale of non-current asset.

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(g) Calculate the depreciation of fixtures and fittings for the year ended 31 March 2022.

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[Total: 14]

4 On 1 May 2020, Leong Trading Pte Ltd obtained a bank loan of $200 000 at an interest rate of 3% per annum. The loan is to be paid equally over four years. The partial principal sum repayment and the interest are to be made on every year starting 30 April 2021. The financial year of Leong Trading Pte Ltd ends on 31 December.

REQUIRED

(a) Prepare an extract of the statement of financial position as at 31 December 2020.

Leong Trading Pte Ltd

Statement of financial position as at 31 December 2020 (extract)

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(b) Prepare the closing entry to record the interest expense incurred for the year ended 31 December **2021**. A narration is not required.

Journal			
Date	Particulars	Debit ($)	Credit ($)

[2]

(c) State a difference between bank overdraft and bank loan.

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[Total: 7]

- End of paper -

SUGGESTED SOLUTION

Question 1

(a)

Capital				
Date	Particulars	Dr ($)	Cr ($)	Bal ($)
2020				
July 1	Balance B/d			25 500 Cr
2021				
May 3	Office Equipment		800	26 300 Cr
Jun 30	Drawings (400 + 200)	600		25 700 Cr
Jun 30	Income Summary	3 000		22 700 Cr
July 1	Balance B/d			22 700 Cr

(b) In accordance to **accounting entity concept**, activities of a business are **separated** from the actions of the owner. Hence, all transactions are to be recorded from the point of view of the business.

(c)

- It is **more likely** for banks and other lenders **to lend money** to private limited company (PLC) as there are more business assets of high value to serve as collaterals.

- When the company incurs debts and losses, shareholders will most likely not receive dividends but they are **not obliged to pay the debts and losses using their personal assets**. At most, they will only need to forfeit their investments in the company.

Accept other reasonable explanations.

Question 2
(a)

$$\frac{\text{Average net trade receivables}}{\text{Net credit sales revenue}} \times 365 \text{ days} =$$

$$= \frac{(143000+237500)/2}{(835000-4000)} \times 365 \text{ days}$$

= **83.56days** (31 May 2021)

(b)
Mathew's trade receivables collection period worsened from 75.64 days in 2020 to 83.56 days in 2021. This shows that the business is taking longer to collect payment from its credit customers as compared to the previous year. Hence, Mathew's business has become less efficient at managing its trade receivables over the two years.

(c)

- Prudence theory
  According to the prudence theory, assets and profits should not be overstated while liabilities and losses should not be understated. As a business reviews its trade receivables and estimates the amounts which may be uncollectible, it would provide for allowance for impairment of trade receivables. Presenting it as a deduction against the book value of trade receivables will ensure that trade receivables is not overstated and reflects the net amount that is collectible.

  Or

- Matching theory

  Matching theory states that expenses incurred must be matched against income earned in the same financial period to determine the profit for the period. The business records the change in allowance as an impairment loss on trade receivables (expense) in the same financial period as credit sales (income) was earned. The matching of expenses incurred to the income earned is in accordance to the matching theory.

(d) (i) 13 August 2021: On 13 August 2021, a debtor, Kenny, was unable to pay its debt of $800 and Mathew wrote off that amount.

(ii) 31 May 2022: On 31 May 2022, Mathew reviewed its trade receivables balance and increased its allowance for impairment of trade receivables to $13 250.

(e) The profit for the year will be overstated by $1 550.

Question 3

(a)

Trade payable, Jennifer				
Date	Particulars	Dr ($)	Cr ($)	Balance ($)
2022				
Mar 1	Balance B/d			6 150 Cr
Mar 13	Inventory (1500 x 97%)		1 455	7 605 Cr
Mar 15	Discount received (6150 x 2%)	123		7 482 Cr
Mar 15	Cash at bank (6150 x 98%)	6 027		1 455 Cr
Mar 17	Inventory (500 x 97%)	485		970 Cr
Apr 1	Balance B/d			970 Cr

(b) To encourage bulk purchase/customer patronage/customer loyalty.
(c) Profit will decrease by $123.

(d) Credit note

(e) Natalie purchases inventory on credit so that payments can be made later and cash can be used for other operations of the business.

Accept reasonable explanations.

(f)

Fixture and fittings sold – 1 May 2021
(1) Cost = $12 000
(2) Accumulated depreciation = $12000 x 10% x 2 years = $2 400
(3) Sales Proceeds = $5 000 (Other receivables, Lucas Pte Ltd)
(4) Loss on sale of NCA = $9 600 - $5 000 = $4 600

NBV= (1)-(2)= $9 600, Loss on Sale of NCA =$4 600

(g) Depreciation of fixtures and fittings= (Cost – scrap value) x rate
= ($56000-$12000) x 10% + ($13600 -0) x 10% x 3/12
= $4400 + $340
= $4 740

Question 4

(a)

Leong Trading Pte Ltd		
Statement of financial position as at 31 December 2020 (extract)		
Liabilities	$	$
Non-current liabilities		
Long term borrowings		150 000
Current liabilities		
Current portion of long term borrowing		50 000
Interest expense payable ($200 000 x 3% x 8/12)		4 000

(b)

Journal			
Date	Particulars	Dr ($)	Cr ($)
2021			
Dec 31	Income Summary	5 000	
	Interest expense		5 000

Interest expense (31 Dec 2021) = ($200 000 x 3% x 4/12) + ($150 000 x 3% x 8/12) = $5 000

(c) State a difference between bank overdraft and bank loan.

- How it arise

  A bank loan is an amount borrowed from the bank for a fixed period and has to be repaid on a regular basis on a particular date while a bank overdraft is an arrangement made with the bank to allow the business to withdraw more money than they have from their bank account.

- Repayment

  For bank loans, the business makes regular cash payments in equal instalments over the loan period or a one-time lump-sum payment at the end of the loan period to reduce the principal sum. For bank overdraft, the business deposits cash into the bank account within the year to reduce the overdraft.

- Classification in the statement of financial position

  Long term borrowings (bank loans) are classified as a non-current liability in the statement of financial position while the current portion of the long term borrowings is classified as a current liability in the statement of financial position. Bank overdraft is classified as a current liability in the statement of financial position.

Accept other reasonable explanations.