

PEI HWA SECONDARY SCHOOL
Principles of Accounts
Secondary Four

Non-Current Assets
Quiz 2

Name: _____ () Date: _____

Class: _____ Teaching Group Name: _____

Question 1 (10 Marks)

Jermaine Tools bought **two** pieces of equipment on 1 January 2020 for \$50 000 each by cheque. The following accumulated depreciation of equipment account relates to these two pieces of equipment.

The financial year ends on 31 December.

Accumulated depreciation of equipment account

Date	Particulars	Debit	Credit	Balance
2020		\$	\$	\$
Dec 31	Depreciation of equipment		15 000	15 000 Cr
2021				
Jan 1	Balance b/d			15 000 Cr
Dec 31	Depreciation of equipment		12 750	27 750 Cr
2022				
Jan 1	Balance b/d			27 750 Cr

REQUIRED

- (a) State **one** cause of depreciation. [1]
- (b) State the method used by Jermaine Tools to depreciate its equipment. [1]
- (c) Calculate the net book value of the equipment as at 31 December 2022. [3]

On 1 February 2022, the business purchased a new equipment on credit from JL Industrial. The following relates to the new equipment purchased.

	\$
Purchase price of equipment	40 000
Installation cost of equipment	5 250
Delivery fee for transportation of equipment	1 720
Utilities to operate the equipment	650
Salary of equipment operator	3 500

REQUIRED

- (d) Explain the meaning of capital expenditure. [2]
- (e) Calculate the cost of the equipment purchased on 1 February 2022. [3]

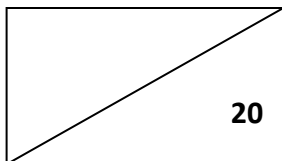
[Total: 10 Marks]

SOLUTIONS

Question 1

PAYA LEBAR METHODIST GS

	<u>Marks</u>
(a) Wear and tear/obsolescence/usage/legal limits any one	1
(b) Reducing balance method	1
(c) Net book value = 50000×2 [1] - (15000[1]+12750[1]) =\$72250	3
(d) Capital expenditure is - Cost to buy [1] and bring non-current assets to their intended use [1]; or - Costs to enhance non-current assets [1]; or - Provide benefits for more than 1 year [1]. Any two points	2
(e) Cost of equipment = $\$40000$ [1] + $\$5250$ [1] + $\$1720$ [1] '=\$46970	3



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)

Journal			
Date	Particulars	Debit	Credit
2023			
Apr 30	Depreciation - fixtures and fittings $[(3000 \times 2) + 500] \times 10\%$	650	
	Accumulated depreciation - fixtures and fittings	[2]	650

(b)

Any 2 of the following:

Wear and Tear

Usage

Obsolescence

Legal Limits

PEI HWA SECONDARY SCHOOL PRINCIPLES OF ACCOUNTS		
Name:	()	Class: Date:
Topic: Non-Current Assets #7		

Question 1 (Bartley 2023 4N Prelim)

On 1 January 2021, Lai Huat provided the following information from his books.

	\$
Machinery	500 000
Accumulated depreciation of machinery	100 000

The accountant depreciates all machinery at 10% per annum using the reducing-balance method. On 1 October 2022, Lai Huat purchased a new machine costing \$200 000.

It is the business' policy to record a full year worth of depreciation in the year of purchase.

REQUIRED

- (a) Calculate the depreciation of machinery for the year ended 31 December 2021. [1]
- (b) Prepare journal entries to record depreciation of machinery for the year ended 31 December 2022. Workings **are** required. [3]
- (c) Prepare an extract of the statement of financial position as at 31 December 2022. [2]
- (d) Explain, with an accounting theory, why the accountant should use the same depreciation method to record depreciation for machinery across the years. [2]

On 1 January 2023, Lai Huat purchased a motor vehicle. He also incurred other costs along with the motor vehicle purchased and is unsure of how to account for them.

	Revenue expenditure	Capital expenditure
Cost of motor vehicle		
Shipping fees		
Legal fees		
Salary expense for driver		

REQUIRED

- (e) Copy the entire table above onto the answer booklet and classify the expenditure by putting a tick (✓) in the appropriate column. [4]
- (f) State the effect on profit for the year and non-current assets if revenue expenditure is wrongly classified as capital expenditure. [2]

Question 2 (Admiralty 2023 4N Prelim)

On 1 January 2020, Maxx Trading purchased a motor van for \$30 000 by cheque. The business policy is to provide a full year's depreciation in the year of purchase.

The following accumulated depreciation of motor vehicles was provided.

Accumulated depreciation of motor vehicles account

2020		Dr \$	Cr \$	Bal \$
Dec 31	Depreciation of motor vehicles		7 500	7 500 Cr
2021				
Jan 1	Balance b/d			7 500 Cr
Dec 31	Depreciation of motor vehicles (d)		5 625	13 125 Cr
2022				
Jan 1	Balance b/d			13 125 Cr

REQUIRED

- (a) Interpret the entry on 31 December 2021 and explain the impact on the net book value of the motor vehicles. [2]
- (b) Calculate the annual rate of depreciation applied. [1]
- (c) State the method used by Maxx Trading to depreciate its motor vehicles. [1]
- (d) Calculate the net book value of the motor vehicles as at 31 December 2021. [1]

Solutions

Question 1:

BARTLEY

(a) $(500\,000 - 100\,000) \times 10\% = \$40\,000$

(b) .

