



Marsiling Secondary School

GCE O-Level Preliminary Examination 2022

Subject: **Principles of Accounts** Level: **Sec 4 / 5** Stream: **Express / Normal (Academic)**
Paper 1 (7087/01)

Date: **22 August 2022** Duration: **1 hour**

Name: _____ Index No: _____ Class: _____

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 ink.

All calculations must be shown adjacent to the answer.

Do not use staples, paper clips, highlighters, 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.

<i>For Examiner's Use</i>	
Question	Marks
1	
2	
3	
4	
Total	40

Setter: Mr Alfred Wee

This question paper consists of 10 printed pages, including the cover page.

Answer all questions.

- 1** Kenny Li is a sole trader. The financial year of his business, Lucky Best, ends on 31 December. On 1 January 2021, the balance on the capital was \$54 800.

During the year the following took place.

2021

Feb 15 Cash drawings \$480.

Mar 22 Kenny took inventory with a selling price \$500 for own use.
The business applies a 25% mark-up on cost to its goods.

May 12 Kenny brought into the business his private car valued
at \$7 600.

Sep 16 Drawings by cheque \$652.

Profit for the year ended 31 December 2021 was \$8 500.

REQUIRED

- (a) Prepare Kenny's drawings account for the year ended 31 December 2021.
Close off the account by a transfer on that date.

[3]

Drawings

- (b) Prepare Kenny's capital account for the year ended 31 December 2021.
Bring down the balance on 1 January 2022.

[4]

Capital

- (c) Name and explain the accounting theory applied when recording Kenny's drawings.

[2]

Name _____

Explanation _____

[Total: 9]

- 2** LuvCar Rental Pte Ltd started its business on 1 July 2019 and purchased two identical cars costing \$75 000 **each** by cheque.

On 9 December 2021, the business sold one of the cars for \$39 500 on credit to Yolo Trading. On the same day, it bought a new van for \$60 000 by cheque.

LuvCar Rental Pte Ltd depreciates its motor vehicles at 30% per annum using the reducing-balance method. A full year's depreciation is charged in the year of purchase and no depreciation is charged in the year of sale. The business financial year ends on 31 December.

REQUIRED

- (a) Define 'depreciation'. [1]

- (b) Prepare the motor vehicles account for the year ended **31 December 2021**. [3]

- (c) Calculate depreciation expense for each of the two years ended 31 December 2020 and 2021.

[2]

- (d) Calculate the gain or loss on the sale of the motor vehicle.

[2]

[Total: 8]

- 3** Kyle runs a wholesale business, Kyle Trading, selling kitchen products. On 1 October 2021, Kyle's business had no opening inventory.

The following information is available for the month of October 2021.

- Oct 2 Purchased goods on credit from Er Hon, \$35 700.
 10 Sold goods to P Tom for \$45 600. These goods cost \$15 200.
 16 Purchased goods by cheque, \$22 000.
 21 P Tom returned goods, \$9 600, to Kyle Trading. The cost of these goods was \$3 200.
 25 Sold goods costing \$7 300 for cash \$21 900.

REQUIRED

- (a)** Prepare the sales revenue account for the month of October 2021, including the appropriate closing entry of the account.

Sales revenue

[3]

- (b)** Calculate the cost of sales for the month ended 30 October 2021.

[1]

- (c)** Calculate the gross profit for the month ended 30 October 2021.

[2]

The following information is extracted from Kyle Trading for the year ended 31 December 2021.

	\$
Net sales revenue	660 000
Cost of sales	240 000
Inventory	48 600

The inventory as at 31 December 2020 is \$30 000.

- (d)** Calculate, correct to two decimal places, the following for the year ended 31 December 2021.

[3]

- (i)** Rate of inventory turnover

- (ii)** Days sales in inventory

Tyler (Pte) Ltd is a competitor of Kyle Trading. The Tyler (Pte) Ltd's rate of inventory turnover and the days sales in inventory are 10 times and 36.50 days respectively for the year ended 31 December 2021.

- (e)** Evaluate Kyle Trading's efficiency in inventory management against its competitor, Tyler (Pte) Ltd, based on your calculation in **(d)** and the additional information given above.

