

2024 4N Diagnostic Assessment – Beatty 2021 4N PrelimAnswer **all** questions.

- 1 Aliaesoon Legal Co. is a business that provides legal consultancy services. The following balances were extracted from the books of the business on 31 July 2021:

	\$	
Cash at bank	6 630	Credit
Cash in hand	3 300	
Rental income	30 000	
Trade receivables	4 480	
Allowance for impairment of trade receivables	3 120	
Drawings	15 800	
Fixtures and fittings	35 200	
Accumulated depreciation of fixtures and fittings	2 100	
General expenses	5 690	
Motor vehicles	92 100	
Accumulated depreciation of motor vehicles	9 000	
Building	638 000	
Insurance expense	4 800	
Interest on mortgage loan	8 000	
Legal fee revenue	89 330	
10% Mortgage loan repayable 2027	367 000	
Capital	351 180	
Utilities	990	
Wages	50 000	

Additional information

- Included in the legal fee revenue was an amount of \$24 330 received in advance.
- Rental income of \$2 400 was earned but not yet collected.
- Utilities, \$250, was paid in advance.
- A review of the trade receivables balance showed that 10% may be uncollectible.
- Payment for interest on the mortgage loan \$1 175, was owing.
- One-quarter of the mortgage loan is to be repaid on 30 April 2022.
- The building is to be depreciated at 1% per annum using the straight-line method.
- Fixtures and fittings are to be depreciated over the useful life of 5 years on a straight-line method.
- The motor vehicles are to be depreciated at 20% per annum using the reducing-balance method.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 31 July 2021. [8]
- (b) Prepare the statement of financial position at 31 July 2021. [12]

[Total: 20]

- 2 The financial year of Edison Trading ends on 31 July. The following information was extracted for the year ended 31 July 2021.

- 1 On 1 August 2020, the rental income received in advance account had a balance of \$2 780.
- 2 During the year, the business received a cheque of \$155 530 as rental income.
- 3 Annual rental income for the year ended 31 July 2021 amounted to \$165 000.

REQUIRED

Prepare the following:

- (a) Journal entries to account for rental income for the financial year ended 31 July 2021 including the closing entry. Narrations **are** required. [8]
- (b) An extract of the statement of financial performance for the financial year ended 31 July 2021. [1]
- (c) An extract of the statement of financial position as at 31 July 2021. [1]
- (d) Explain the effects on profit for the year and current assets if the rental income receivable was not adjusted. [2]
- (e) Explain the accrual basis of accounting behind the accounting of income and expenses. [2]

[Total: 14]

[Turn over]

- 3 Beng sells electrical appliances. Details from the cash at bank account and bank statement for the business for the month of July 2021 are as follows.

Cash at bank account

Date	Particulars	Cheque number	Debit \$	Credit \$	Balance \$
2021					
July 1	Balance b/d				960 Dr
2	Abbas	912005		900	60 Dr
8	Sales revenue		3 200		3 260 Dr
14	Fun Store	912006		2 640	620 Dr
16	Top Co		1 460		2 080 Dr
20	Salaries expenses	912007		1000	1 080 Dr
25	Joy Trading		1180		2 260 Dr

Bank statement

Date	Particulars	Payments \$	Receipts \$	Balance \$
2021				
July 1	Balance b/d			1000 Cr
2	Cheque 912004	40		960 Cr
6	Cheque 912005	900		60 Cr
9	Cash deposit		3 200	3 260 Cr
16	Cheque 912006	2 640		620 Cr
18	Cheque deposit		1 460	2 080 Cr
21	Cheque returned unpaid	1 460		620 Cr
27	Credit transfer: Moose Pte Ltd		1 600	2 220 Cr
30	Standing order: Utilities	420		1 800 Cr

REQUIRED

- (a) Update the cash at bank account at 31 July 2021. [5]
- (b) Prepare a bank reconciliation statement at 31 July 2021. [4]
- (c) Explain the term credit transfer. [1]
- (d) State **two** reasons for a dishonoured cheque. [2]
- (e) Explain why a bank reconciliation is done. [2]
- (f) Explain the objectivity theory. [2]

[Total: 16]

4(a) Explain the following terms:

- (i) Trade receivables [1]
- (ii) Allowance for impairment of trade receivables [1]

4(b) The following transactions relate to Alison Trading, a credit customer, who buys goods from Deli Snack Store.

