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Class			
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Index Number		
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BROADRICK SECONDARY SCHOOL

SECONDARY 4 EXPRESS

SECONDARY 5 NORMAL ACADEMIC

PRELIMINARY EXAMINATION 2022

PRINCIPLES OF ACCOUNTS

7087/01

Paper 1

September 2022

Candidates answer on the Question Paper.

1 hour

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your name, index number and class in the spaces at the top of this page.

Write in dark blue or black pen.

You may use an HB pencil for any diagrams or graph.

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

You may use a calculator.

Answer **all** questions.

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

The total mark for this paper is 40.

Target Grade:
Actual Grade:
For Examiner's Use
40

Parent's Signature: _____

This document consists of 8 printed pages including the cover page.

Setter(s) : Mr. Lim Shi Hao

[Turn over

Answer **all** questions.

- 1 Lucien runs a business trading in books. Its financial year ends on 31 May every year. The business trial balance as at 31 May 2022 is balanced. However, some errors has since been discovered.

REQUIRED

- (a) Explain two purposes of preparing a trial balance.

.....

.....

.....

..... [2]

- (b) Explain the limitation of a trial balance.

.....

.....

.....

..... [2]

- (c) State the amount and effect of the following errors on Lucien's business profit for the year ended 31 May 2022:

- (i) Purchase of van \$900 has been debited to the motor expense account.

..... [2]

- (ii) Credit note of \$670 issued to a customer had been debited to trade receivable account and credited to sales returns account.

..... [2]

- (d) Name and define one ethical principle.

.....

.....

..... [2]

[Total : 10]

[Turn over

- 2 The cash at bank account and bank statement of Corinthian's business for the month of April 2022 were as follows:

Cash at Bank Account

Date 2022	Particulars	Cheque No.	Debit \$	Credit \$	Balance \$
Apr 1	Balance b/d				5 800 Dr
6	Insurance	415		3 400	2 400 Dr
9	Cash in hand		5 200		7 600 Dr
16	Rent	416		3 200	4 400 Dr
18	Eve		3 040		7 440 Dr
23	Jed		1 600		9 040 Dr
26	Utilities	417		1 040	8 000 Dr
May 1	Balance b/d				8 000 Dr

Bank Statement

Date 2022	Particulars	Payments \$	Receipts \$	Balance \$
Apr 1	Balance b/d			6 640 Cr
3	Cheque 414	840		5 800 Cr
9	Cash		5 200	11 000 Cr
21	Cheque deposit		3 040	14 040 Cr
22	Cheque 416	3 200		10 840 Cr
24	Rejected cheque	3 040		7 800 Cr
26	Credit transfer: Barbie		1 160	8 960 Cr
29	Cheque 417	1 400		7 560 Cr

Additional information

It was discovered that the bank had incorrectly recorded the transaction for cheque 417.

REQUIRED

- (a) State two other ways of internal control, besides bank reconciliation, a business may use to safeguard cash balances.

[2]

- 3** Matthew runs an advertising agency. His business has a financial year end of 30 June. The following information has been provided:

	\$
At 1 July 2021	
Insurance owing	298
Rent income due	2 210
During the year ended 30 June 2022	
Insurance paid by cheque	4 200
Rent received by cheque	27 000
At 30 June 2022	
Insurance paid in advance	318
Rent income due	1 730

REQUIRED

- (a)** Name the accounting theory which must be used when it is assumed that a business will continue to operate for the foreseeable future.

.....
 [1] [1]

- (b)** State the accounting theory that is being applied when calculating the amounts for insurance expense and rent income for the year ended 30 June 2022.

.....
 [1]

- (c)** Calculate the amount to be included in the statement of financial performance of the business for the year ended 30 June 2022 for rent income. Show all workings.

.....

 [4]

(d) Prepare the journal entries to account for insurance expense for the year ended 30 June 2022, including the closing entry. Narrations are not required.

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[4]

[Total : 10]

[Turn over

- 4 Walker runs a trading business. The following transactions took place with a credit customer, Rose during July 2022.

2022

July

- 2 Goods, \$1200, were supplied to Rose
- 8 Rose paid Walker \$600
- 11 Rose returned faulty goods, cost \$150
- 22 Rose paid Walker the outstanding balance on her account by cheque
- 30 The bank returned Rose's cheque due to insufficient funds

The balance on Rose's account was still outstanding at the end of Walker's financial year on 31 August 2022. Walker decided to write off the balance in full.