Journal			
Date	Particulars	Debit	Credit
2022			
Dec 31	Depreciation of Machinery	56 000	
	Accumulated depreciation of machinery Workings: MV1: $(500\,000 - 100\,000 - 40\,000) \times 10\% = 36\,000$ MV 2: $200\,000 \times 10\% = 20\,000$ Total depreciation for 2022: $36\,000 + 20\,000 = 56\,000$		56 000

*Correct entry account = 1m, Correct Workings = 1m, correct answer = 1m

(c).

Lai Huat

Statement of Financial Position for the year ended month ended 31 December 2022 (extract)

.....			
Non-current assets	Cost	Accumulated Depreciation	Net book value
Machinery	700 000	196 000(1m)	504 000 (1m, ecf)
(AD: $100\,000 + 40\,000 + 56\,000$)			

.....

* Correct account and amount – 1m. Account has to be under correct header.

(d) Consistency theory. Accountant should use the same depreciation method in order to allow meaningful comparison of net book value across the financial years.

(e) .

	Revenue expenditure	Capital expenditure
Motor vehicle		√
Shipping fees		√
Legal fees		√
Salary expense for driver	√	

- (f) Profit for the year will be overstated. (1m)
Non current assets will be overstated. (1m)

Question 2:

ADMIRALTY

a)

For the year ended 31 December 2021, the annual depreciation of the motor vehicles was \$5 625.[1] As a result, the net book value of the motor vehicles decreased by \$5 625. [1]

b)

Annual rate of depreciation
 $= 7\,500 / 30\,000 \times 100\%$
 $= 25\%$ [1]

c)

Reducing balance method [1]

d)

Net book value
 $= \$30\,000 - \$13\,125$
 $= \$16\,875$ [1]

PEI HWA SECONDARY SCHOOL PRINCIPLES OF ACCOUNTS		
Name:	()	Class: Date:
Topic: Non-Current Assets #6		

Question 1 (Pei Cai 2023 4N Prelim)

On 1 July 2022, Tan Enterprise, trading in lamps, provided the following information:

	\$
Fixtures and fittings	90 000
Accumulated depreciation of fixtures and fittings	6 000

The existing fixtures and fittings have a useful life of 15 years with no scrap value.

On 30 September 2022, Tan, the owner contributed the following assets to the business:

	\$
Delivery van	20 000
Set of dining table and chairs	5 000
Lamps for resale	10 000

The new fixtures and fittings have useful life of 4 years with scrap value of \$200.

REQUIRED

- (a) Prepare the journal entry to record the transaction on 30 September 2022. A narration is **not** required. [4]
- (b) (i) Define depreciation. [1]
- (ii) State **two** causes of depreciation. [2]
- (c) For the year ended 30 June 2023, calculate the depreciation of fixtures and fittings. [2]
Show all workings clearly.

For the next financial year, Tan is considering changing the depreciation method to the reducing-balance method.

REQUIRED

- (d) With an accounting theory, explain to Tan if he can change the depreciation method. [2]

Solutions

Question 1:

PEI CAI

(a)

Journal

Date	Particulars	Debit	Credit	
2022		\$	\$	
Sep 30	Motor vehicles	20 000		[1]
	Fixtures and fittings	5 000		[1]
	Inventory	10 000		[1]
	Capital		35 000	[1]

(b)(i)

Depreciation is the allocation of the original cost of a non-current asset over its estimated useful life. [1]

(b)(ii) Causes of depreciation are

Usage (depletion)

Wear and tear

Obsolescence

Legal limits

Any two causes [2] marks

(c) Depreciation of fixtures and fittings

For the \$90 000: Depreciation = $90000 / 15 = \$6\,000$ [1]

For the \$5 000: Depreciation = $[(5000 - 200) / 4] \times \frac{9}{12} = \900 [1]

Total depreciation expense for fixtures and fittings for the year ended 30 June 2023 = \$6 900

(d) Consistency theory. [1]

A business should use the same method of depreciation (and rate of depreciation) every financial period to enable **meaningful comparison** of the net book value of non-current assets over time. **[1]**

PEI HWA SECONDARY SCHOOL PRINCIPLES OF ACCOUNTS		
Name: ()	Class:	Date:
Topic: Non-Current Assets #5 (HBL)		

Question 1 (Hai Sing 2021 4N Prelim)

On 1 January 2019, Howard Transport has the following balance.

	\$	
Motor vehicles		35000
Accumulated depreciation		9300

The motor vehicles are depreciated at 20% per annum using the reducing-balance method and records a full year depreciation in the year of purchase.

On 14 March 2020, Howard Transport purchased a new motor vehicle from Pantheon Motors on credit for \$40000.

