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SECONDARY 4 EXPRESS / 5 NORMAL (ACADEMIC) PRELIMINARY EXAMINATION 2022

PRINCIPLES OF ACCOUNTS

7087/01

Paper 1

26 August 2022

Friday 1030 – 1130

1 hour

Students answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

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

Write in dark blue or black pen.

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

Answer **all** questions.

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

The total of the marks for this paper is 40.

- | | |
|---|------------------------|
| | 1 August
2021
\$ |
| Service fee revenue received in advance | 3 000 |

Service fee revenue received and banked in for the year ended 31 July 2022 was \$87 900.

Prepare the following:

- [illegible]

The following information relates to the rental expense for the year ended 31 July 2022:

- 1 On 1 August 2021, Jin Yun Recruitment Agency's rental expense payable account had a balance of \$1 600.
- 2 As at 31 July 2022, \$30 000 has been paid for rent.
- 3 On 31 July 2022, the rental expense payable account showed a balance \$3 600

(b) Calculate the rental expense for the year ended 31 July 2022.

[3]

- (c)** Prepare an extract of the statement of financial position as at 31 July 2022. [2]

- (d)** Explain the term 'income'. [1]

- (e)** Explain the effects on profit for the year and current assets if income receivable is not adjusted at the end of financial year. [2]

- (f) Explain the term 'expense' [1]

- (g) Explain the accrual basis of accounting for the accounting of income and expenses. [1]

- (h) State two advantages of setting up her business as a Sole Proprietorship. [2]

- (i) State two advantages that Jin Yun might consider if she decides to change the business setup to a Limited Liability Partnership. [2]

[Total: 18]

REQUIRED

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- This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

(b) Evaluate the liquidity of Rowan Trading over the two years.

[5]

(c) Recommend to Rowan Trading three ways to improve its liquidity.

[3]

[Total: 10]

- 3** On 15 October 2019, Chem Trading paid by cheque for two identical equipment costing \$18 000 each. The business depreciates its equipment at a rate of 20% per annum on net book value. A full year's depreciation is provided in the year of purchase and no depreciation is provided in the year of sale. Chem Trading's financial year ends on 31 March.

On 1 February 2022, the business sold one of the equipment and received a cheque of \$10 000.

REQUIRED

- (a)** Calculate the gain or loss on the sale of equipment. [2]

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- (b)** Prepare an extract of the statement of financial performance for the year ended 31 March 2022. [2]

- (c)** Calculate the net book value of the equipment as at 31 March 2022. [2]

- (d)** Explain the term depreciation for non-current assets. [1]

- (e) Explain to Rowan Trading why it should not change its depreciation method for equipment from reducing-balance to straight-line method in the following year. [2]

The following errors were detected in books of Rowan Trading.

- 1 Credit purchase of goods worth \$5 608 was recorded as \$5 680.
- 2 Payment of \$2 000 by cash for advertising expense was debited to cash in hand account and credited to advertising expense.

REQUIRED

- (f) Prepare journal entries to correct the errors. Narrations are not required. [2]

	Account	Debit \$	Credit \$
Error 1			
Error 2			

- (g) Analyse the total effect of error 1 and error 2 on the profit for the year. State whether profit for the year is overstated or understated and the amount involved. If there is no effect, simply state 'no effect'. [1]

[Total: 12]

SECONDARY 4 EXPRESS/5 NORMAL (ACADEMIC)
PRELIMINARY EXAMINATION 2022

PRINCIPLES OF ACCOUNTS Paper 1 (Marking Scheme)

1(a) General Journal

Date	Particulars	Debit \$	Credit \$	
2021				
Aug 1	Service fee revenue received in advance	3 000		
	Service fee revenue		3 000	[1]
2022				
Jul 31	Cash at bank	87 900		
	Service fee revenue		87 900	[1]
31	Service fee revenue receivables	4 500		
	Service fee revenue		4 500	[1]
	(7 950 x 12) – 3 000 – 87 900			
31	Service fee revenue	95 400		
	Income summary		95 400	[1]

(b) Rental expense for the year ended 31 July 2022

= - rental expense payable \$1 600 **[1]** + paid \$30 000 **[1]** + rental expense payable
 \$3 600 **[1]**
 = \$32 000

(c)		Jin Yun
Statement of financial position as at 31 July 2022 (Extract)		\$
Current assets		
Service fee revenue receivable		4 500 [1]
Current liabilities		
Rental expense payable		3 600 [1]

(d) Income refers to amounts earned from the activities of a business **[1]**.

