2023 Papers Topical Revision:
Non-current Assets set 5

<u>Q 1</u>
<u>TAMPINES</u>

Ting Express operates a delivery business. Its financial year ends on 31 December.
On 1 January 2020, it bought a delivery truck costing $30000 on credit from James Trading.

REQUIRED

(a) State **two** differences between capital and revenue expenditure.   [2]

(b) Name the source document used to record the purchase on 1 January 2020.   [1]

(c) State the accounting theory applied when Ting Express record the transaction on 1January 2020 using a source document.   [1]

On 15 June 2021, Ting Express bought another delivery truck costing $32000.
The business depreciates its delivery trucks at 20% per annum using the reducing-balance method. A full year depreciation is charged in the year of purchase.

REQUIRED
(d) State **two** causes of depreciation.   [2]

(e) Prepare the journal entries to record the depreciation expense of the delivery trucks for the years ended 31 December 2020 and 2021. Narrations are **not** required.   [4]

(f) Prepare an extract of the statement of financial performance for the year ended 31December 2021.   [2]

(g) Prepare an extract of the statement of financial position as at 31 December 2021.
[3]

[Total: 15]

Q 2
SWISS COTTAGE

Jamie's bookstore's financial year ends on 31 December every year. Jamie provided the following information at 1 January 2022.

	$
Motor vehicles	150 000
Accumulated depreciation of motor vehicles	25 000

On 1 March 2022, the business purchased a new motor vehicle for $12 000 on credit from Zoom Motors Pte Ltd.

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

REQUIRED

(a)   Calculate the depreciation expense of motor vehicles for the year ended 31 December 2022.
                [2]

(b)   Prepare the journal entry to record the depreciation of motor vehicles for the year ended 31 December 2022. Narration **is** required.
                [3]

(c)   State **two** causes of depreciation.
            [2]

During the month of January 2023, the business purchased an equipment and incurred other costs related to the equipment as shown below.

	$
Cost of equipment	10 000
Import tax of equipment	1 800
Utilities to operate the equipment	3 500
Installation cost of equipment	800
Delivery cost of equipment	150

REQUIRED

(d)   State **one** difference between capital expenditure and revenue expenditure.
            [2]

(e)   Calculate the total cost of the new equipment.
            [2]

(f)   State and explain an accounting theory that is applied to classify the expenditure as capital and revenue expenditure.
            [2]

(a) Any of **two** differences below. **[2]**

Capital expenditure	Revenue expenditure
1. Purchase costs and any related costs incurred to bring NCA to its intended use or costs to enhance the NCA.	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 a non-current asset	3. Recorded as expenses for the period.

(b) Invoice **[1]**
(c) Objectivity theory **[1]**
(d) **Any two:** Usage; wear and tear; obsolescence; legal limit **[2]**
(e)

	Journal			
Date	Particulars	Debit	Credit	
2020		($)	($)	
Dec 31	Depreciation expense (20% x 30000)	6,000		**[1]**
	Accumulated depreciation of motor vehicles		6,000	**OF [1]**
2021				
Dec 31	Depreciation expense (20% x (30000-6000) + 20% x 32000)	11,200		**[1]**
	Accumulated depreciation of motor vehicles		11,200	**OF [1]**

(f)

Ting Express	
Statement of financial performance for the year ended 31 December 2021	
	$
Less: Other expenses **[1]**	
Depreciation of motor vehicles	11,200 **[1]**

(g)

Ting Express			
Statement of financial position as 31 December 2021			
	$	$	$
	Cost	A.D.	NBV
Motor vehicles	62,000 **[1]**	17,200 OF **[1]**	44,800 OF **[1]**

A 2
SWISS COTTAGE

(a)   Depreciation expense for motor vehicles
       $= (150000 - 25000 + 12000) \times 10\%$ [1]
       $=\$13\ 700$ [1]

(b)

Journal			
Date	Particulars	Debit	Credit
2022		$	$
Dec 31	Depreciation expense of motor vehicles	13 700 [1] OF	
	Accumulated depreciation of motor vehicles		13 700 [1] OF
	Depreciation expense of motor vehicles for the year ended 31 December 2022. [1]		

(c)   Causes of depreciation: (2 marks, any 2)
       1. Usage
       2. Wear and tear
       3. Obsolescence
       4. Legal limits

(d)

Capital expenditure	Revenue expenditure
Cost to buy and bring the non-current assets to their intended use Costs to enhance the non-current assets	Costs to operate, repair and maintain the non-current assets in working condition
Provide benefits for more than one year	Provide benefits which will be used within one year
Recorded as non-current asset	Recorded as expense

Any one difference. 2 marks

(e)   Total cost of equipment
       $=10\ 000 + 1\ 800 + 800 + 150$ [1]
       $=\$12\ 750$ [1]

(f)   According to materiality theory [1] , if the amount spent on a non-current asset is insignificant to decision-making when compared to the size of the income, profit assets or equity of the business, it will be classified as revenue expenditure. [1]