REQUIRED

- (a)** Prepare the journal entry to record the purchase of the new motor vehicle. A narration **is** required. [3]
- (b)** Calculate the depreciation expense and accumulated depreciation for the motor vehicles for the years ended 31 December 2019 and 2020. All workings must be shown. [5]
- (c)** State **one** cause of depreciation. [1]
- (d)** Complete the following table by indicating with a “✓” under the correct expenditure. [3]

	Capital expenditure	Revenue expenditure
Delivery of motor vehicles to the business.		
Replacement of used tyres.		
Purchase price of the motor vehicles.		

- (e)** Explain the materiality theory. [1]

[Total: 13]

PEI HWA SECONDARY SCHOOL PRINCIPLES OF ACCOUNTS		
Name:	()	Class: Date:
Topic: Non-Current Assets #4		

Question 1 (Tampines 2021 4N Prelim)

Yani's business trades in office stationery supplies. The business financial year ends on 31 December every year.

During the month of January 2020, the business purchased an equipment and incurred other costs related to the equipment as shown below.

	\$
Cost of equipment	15 000
Utilities to operate the equipment	2 700
Installation cost of equipment	1 300
Delivery cost of equipment	600

REQUIRED

- (a) Explain **one** difference between capital expenditure and revenue expenditure.
- (b) Calculate the cost of the new equipment.

In March 2020, the business installed an additional component which cost \$70 to improve the features and overall operations of the equipment. She decided not to include the cost of \$70 in the total cost of the equipment. Yani's business owns assets worth above \$300 000 and generates annual profits of close to \$130 000 each year.

REQUIRED

- (c) Name a relevant accounting theory to support her decision.

In March 2020, the business bought fixtures and fittings costing \$5900. The fixtures and fittings has a useful life of 5 years and an estimated scrap value of \$100.

The business decides to depreciate its fixtures and fittings using the straight-line method. It is the business policy to charge a full year's depreciation in the year of purchase.

REQUIRED

- (d) Calculate the depreciation expense for the fixtures and fittings for the year 2020.
- (e) Prepare journal entry to record the depreciation of fixtures and fittings for the year ended 31 December 2020. A narration **is** required.
- (f) Calculate the net book value of the fixtures and fittings as at **31 December 2021**.

Question 2 (Swiss Cottage 2021 4N Prelim)

The Royal Honey House sells pure honey. The business has the following balances on 1 May 2020.

	\$
Office equipment	13 000
Accumulated depreciation	5 500

The business bought a new equipment, \$4 500 on 1 May 2020 by cheque. The installation fee and assembling charges for the office equipment amounted to \$1 100 and electricity expenses for the financial year ended 30 April 2021 was \$800. The business depreciates its equipment at 20% per annum using the reducing-balance method.

REQUIRED

- (a) Copy the following table onto your answer paper and classify each expenditure as a 'capital expenditure' or 'revenue expenditure'.

		Type of expenditure
(i)	Purchase of office equipment on 1 May 2020 for \$4 500	
(ii)	Paid installation fee and assembling charges for office equipment \$1 100	
(iii)	Paid electricity expenses for the usage of equipment \$800	

- (b) Explain **one** difference between capital expenditure and revenue expenditure.
- (c) Prepare the journal entry to record the capital expenditure on 1 May 2021. A narration is not required.
- (d) Prepare the office equipment account for the year ended 30 April 2021.
- (e) Calculate the depreciation expense for the year ended 30 April 2021.
- (f) Prepare the journal entry to record the depreciation for the motor vehicles for the year ended 30 April 2021. Narrations are not required.

Question 3 (adapted from Sembawang 2021 4N Prelim)

The accounting year of Lynn's business ends on every 30 September.
On 1 April 2020, Lynn bought a \$40 000 furniture on credit from Pei.
Depreciation on furniture is charged at 20% on cost.

REQUIRED

- (a) Prepare the journal entry for the transaction on 1 April 2020.
Narrations are not required.
- (b) Prepare the depreciation of furniture and fittings account for each of the two years ended 30 September 2020 and 2021.
- (c) Prepare the accumulated depreciation of furniture and fittings account for each of the two years ended 30 September 2020 and 2021.
- (d) Name the theory that explains the need of using the same depreciation method every year.
- (e) Explain why the business uses straight line depreciation method rather than reducing balance method for furniture and fittings.
- (f) State the effect on the profit for the year if the business does not charge depreciation.

Question 4 (St Anthony's Canossian 2021 4N Prelim)

Insyirah runs a 'T-shirt' printing business. Her financial year ends on 30 June every year. She purchased a printing machine costing \$20 000 on 1 July 2019. She depreciates her printing machine at 20% using the reducing balance method.

REQUIRED

- (a) Define depreciation.
- (b) State **two** causes of depreciation.
- (c) Explain the accounting theory which relates to depreciation.
- (d) Calculate the depreciation expense for each of the two years ended 30 June 2020 and 30 June 2021.
- (e) Prepare the journal entry to record the depreciation expense for machinery for the year ended 30 June 2021. A narration **is** required.