(e) The profit will be understated **[1]** and current asset will also be understated **[1]**.

(f) Expense refers to costs incurred in the operation of a business to earn income in the same accounting period **[1]**.

(g) Accrual basis of accounting states that income earned and expenses incurred must be recorded regardless of whether cash is received or paid **[1]**.

(h) Owner has full control over the running of the business **[1]**. It has minimal administrative duties to adhere to **[1]**.

Alternative answer: Ownership transfer is easy by notifying the corporate regulatory authority.

(i) It is more likely for banks and other lenders to lend money **[1]**. The partners are not personally liable for the LLP debts and losses **[1]**.

[Total: 18]

2(a)

	30 April 2021	30 April 2022
Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2.67	(i) $\frac{19900+1800+25100}{18200+2700}$ $= \frac{46800}{20900} = 2.24$ [1]
Quick ratio = $\frac{\text{Current Assets} - \text{inventory} - \text{prepayment}}{\text{Current Liabilities}}$	1.09	(ii) $\frac{19900}{20900}$ $= 0.95$ [1]

2(b) Rowan Trading current ratio has worsen [1] slightly from 2.67 in 2021 to 2.24 in 2022. This means that the business has sufficient current assets to cover its short term debts when they fall due [1]. Its liquidity measured using current ratio remains healthy because it is better than the general benchmark of 2 [1].

Maximum 2 marks for comments on current ratio.

Rowan trading quick ratio has worsen [1] from 1.09 in 2021 to 0.95 in 2022. It has a liquidity problem because the quick ratio has fall below the general benchmark of 1 [1]. This means that the business does not have sufficient quick assets to cover its short-term debts when they fall due [1].

Maximum 2 marks for comments on current ratio.

The worsening of liquidity could be due to the drawing down of cash for the purchase of fixture an fittings / too much cash tied in inventory not sold / problem collecting cash from its credit customers [Any 1 mark].

2(c) Owner contributes more capital in the form of cash [1].

Increase debt collection efforts such as sending regular reminders to credit customers who delay payment [1].

Sell slow moving inventory at a discount [1].

Accept any other reasonable ways to raise cash.

[Total: 10]

3(a) Depreciation of equipment sold for year ended 31 March2020: $20\% \times 18\,000 = 3\,600$ 2021: $20\% \times (18\,000 - 3\,600) = 2\,880$

2022: no depreciation in the year of sale

Total accumulated depreciation for asset sold = $3\,600 + 2\,880 = 6\,480$ **[1]**Loss from sale of equipment = $10\,000 - (18\,000 - 6\,480) = \$1\,520$ **[1]****(b)**

Chem Trading

Statement of financial performance for the year ended 31 March 2022 (Extract)

\$

Less: Other expense

Loss on sale of equipment

1 520 **[OF 1]****[according to 1(a) & correct listing under Other income/Less: Other expense section]**Depreciation for equipment $20\% \times (18\,000 - 6\,480)$ 2 304 **[1]****(c)** Net book value of equipment = $18\,000 - (6\,480 + 2\,304)$ **[10F from(b)]** = **\$9216 [1]****(d)** Depreciation is allocation of the cost of non-current assets over its estimated useful life **[1]**.**(e)** Consistency theory **[1]** is applied when the business decides to use the same method to depreciate its non-current over time. It states that once an accounting method is chosen, this method should be applied to all future accounting periods to enable meaningful comparison **[1]**.

(f)

	Account	Debit \$	Credit \$	
Error 1	Trade payable (5 680 – 5 608)	72		
	Inventory		72	[1]
Error 2	Advertising expense (2 000 x 2)	4 000		
	Cash in hand		4 000	[1]

(g) The profit will be overstated by \$4 000 **[1]**.**[Total: 12]****End of Paper**