[4]

[Turn over

- (f) Give **one** possible reason for Kyle Trading's lower inventory turnover relative to that of Tyler (Pte) Ltd. [1]

- (g) Suggest **one** way to improve Kyle Trading's efficiency in inventory management. [1]

[Total: 15]

- 4 Celeste runs a trading business. The following errors were discovered after the business' trial balance was prepared.

- 1 Credit note of \$550 received from Zico Supplies has been omitted from the books.
- 2 Insurance on the purchase of goods, \$800, has been debited to insurance account. These goods were recently purchased and are still included the ending inventory of the business.
- 3 Credit sale of goods at \$3 500 to Tricia has been recorded on the wrong sides of the correct ledger accounts.

REQUIRED

- (a) Explain the limitation of a trial balance. [1]

The profit for the year had been calculated as \$19 270.

- (b) Complete the following table, by writing the amount in the relevant boxes, to calculate the adjusted profit after correcting errors **1 to 3**. If there is no effect place a tick (✓) in the 'No effect' column. [3]

	No effect	Increase \$	Decrease \$	\$
Profit for the year before correction of errors				19 270
Error 1				
Error 2				
Error 3				
Adjusted profit for the year				

- (c) State **two** possible reasons why the supplier issues credit notes. [2]

- (d) Name and explain the accounting theory applied in the use of source document to record financial transactions. [2]

Name : _____

Explanation : _____

[Total: 8]

END OF PAPER

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Name: _____ Index No: _____ Class: _____

Suggested Answers:

1 (a)

Drawings					
Date		Debit \$	Credit \$	Balance (\$)	
2021					
Feb 15	Cash in hand	480		480 Dr	0.5
Mar 22	Inventory (500 x 100/125)	400		880 Dr	1
Sep 16	Cash at bank	652		1 532 Dr	0.5
Dec 31	Capital		1 532	0	1 OF

[3]

(b)

Capital					
Date		Debit \$	Credit \$	Balance \$	
2021					
Jan 1	Balance b/d			54 800 Cr	0.5
May 12	Motor vehicles		7 600	62 400 Cr	1
Dec 31	Income summary (Profit)		8 500	70 900 Cr	1
	Drawings	1 532		69 368 Cr	1 OF
2022					
Jan 1	Balance b/d			69 368 Cr	0.5 OF

[4]

(c) Name: Accounting entity theory (1)

Explanation: The owner's actions are considered to be separate from business activities. All transactions are recorded from the business' point of view. (1)

Only owner's transactions affecting the business will be recorded in business' books.

[2]

[Total: 9]

[Turn over]

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

(b)

Motor vehicles

Date	Particulars	Debit	Credit	Balance	
		\$	\$	\$	
2021 Jan 1	Balance b/d			150 000 Dr	1
Dec 9	Sale of non-current asset		75 000	75 000 Dr	1
	Cash at bank	60 000		135 000 Dr	1
2022 Jan 1	Balance b/d			135 000 Dr	

(Good format should be given, if not mark will be deducted, e.g. no or wrong date or no balance b/d, **deduct 1m**)

[3]

- (c) Depreciation expense for the year ended: [2]

- 31 December 2020: $30\% * (75\,000 * 2 - 45\,000) = \underline{\underline{\$31\,500}}$ (1)
(2nd year of use)
- 31 December 2021 = $30\% * [75\,000 - (\frac{1}{2} * (45\,000 + 31\,500))] +$
(3rd year of use)
 $30\% * (60\,000)$
 $= 11\,025 + 18\,000$
 $= \underline{\underline{\$29\,025}}$ (1)

- (d) Gain or loss on sale of motor vehicle: [2]

$$\begin{aligned}
 &= \text{Proceeds} - \text{NBV} \\
 &= 39\,500 - [75\,000 - (\frac{1}{2} * (45\,000 + 31\,500))] \quad (1) \\
 &= 39\,500 - 36\,750 \\
 &= \underline{\underline{\$2\,750 \text{ (gain on sale)}}} \quad (1)
 \end{aligned}$$

[Total: 8]

3 (a)