Insyirah incurred the following expenditure in relation to the printing machine.

- (f) Copy the table and place a (✓) in the appropriate column to show whether each item should be treated as revenue or capital expenditure.

	Item	Revenue expenditure	Capital expenditure
(i)	Import tax of printing machine		
(ii)	Delivery cost of printing machine		
(iii)	Installation of printing machine		
(iv)	Repairs and maintenance of printing machine		

Solutions

Question 1:

TAMPINES 4N PRELIM 2021

(a) **Accept any of the following:**

Capital expenditure (1)	Revenue expenditure (1)
1. Purchase costs and any related costs incurred to bring NCA to its intended use.	1. Costs to operate, repair and maintain the NCA in working conditions.
2. Provide benefits for more than one year.	2. Provide benefits which will be used within one year.
3. Recorded as non-current asset.	3. Recorded as expense.

(b) **Cost** = 15000 + 1300 (1) + 600 (1) = \$16,900 (1)

(c) **Materiality (1)**

(d) **depreciation expense** = $(5900 - 100 (1)) \div 5 = \$1160 (1)**OF**$

Journal					
(e)	Date	Particulars	Dr (\$)	Cr (\$)	
	2020				
	Dec 31	Depreciation of office equipment	1,160		(1)OF
		Accumulated depreciation of office equipment		1,160	(1)OF
		Being annual depreciation of office equipment			(1)

(f) **net book value** = $5900 - 1160 \times 2 (1)$ **OF** = \$3580 (1)**OF**

[Total: 13]

Question 2:

SWISS COTTAGE 4N PRELIM 2021

(a)

		Type of expenditure	
(i)	Purchase of office equipment on 1 May 2020 for \$4 500	Capital expenditure	(1)
(ii)	Paid installation fee and assembling charges for office equipment \$1 100	Capital expenditure	(1)
(iii)	Paid electricity expenses for the usage of equipment \$800	Revenue expenditure	(1)

[3]

(b) Capital expenditure is the purchase of non-current asset or the cost of getting the non-current asset ready to be used while revenue expenditure is the cost to operate, repair and maintain the non-current assets in working conditions.

Capital expenditure provide benefits for more than one year while revenue expenditure provide benefits which will be used within one year.

Capital expenditure is recorded as a non-current asset in the statement of financial position while revenue expenditure is recorded as an expense in the statement of financial performance.

Any 1 differences. (2 marks)

[2]

(c)

Journal				
Date	Particulars	Dr (\$)	Cr (\$)	
2021				
May 1	Office equipment (4 500 + 1 100)	5 600		(1)
	Cash at bank		5 600	(1)

[2]

(d)

Office equipment				
Date	Particulars	Dr (\$)	Cr (\$)	Bal (\$)
2020				
May 1	Bal b/d			13 000 Dr
	Cash at Bank	5 600		18 600 Dr (2)
May 1	Bal b/d			18 600 Dr (1)

[3]

(e)

$$\begin{aligned} \text{Depreciation} &= (13\,000 - 5\,500) \times 20\% + (4\,500 + 1\,100) \times 20\% \\ &= \$2\,620 \end{aligned}$$

[2]

Journal				
Date	Particulars	Dr (\$)	Cr (\$)	
2021				
Apr 30	Depreciation expense	2 620		(1)
	Accumulated depreciation		2 620	(1)

[2]

[Total: 14]

Question 3:

SEMPAWANG 4N PRELIM 2021

(a)

Journal					
Date	Particulars	Dr	Cr		
2021		\$	\$		
Mar 1	Dr Furniture and fittings	40 000		1m	
	Cr Trade payable, Pei		40 000	1m	

(b)

Depreciation on furniture and fittings account					
Date	Particulars	Dr	Cr	Balance	
2020		\$	\$	\$	
Sep 30	Accumulated depreciation $40000 \times 20\% \times 6/12 = 4\ 000$	4 000		4 000 Dr	1m
30	Income summary		4 000	0	
2021					
Sep 30	Accumulated depreciation	8 000		8 000 Dr	1m
30	Income summary		8 000	0	1m

(c)

Accumulated Depreciation on furniture and fittings account					
Date	Particulars	Dr	Cr	Balance	
2020		\$	\$	\$	
Sep 30	Depreciation		4 000	4 000 Cr	OF1m
Oct 1	Balance b/d			4 000 Cr	
2021					
Sep 30	Depreciation		8 000	12 000 Cr	OF1m
Oct 1	Balance b/d			12 000 Cr	1m

(d)

Consistency concept 1m

(e)

Straight line is for non current assets that provide same amount of benefits across the year which applies to furniture. 1m

Reducing balance is for non current assets that provide higher amount of benefits in the early years and lower benefits during later years. This does not apply to furniture. 1m

(f)

Profit will be overstated (depreciation expenses not recorded, profit too high) 1m

[Total: 12]

Question 4:

ST ANTHONY 4N PRELIM 2021

- (a) Depreciation is the allocation of the original cost of a non-current asset over its useful life. [1]