2021	Transactions
July 2	Deli Snack Store sold goods to Alison Trading at \$8 300 list price, less 10% trade discount. The goods cost \$5 500.
July 5	Alison Trading returned goods worth \$1 350, bought on July 2, to the business. The cost of goods sold \$770.
July 10	The business received a cheque of \$6 100 from Alison Trading in full settlement of the amount owing on this date.

REQUIRED

Prepare Alison Trading's account in Deli Snack Store's books for the month of July 2021. [3]

4(c) Jametinga owns Deli Snack store. He wants to continue to sell dumplings after the Dragon Boat Festival in June and he is looking at ordering dumplings from one of the suppliers below.

	Katong Dumplings	Joo Chiat Dumplings
Cost price of each dumpling	\$2.50	\$2.20
Product dumpling	<ul style="list-style-type: none"> - Traditional nonya pork dumplings that are popular and highly rated by people. - Factory made. - Packed in a pretty box of 5. - Expire after 10 days from date of production. - Preservatives used. 	<ul style="list-style-type: none"> - Besides traditional nonya pork fillings, there are chicken and beef fillings as well as other unique fillings. Able to cater to customers' requests. - Home made. - Expire after 7 days from date of production. Requires refrigeration. - No preservatives.
History of the business	The business started in the 1960s.	The business started in the year 2000.
Credit term	1 week	None. Sold on cash basis only.
Delivery fee	Free	\$30 per trip.

REQUIRED

Advise Jametinga which supplier he should choose. Justify your decision with **two** reasons.

[5]

[Total: 10]

SOLUTIONS**1(a)**

Aliaesoon Legal Co.

Statement of Financial Performance for the year ended 31 July 2021

	\$	\$
Legal fee revenue (89 330 – 24 330)		65 000 [1]
<u>Add: Other Income</u>		
Rental income (30 000 + 2 400)		32 400 [1]
<u>Less: Other Expenses</u>		
General expenses	5 690	
Insurance expense	4 800	
Interest expense (8 000 + 1 175)	9 175	[1]
Utilities (990 – 250)	740	[1]
Wages	50 000	
Reversal of impairment loss on trade receivables (10% x 4 480 – 3 120)	(2 672)	[1]
Depreciation of fixtures and fittings (35 200/5)	7 040	[1]
Depreciation of buildings (1% x 638 000)	6 380	[1]
Depreciation of motor vehicles [20% x (92 100 – 9 000)]	<u>16 620</u>	[1]
		<u>97 773</u>
Loss for the year		(373)

[8]

1(b)

Aliaesoon Legal Co

Statement of Financial Position as at 31 July 2021

	Cost	Accumulated depreciation	Net book value
<u>Assets</u>			
<u>Non-current assets</u>	\$	\$	\$
Fixtures and fittings *(2 100 + 7 040)	35 200	(9 140)	26 060 [1]
Building	638 000	(6 380)	631 620 [1]
Motor vehicles *(9 000 + 16 620)	92 100	(25 620)	66 480 [1]
			724 160
<u>Current assets</u>			
Cash in hand		3300	
Trade receivables	4 480		
Less: Allowance for impairment of trade receivables	<u>(448)</u>		
Net trade receivables		4 032	[1]
Rent income receivable		2 400	
Prepaid utilities		250	[1]
			9 982
Total assets			<u>734 142</u>
<u>Equity and Liabilities</u>			
<u>Owner's equity</u>			
Capital (351 180 – 373 – 15 800)		[2]	335 007
<u>Non-current liabilities</u>			
Long-term borrowings (3/4 x 367 000)		[1]	275 250
<u>Current liabilities</u>			
Bank overdraft		6 630	[1]
Legal fee revenue received in advance (89 330 – 65 000)		24 330	[1]
Interest expense payable (9 175 – 8 000)		1 175	[1]
Current portion of long-term borrowings (1/4 x 367 000)		<u>91 750</u>	[1]
			123 885
Total equity and liabilities			<u>734 142</u>

[12]

[Total: 20]

8988

2(a)

Journal

Date	Particulars	Debit	Credit
2020		\$	\$
Aug 1	Rent income received in advance	2 780	
	Rent income	[1]	2 780
	Rent income received last financial year to be earned in this financial year. [1]		
2021			
July 31	Cash at bank	155 530	
	Rent income	[1]	155 530
	Received cheque for rent income. [1]		
July 31	Rent income	165 000	
	Income summary	[1]	165 000
	Rent income earned this financial year. [1]		
July 31	Rental income receivable (2 780 + 155 530 – 165 000)	6 690	
	Rent income	[1]	6 690
	Rent income earned but not yet received this financial year.[1]		

[8]

2(b)