Sales revenue

Date 2021		Debit \$	Credit \$	Balance (\$)
Oct 10	P Tom, trade receivable		45 600	45 600 Cr
25	Cash in hand		21 900	67 500 Cr
31	Income summary	67 500		0

1
1
1
[3]

(b) Cost of sales = $15\,200 - 3\,200 + 7\,300$
= \$19 300 [1]

(c) Gross profit for the month ended 30 October 2021:
= Net sales revenue – Cost of sales
= $(67\,500 - 9\,600) - 19\,300$ **(1) for net sales revenue**
= \$ 57 900 – \$ 19 300
= **\$ 38 600** (1) [2]

(d) (i) Rate of inventory turnover:
= cost of sales / ave inventory
= $240\,000 / \frac{1}{2} (48\,600 + 30\,000)$ (1)
= 6.11 times (1) [2]

(ii) Days sales in inventory = $365 \text{ days} / \text{Rate of inventory turnover}$
= $365 / [240\,000 / \frac{1}{2} (48\,600 + 30\,000)]$
= 59.77 days [1]

- (e) Evaluate Kyle Trading's efficiency in inventory management against its competitor, Tyler (Pte) Ltd: [4]
- Kyle Trading's rate of inventory turnover is 6.11 times which is worse than the competitor Tyler (Pte) Ltd's rate of 10 times. (1)
 - Kyle Trading's days sales in inventory of 59.25 days is worse than Tyler (Pte) Ltd's days sales in inventory of 36.50 days. (1)
 - Kyle Trading's rate of goods sold and replenished is slower 6.11 times vs 10 times or about 37 days vs 59 days. (1)
 - Since both businesses are in the same industry, it can be concluded that Kyle Trading was selling its goods more slowly than Tyler (Pte) Ltd. (1)
 - It is thus less efficient at managing its inventory than Tyler (Pte) Ltd. (1)
- (4 points @ 1m each, max 4m)

- (f) One possible reason for lower inventory turnover for Kyle Trading: [1]
- ✓ The product sold by Kyle Trading may be of lower quality or the packaging or appearance looks less appealing to customers.
 - ✓ The price is relative higher than that of the competitor Tyler (Pte) Ltd.
 - ✓ There are less aggressive promotion and advertising strategies used by Kyle Trading relative to Tyler (Pte) Ltd's promotion and advertising strategies.
- (1 point @ 1m, max 1m)

(g) 1 way to improve inventory management efficiency:

[1]

- (i) keep optimal inventory for sale, not too high a level as money is unnecessarily tied down on inventory, not too low a level as there will be stockout risks. (1) OR
- (ii) Use technological tools to help improve the accuracy of forecasting customer demand more accurately in order to know when and how much inventory to buy. (1) OR
- (iii) sell its goods faster or have more sale by
 - giving trade discounts to encourage customer to buy in bulk or more regularly. (1) OR
 - reducing selling price especially for slow-moving goods. (1) OR
 - attracting more customers to buy through sales promotions and advertising. (1)

(Any 1 way/measure clearly expressed at 1m)

[Total: 15]

4 (a) Limitation of trial balance

[1]

Ans:

When a trial balance is not balanced, there are errors. However, a balanced trial balance is not an absolute proof of accuracy. There are still some errors that a trial balance **cannot reveal**.

(b) Complete the following table to calculate the adjusted profit after correcting errors **1 to 3**. If there is no effect place a tick (✓) in the 'No effect' column.

[3]

Ans:

	No effect	Increase \$	Decrease \$	\$
Profit for the year before correction of errors				19 270
Error 1	✓			
Error 2		800		
Error 3		7 000		
Adjusted profit for the year				27 070

1

1

1

(c) 2 reasons why a supplier issues credit notes:

Ans:

- (i) to adjust for return of goods by customers. (1)
- (ii) to correct overcharges in invoices issued. (1)

[2]

(d) Name and explain the accounting theory applied in the use of source documents to record financial transactions.

[2]

Ans:

Name: Objectivity theory. (1)

Explanation: Source documents provide objective evidence that transactions have taken place and provide essential information for recording purpose. All accounting transactions must be based on reliable and verifiable information such as from the source documents. (1)

[Total: 8]

END OF PAPER

[Turn over