- (b) **Two** causes of depreciation:

- Usage
- Wear and tear
- Obsolescence
- Legal limits

Any 2 points [2]

- (c) The matching theory ✓ states that the depreciation expense should be matched with the revenue generated from the non-current assets to derive the profit for the financial period. ✓ [2]

- (d) Depreciation of machinery for the year ended 30 June 2020
= 20% x 20 000
= \$4000 [1]

Depreciation of machinery for the year ended 30 June 2021
= 20% x (20000 - 4000)
= \$3200 [1]

- (e) Journal

Date	Particulars	Dr	Cr
2021		\$	\$
Jun 30	Depreciation of machinery	✓ 3 200	
	Accumulated depreciation of machinery		✓ 3 200
	Depreciation charge of 20% on reducing balance method for machinery ✓		

[3]

- (f)

	Item	Revenue expenditure	Capital expenditure
(i)	Import tax of printing machine		✓
(ii)	Delivery cost of printing machine		✓
(iii)	Installation of printing machine		✓
(iv)	Repairs and maintenance of printing machine	✓	

[4]

[Total: 14]

PEI HWA SECONDARY SCHOOL PRINCIPLES OF ACCOUNTS		
Name:	()	Class: Date:
Topic: Non-Current Assets #3		

Question 1 (Tanglin 2021 4N Prelim)

Wesley Tools bought two pieces of equipment on 1 July 2019 for \$15 000 **each** by cheque. The following accumulated depreciation of equipment account relates to these two pieces of equipment. The financial year ends on 30 June.

Accumulated depreciation of equipment account				
Date	Particulars	Debit	Credit	Balance
		\$	\$	\$
2020				
Jun 30	Depreciation		3 000	3 000 Cr
Jul 1	Balance b/d			3 000 Cr
2021				
Jun 30	Depreciation		3 000	6 000 Cr
Jul 1	Balance b/d			6 000 Cr

REQUIRED

- State **two** causes of depreciation.
- State the method used by Wesley Tools to depreciate its equipment.
- Calculate the net book value of the equipment shown in the statement of financial position as at 30 June 2021.

The consistency theory should be applied in respect of depreciation.

REQUIRED

- Explain the consistency theory.

On 15 July 2021, the business purchased a new equipment on credit from Peterson.

\$

Purchase price of equipment	13 500
Installation of equipment	340
Utilities to run the equipment	50
Delivery fee for transportation of the equipment	120

REQUIRED

- Explain the meaning of capital expenditure.
- Calculate the cost of the new equipment.
- Prepare the journal entry to record the purchase of the new equipment, using the cost calculated in part (f).

Question 2 (St Hilda's 2021 4N Prelim)

On 1 July 2019, Mercedes had the following balances:

	\$	
Motor vehicles		160 000
Accumulated depreciation of motor vehicles		55 000

On 31 January 2021, Mercedes purchased a new motor vehicle for \$60 000 on credit from Volvo Ltd. The business depreciates its motor vehicles at a rate of 20% per annum, using the reducing-balance method.

REQUIRED

- (a)** What is depreciation?
- (b)** Explain how a business should decide whether the straight-line method or the reducing method is more suitable in depreciating its non-current assets.
- (c)** Explain the accounting theory applied when Mercedes decides to use the same method to depreciate its motor vehicles over time.
- (d)** Prepare the journal entries to record the depreciation for year ended 30 June 2020 and 30 June 2021.
- (e)** Prepare the Motor vehicles account for the year ended 30 June 2020 and 30 June 2021.

Solutions

Question 1:

TANGLIN 4N PRELIM 2021

(a)

- Obsolescence (out-dated)
- Wear and Tear (Physical deterioration)
- Legal limits
- Usage

[Any 2 of the above, award 1m each]

(b) Straight-line depreciation [1]

(c) Net book value = Cost – Accumulated depreciation

$$= \$30000 - \$6\,000 \text{ [1]}$$

$$= \$24\,000 \text{ [1]}$$

(d) Consistency theory states that once an accounting method is chosen, this method should be applied to all future accounting periods [1] to enable meaningful comparison [1].

(e)

- Capital expenditure refers to the costs to buy and bring the non-current assets to their intended use.
- It includes the cost to enhance the non-current assets.
- Capital expenditure provides benefits for more than one year and is recorded as non-current asset.