Edison Trading

Statement of financial performance for the year ended 31 July 2021 (extract)

Add: Other income	\$	
Rent income	165 000	[1]

2(c)

Edison Trading

Statement of financial position as at 31 July 2021 (extract)

Current assets	\$	
Rent income receivable	6 690	[1]

2(d) If rent income receivable was not adjusted, both profit for the year [1] and current assets would be understated by \$6 690. [1] [2]

2(e) According to the **accrual basis of accounting** [1], income is recognised in the period that it is earned regardless of when it is received while expenses are recognised in the period that the services have been used regardless of when payment is made. [1] [2]

[Total: 14]

3(a)

Cash at bank Account (Adjusted)

Date	Particulars	Debit	Credit	Balance	
2021		\$	\$	\$	
July 31	Balance b/d			2 260 Dr	[1]
July 31	Trade receivable - Moose Pte Ltd	1 600		3 860 Dr	[1]
July 31	Trade receivable - Top Co (dishonoured cheque)		1 460	2 400 Dr	[1]
July 31	Utilities expense		420	1980 Dr	[1]
Aug 1	Balance b/d			1980 Dr	[1]

[5]

3(b)

Bank reconciliation statement as at 31 July 2021

	\$	
Balance as per bank statement	1800	[1]
Add: Deposits in transit		
Joy Trading	1180	[1]
Less: Cheques not yet presented		
Cheque No: 912007 – Salaries expense	1000	[1]
Balance as per adjusted cash at bank account	<u>1 980</u>	[1]

[4]

- (c) Credit transfer - Proceeds received by bank on behalf of business.
OR Money transferred directly from payers to the business bank account

[1]

- (d) (Any 2 reasons, 1m each)
- postdated cheques
 - expired cheques
 - insufficient information on the cheque
 - inconsistent information on the cheque

[2]

- (e) (Any 2 reasons, 1m each)

Bank reconciliation statements are prepared to compare the business' records with bank's records to **identify items** [1] that **caused the difference** between the ending balances in the business cash at bank account and the bank statement.[1]

[2]

- (f) In accordance to **objectivity theory** [1], all transactions must be **supported by documents** as evidence or proof which is verifiable and objective.[1]

[2]

[Total: 16]

4(a)(i) Trade receivable is the amount **owed by credit customers**.

Or

Amounts of money that a business expects to receive from its **credit customers in the near future**. [1]

4(a)(ii) Allowance for impairment of trade receivables is the amount of debt **likely to be uncollectible from credit customers**

Or

The amount of trade receivables that is **unlikely to be collectible**. It is a contra-asset account and is presented as a deduction against trade receivables in the statement of financial position. [1]

4(b)

Trade receivable Alison Trading account

Date	Particulars	Debit	Credit	Balance
2021		\$	\$	\$
July 2	Sales revenue (90% x \$8 300)	7 470	[1]	7 470 Dr
5	Sales returns (90% x 1350)	[1]	1 215	6 255 Dr
10	Cash at bank	[1]	6 100	155 Dr
	Discount allowed		155	0

[3]

4(c) Decision: Jametinga should buy from **Katong Dumplings**. [1]

Katong Dumplings seems more reputable as it has been in business for **about 60 years** as compared to Joo Chiat of 11 years. Being able to operate for such a long time indicates that Katong Dumplings provides quality dumplings and service. Katong Dumpling is also likely to have a group of loyal customers.

Jametinga should buy from Katong Dumplings as the popularity and high rating by the people could lead to higher sales revenue and profits for the business.

Jametinga can also save cost on **no delivery charge**, hence reducing expenses and increasing profit for the business.

The one week payment period allows Jametinga to pay later, hence the business can use the money for payment of urgent needs.

Decision: Jametinga should buy from **Joo Chiat Dumplings**. [1]

The cost of \$2.20 per dumpling is lower than \$2.50 per dumpling from Katong Dumpling. Customers who are price conscious may prefer the cheaper option of Joo Chiat dumplings. If he has leftover funds from buying of the dumplings, he could invest them in marketing and promotional expenses to increase sales and profit for the business.

Joo Chiat dumplings with no preservatives may be popular with the health conscious customers. Furthermore, the dumplings are home-made which might be popular with customers. This might mean more demand for the dumplings and higher sales revenue and profits for Deli Snacks Store.

The various variety of Joo Chiat dumplings. This means that Jametinga will be better able to differentiate his business from other competitors with his unique fillings, which can cater to a wider range of customers, leading to good word-of-mouth advertising.

[5]

[Total: 10]