REQUIRED

- (a) Prepare the journal entry to write off the outstanding balance as at 31 August 2022. A narration **is** required.

[4]

- (b) Explain why a business may decide to make an allowance for impairment of trade receivables.

[2]

- (c) Name one accounting theory which is applied when making an allowance for impairment of trade receivables.

[1]

Walker		Gilbert	
2020	2021	2020	2021
9.27 times	11.91 times	8.28 times	5.88 times

(d) Evaluate the rate of inventory turnover for both businesses for both years.

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[5]

[Total: 12]

-End of Paper-

Suggested Solution

Q1

(a) Explain two purposes of preparing a trial balance. [2]

- 1 facilitate the preparation of financial statements✓
- 2 ensure arithmetic accuracy in recording✓

(b) Explain the limitation of a trial balance is balanced. [2]

A trial balance is not an absolute proof of accuracy of transactions recorded in ledger accounts (1)

Because there may be errors which would not affect the balancing of the trial balance and thus would not be revealed. (1)

- (c)(i) Profit Understated(1) by \$900(1)
 (ii) Profit Overstated(1) by \$1340 (1)

(d) Name: Integrity (1)

Definition: being straightforward and honest in all professional and business relationships (1)

OR

Name: Objectivity (1)

Definition: not letting bias, conflict of interest or undue influence of others override professional judgement (1)

2 (a) 2M for any 2:

- Segregation of duties
- Custody over cash
- Authorisation

(b)

Cash at bank a/c					
Date	Particulars	Dr (\$)	Cr (\$)	Bal (\$)	
2021					
Apr 30	Balance b/d			8 000 Dr	
	Barbie	1160			[1]
	Eve (dishonoured cheque)		3 040		[1]
May 1	Balance b/d			6 120 Dr	

(c) (minus one mark for no proper heading)*

Corinthian		
Bank reconciliation statement as at 30 April 2022		
	\$	
Balance as per bank statement	7 560	
Add: Deposit in transit*		
• Jed	1 600	[1]
• Error cheque 417	360	[1]
Less: Cheque not yet presented*		
• Insurance (Cheque No 415)	3400	[1]
Adjusted balance as per cash at bank account	6 120	[1]

Q3

(a) Going concern (1)

(b) Accrual basis of accounting / matching theory [1]

(c) Rent income for the year = Cash collected – receivable (beg) + receivable (end)
 = 27000 (1) – 2210 (1) + 1730 (1)
 = \$ 26 520 (1)

(d)

General Journal			
Date	Particulars	Dr (\$)	Cr (\$)
2021			
July 1	Insurance payable	298	
	Insurance expense		298
2022			
June 30	Insurance expense	4 200	
	Cash at bank		4 200
Jun 30	Prepaid insurance expense	318	
	Insurance expense		318
Jun 30	Income summary	3 584	
	Insurance expense		3 584

[1]

[1]

[1]

[1]

Q4 (a)

General Journal			
Date	Particulars	Dr (\$)	Cr (\$)
2022			
Aug 31	Allowance for impairment of trade receivables (1)	450(1)	
	Trade receivables Rose (1)		450
	Write off Rose's outstanding balance (1)		

(1200 - 600 - 150 = 450)

[1]

- (b) At the end of each period, a business may review how much it may not be able to collect from its outstanding receivables (1).

It may estimate the amount that is not likely to be collectible in order to ensure that trade receivables and profit are not overstated. (1)

- (c) Prudence (1) OR Matching (1)

Q4(d)

Walker's rate of inventory turnover has improved from 9.27 to 11.91 times (1)

Which means that Walker's business is managing inventory more efficiently / selling its inventory on a faster rate than last year (1)

Gilbert's rate of inventory turnover has worsened from 8.21 to 5.88 times (1)

Which means that Gilbert's business is managing inventory less efficiently / selling inventory on a less timely (slower) basis than last year (1)

Walker's rate of inventory turnover is higher than Gilbert in both years, which means that Walker is better at managing inventory efficiently. (1)

There is not sufficient information to say why this might be the case but Walker and Gilbert are in the same industry so it is appropriate to make a comparison. (1)

Reasons why Walker has a better rate of inventory turnover may be because:

- Walker offer trade discounts for customers to buy in bulk and regularly(1)
- Walker reduce selling price for slow-moving goods (1)
- Walker attract more customers through marketing campaigns (1)
- Walker uses technological tools to improve accuracy of predictions about customer demand (1)

[any 5]