[Any 2 of the above, award 1m each]

(f) $\$13\,500 + \$340 \text{ [1]} + \$120 = \$13\,960 \text{ [1]}$

(g)

Journal				
Date	Particulars	Debit	Credit	
2021		\$	\$	
Jul 15	Equipment	13 960		[1 OF]
	Trade payable - Peterson		13 960	[1 OF]

Question 2:

ST HILDA 4N PRELIM 2021

(a) Depreciation is the allocation of cost of non-current asset over its useful life. [1]

(b) A business should decide on the depreciation method based on how the non-current asset will be used by the business. [1]

If the business expects to use the non-current asset uniformly throughout the estimated useful life, straight-line method should be used. [1]

On the other hand, if the business expects to use the non-current asset more in the early years and less as the non-current asset gets older and become less efficient, then reducing balance method should be used. [1]

[1 mark each, max 2]

(c) According to the consistency theory [1], once an accounting method is chosen, this method should be applied to all future accounting period to enable meaningful comparison. [1]

(d)

Journal				
2020		Dr (\$)	Cr (\$)	
Jun 30	Depreciation - motor vehicles	21000		[1]
	Accumulated depreciation - motor vehicles		21000	[1]
2021				
Jun 30	Depreciation - motor vehicles $16800 + (5/12 \times 60000 \times 20\%)$	21800		[1]
	Accumulated depreciation - motor vehicles		21800	[1]

(e)

Motor Vehicles				
Date	Particulars	Debit	Credit	Balance
2019		\$	\$	\$
Jul 1	Balance b/d			160 000 Dr [1]
2020				
Jul 1	Balance b/d			160 000 Dr [1]
2021				
Jan 31	Trade payable - Volvo Ltd	60 000 [1]		220 000 Dr
Jul 1	Balance b/d			220 000 Dr

PEI HWA SECONDARY SCHOOL PRINCIPLES OF ACCOUNTS		
Name: ()	Class:	Date:
Topic: Non-Current Assets #2		

Question 1 (Damai 2021 4N Prelim)

Dippy Trading has a financial year that ends on 31 December, and a depreciation policy that charges a full year's depreciation in the year it purchases the non-current asset.

On 1 January 2017, the business had machinery costing \$70,000.

The following accumulated depreciation of machinery account was provided by the business.

Accumulated Depreciation of Machinery account				
Date	Particulars	DR	CR	Balance
2018		\$	\$	\$
Jan 1	Balance b/d			7,000CR
Dec 31	Depreciation of machinery		6,300	13,300CR
2019				
Jan 1	Balance b/d			13,300CR
Dec 31	Depreciation of machinery		5,670	18,970CR
2020				
Jan 1	Balance b/d			18,970CR

Required

- (a) State the method used to depreciate machinery.
- (b) Calculate the rate of depreciation for machinery.

On 1 June 2020, Dippy Trading purchased additional machinery costing \$15,000 on credit.

Required

- (c) Prepare a journal entry to record the purchase of machinery on 1 June 2020. A narration is not required.
- (d) Prepare an extract of the Statement of Financial Position as at 31 December 2020 showing the non-current assets section only.

Besides machinery, Dippy Trading also owns property.

Required

- (e) (i) Name an appropriate method of depreciation that Dippy Trading can use for property.
- (ii) Explain why the method of depreciation identified in (i) above would be appropriate for property.

Question 2 (Deyi 2021 4N Prelim)

Kingpin Trading, whose financial year ends on 31 December, owns a few office equipment and depreciates them at 10% per annum. The office equipment were purchased on 10 May 2019. A full year's depreciation is charged in the year of purchase.

The following account was extracted from the books of Kingpin Trading for the years ended 31 December 2018 and 2019.

Accumulated depreciation of office equipment				
Date	Particulars	Debit	Credit	Balance
2019		\$	\$	\$
Dec 31	Depreciation of office equipment		8 600	8 600 Cr
2020				
Jan 1	Balance b/d			8 600 Cr
Dec 31	Depreciation of office equipment		7 740	16 340 Cr
2021				
Jan 1	Balance b/d			16 340 Cr

REQUIRED

- (a) State the method used by Kingpin Trading to depreciate its office equipment.
- (b) Calculate the original cost of the existing office equipment.
- (c) Interpret the entry on 31 December 2019 and explain the impact on the net book value of the office equipment.
- (d) Kingpin Trading would like to change the method of depreciation used for office equipment. Explain, using a relevant accounting theory, why Kingpin Trading should not change the method of depreciation.

On 18 March 2021, the owner of Kingpin Trading purchased a new office equipment and paid the following amount by cheque.

	\$
Cost of office equipment	40 000
Electrical fee to run the office equipment	780
Salesman commission for purchase of office equipment	1 200
Installation of office equipment	500

REQUIRED

- (e) Calculate the cost of the new office equipment.
- (f) Prepare journal entries to record the revenue expenditure. Narrations are **not** required.
- (g) State **one** difference between capital and revenue expenditure.

The owner of Kingpin Trading received an invoice of \$400 for office equipment repairs.

REQUIRED

- (h) State the effects on profit for the year and non-current assets if the office equipment repairs is recorded as a capital expenditure.

Solutions

Question 1:

DAMAI 4N PRELIM 2021

(a) The method used to depreciate machinery is the reducing-balance method. [1]

(b) Depreciation expense = Rate of depreciation (%) x (Cost – accumulated depreciation) [0.5]

$$\text{Rate of depreciation (\%)} \times (70000 - 7000) = 6300$$

$$\text{Rate of depreciation} = (6300 / 63000) \times 100\% \text{ [1]}$$

$$= 10\% \text{ [0.5]}$$

(c)

Journal

Date	Particulars	DR	CR	
2020		\$	\$	
Jun 1	Machinery	15,000		1
	Trade payable		15,000	1

(d)

Dippy Trading

Statement of Financial Position (extract) as at 31 December 2020

Assets	\$	\$	\$
Non-current Assets	Cost	Accumulated Depreciation	Net Book Value
Machinery	(70000 + 15000)		
	85,000 [2]	(25,573)[2.5OF]*	59,427 [0.5OF]

* If no workings are shown and amount is correct, then give 2.5 marks.

Workings for Accumulated Depreciation for year ended 31 December 2020

$$= \$18,970 \text{ [0.5]} + [10\% \text{ [0.5OF]} \times (70000 - 18970) \text{ [0.5]}] + (10\% \text{ [0.5OF]} \times 15000 \text{ [0.5]})$$

$$= \$18,970 + [\$5,103 + \$1,500]$$

(e) (i) An appropriate method of depreciation for property is the straight-line method [1]

(ii) The method would be appropriate as the pattern of usage for property is assumed to be constant / about the same every year [1] and the straight-line method charges an equal amount for depreciation [0.5] over the property's / non-current asset's useful life [0.5]

Question 2:

DEYI 4N PRELIM 2021

- a) Reducing balance method [1]
- b) Original cost of office equipment = $8\,600 / 0.1 = \$86\,000$ [1]
- c) On 31 December 2018, depreciation of office equipment, \$8 600 was recorded by the business. [1]
As a result, the net book value of the office equipment would decrease by \$8 600 to \$77 400. [1]
- d) Kingpin Trading should not change the method of depreciation based on the consistency theory [1]
which states that once an accounting method is chosen, this method should be applied to all future accounting periods to enable meaningful comparison. [1]
- e) Cost of new office equipment = $\$(40\,000 + 1\,200 + 500) = \$41\,700$ [1]

f) <u>Journal</u>			
Date	Particulars	Debit (\$)	Credit (\$)
2020			
Mar 18	Electrical/ utilities expense	780 [1]	
18	Cash at bank		780 [1]

- g) Capital expenditure are amounts spent on a non-current asset that provides benefits for more than one year while revenue expenditure are amounts spent on a non-current asset that provides benefits that last for the current year. [2]

OR

Capital expenditure includes costs to purchase and bring the non-current assets to their intended use while revenue expenditure includes costs to operate, repair and maintain the non-current asset in working condition. [2]

- h) Profit for the year will be overstated by \$400. [1]
Non-current assets will overstated by \$400. [1]

[Total: 13]

PEI HWA SECONDARY SCHOOL PRINCIPLES OF ACCOUNTS		
Name:	()	Class: Date:
Topic: Non-Current Assets #1		

Question 1 (Yio Chu Kang 2021 4N Prelim)

On 1 January 2018, Axel Trading paid by cheque for two identical delivery vans costing \$80 000 each. The business depreciates its motor vehicles at a rate of 10% per annum on net book value. A full year's depreciation is charged in the year of purchase. Axel Trading's financial year ends on 30 June.

On 1 July 2018, the business bought a lorry for \$100 000 by cheque.

REQUIRED

- Calculate the depreciation expense for each of the two years ended 30 June 2018 and 2019.
- Prepare the motor vehicles ledger account for the years ended 30 June 2018 and 2019.
- Prepare extracts of the statement of financial performance for the years ended 30 June 2018 and 2019, showing only the relevant sections.
- Prepare extracts of the statement of financial position as at 30 June 2018 and 2019, showing only the non-current assets section.
- Using an appropriate accounting theory, explain why businesses should depreciate its non-current assets.

Question 2 (ZSS 2021 4E5N MYE)

On 1 March 2021, Nelly Medicals bought a new medical equipment for the business. The following amounts were incurred and paid by cheque.

	\$
Purchase of equipment	70 000
Delivery charges	500
Equipment installation cost	600
Import duty on equipment	200
Wages of staff operating the equipment	4 000

- Calculate the cost of the equipment.
- Prepare the journal entries to record the expenditures
- Explain how a non-current asset should be valued in the statement of financial position.

Question 3 (Serangoon Garden 2021 4E5N MYE)

Cherry Bloom incurred the following expenditure in relation to the ovens.

	\$
(i) Installation of ovens	1 900
(ii) Utilities to run the ovens	510

- (a) Classify the above expenditure (i) and (ii) appropriately into capital expenditure or revenue expenditure.
- (b) State the effect on profit for the year if capital expenditure is wrongly treated as revenue expenditure.
- (c) Name the accounting theory that states that capital expenditure can be treated as revenue expenditure if the payment is insignificant to the decision-making of the business.

Question 4 (Whitley 2021 4N Prelim)

Ice Cool Trading buys and sells fresh cut fruits. During the month of March 2019, the business purchased a refrigerator and paid the following amounts by cheque.

	\$
Cost of refrigerator	4 870
Utilities to run the refrigerator	500
Delivery fee of refrigerator	100
Installation fees of refrigerator	450

REQUIRED

- (a) Explain **two** differences between capital expenditure and revenue expenditure.
- (b) Calculate the total capital expenditure of the refrigerator for the month of March 2019.
- (c) Prepare the journal entry to record the revenue expenditure of the refrigerator for the month of March 2019. Narration is **not** required.

On 1 April 2019, Ice Cool Trading provided the following information.

	\$
Equipment	18 000
Accumulated depreciation of equipment	1 800

On 1 June 2020, Ice Cool Trading purchased a new piece of equipment for \$5 000 by cheque.

The business depreciates its equipment at 10% per annum using the reducing-balance method. A full year's depreciation is charged in the year of purchase.

REQUIRED

- (d) State **two** causes of depreciation.
- (e) Prepare journal entries to record the depreciation of equipment for the **each of two** years ended 31 March 2020 and 2021.

Solutions

Question 1:

YIO CHU KANG 4N PRELIM 2021

- (a) 30 JUNE 2018 : $(80000 \times 2) \times 10\% = \16000 ✓
 30 JUNE 2019 : $(160000 - 16000) \times 10\% = \14400 ✓✓
 : $100000 \times 10\% = \$10000$ ✓

(b)

MOTOR VEHICLE

DATE	PARTICULARS	DR(\$)	CR(\$)	BAL(\$)
2018 JAN 1	CASH AT BANK (80000X2)	160000 ✓		160000DR
JUL 1	BAL B/D			160000DR ✓
	CASH AT BANK	100000 ✓		
2019 JUL 1	BAL B/D			260000DR ✓

(c)

AXEL TRADING STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018 (EXT)				
LESS: OTHER EXPENSES				
DEPRECIATION – MOTOR VEHICLES			16000	✓

AXEL TRADING STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019 (EXT)				
LESS: OTHER EXPENSES				
DEPRECIATION – MOTOR VEHICLES			24400	✓

(d)

AXEL TRADING STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018 (EXT)				
NON-CURRENT ASSETS		COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
MOTOR VEHICLES		160000 ✓	(16000) ✓	134000 ✓

AXEL TRADING STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019 (EXT)				
MOTOR VEHICLES		COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
PREPAID INSURANCE EXPENSE		260000 ✓	(40400) ✓	219600 ✓

- (e) **Prudence Theory** – Depreciation prevents assets from being overstated and expenses from being understated.

OR

MATCHING THEORY ✓: DEPRECIATION IS AN EXPENSE INCURRED FOR THE YEAR WHICH NEEDS TO BE INCLUDED IN TOTAL EXPENSES, TO BE MATCHED WITH TOTAL INCOME EARNED FOR THE YEAR IN ORDER TO OBTAIN A TRUE AND FAIR VALUE OF PROFIT FOR THE YEAR. ✓

Question 2:

ANSWER FOR ZSS MYE 2021

- (a) Cost of the equipment
= 70 000+500+600+200
= \$71 300

Journal			
2021	Particulars	Dr \$	Cr \$
Mar 1	Equipment	71 300	
	Cash at bank		71 300
1	Wages expense	4 000	
	Cash at bank		4 000

- (c) Non-current assets should be valued at net book value which is the cost less accumulated depreciation.

Question 3:

- (a) Installation of ovens \$1900 is capital expenditure. □□

Utilities to run the ovens \$510 is revenue expenditure. □□ [2]

- (b) If capital expenditure is wrongly treated as revenue expenditure, profit for the year will be understated (decreased). □□ [1]

- (c) Materiality theory. □□ [1]

Only transactions that are significant enough to affect decision making should be recorded according to accounting rules.

Question 4:

WHITLEY 4N PRELIM 2021

(a)

Capital expenditure	Revenue expenditure
Costs to buy and bring the non-current asset to its intended use	Costs to operate, repair and maintain the non-current asset in working condition

OR

Provides benefits for more than one year	Provide benefits which will be used immediately
--	---

OR

Recorded as non-current asset	Recorded as expense
-------------------------------	---------------------

(Any two pairs of reasons, **1m per reason**)

(b)

Capital expenditure = 4870 [0.5] + 100 [1] + 450 [1] = 5 420 [0.5]

(c)

Journal			
Date	Particulars	Dr	Cr
2020		(\$)	(\$)
Mar 31	Utilities expense	500	
	Cash at bank		500

[1]

[1]

*date not important. Mark allocated for particulars and amounts.

(d)

Wear and tear/usage of non-current /obsolescence/legal limits (**any two**)

(e)

Journal			
Date	Particulars	Dr	Cr
2020		(\$)	(\$)
Mar 31	Depreciation expense - equipment □	1 620 □□	
	Accumulated depreciation - equipment□		1 620□
2021			
Mar 31	Depreciation expense - equipment□	1 958□□	
	Accumulated depreciation - equipment□		1 958□

Depreciation of equipment (2020) = 10% x (18 000 – 1 800) = \$1 620

Depreciation of equipment (2021) = 10% x (18 000 – 1 800 – 1 620) = \$1 458

Depreciation of new equipment (2021) = 10% x 5000 = 500

Total Depreciation for 2021 = \$1458 + 500 = \$1958