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PRINCIPLES OF ACCOUNTS

Paper 1

7087 / 01

30 August 2022

1 hour

Candidates answer on Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

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

Write in dark blue or black pen.

You may use an HB pencil for any diagrams or graphs.

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

Question	Marks
1	
2	
3	
Total	40

Answer **all** questions.

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

This paper consists of **8** printed pages.

Answer all questions.

[Turn over

- 1 Stanley owns a business selling books. The business has the following balanc

	\$
Prepaid advertising expense	700
Commission income receivable	580

Additional information

- (i) Business paid \$3 000 for advertising by cash and received \$5 000 cheque for commission income.
- (ii) Monthly advertising expense amounts to \$500.
- (iii) As at 30 June 2022, there is a commission income received in advance of \$390.

REQUIRED

- (a)** Prepare the journal entries for advertising expense for the year ended 30 June 2022.

[4]

- (b)** Calculate the amount of commission earned for the year.

.....[2]

(c) Prepare the extract of the statement of financial position as at 30 June 2022.

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.....[2]

(d) State the effect on profit and current asset if the commission income received in advance is not adjusted at the end of the year.

Profit:[1]

Current asset:[1]

Stanley also has business with a supplier, Mr Tan. The transactions between them are shown below.

Date	Transactions
2022	
Mar 1	Amount owed to Mr Tan is \$4 000.
5	Business received an invoice of \$2 000.
8	Business paid amount owing on 1 March 2022 by cheque after receiving a 10% discount.
10	Business bought goods on credit from Mr Tan amounting to \$3 000, with a trade discount of 20%.
12	Business returned goods worth \$400 which were purchased on 10 March 2022 as the goods were faulty.

REQUIRED

(e) Prepare the account of Mr Tan in Stanley's books for the month ended 31 March 2022.

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.....[7]

[Total: 17]

- 2** Goody Stuff Ltd, a company selling cooking ware, provided the following information for the financial year ended 31 December 2021.

	\$
Net sales revenue	630 580
Cost of sales	479 430
Gross profit	151 150
Total operating expenses	53 580
Profit for the year	97 570
Equity, 1 January 2021	340 590
Equity, 31 December 2021	?

Additional information

(i) Goody Stuff Ltd has issued share capital of 200 000 shares at \$4.00 each which were fully sold and paid up.

(ii) During the year, Goody Stuff Ltd declared dividend of \$0.50 per share, to be paid on 15 January 2022.

REQUIRED

- (a)** Calculate the following profitability ratios of Goody Stuff Ltd for the year ended 31 December 2021. Show your answers correct to two decimal place.
[5]

	Goody Stuff Ltd
Mark-up on cost	
Gross profit margin	
Profit margin	

The profitability ratios of Jiajia Pte Ltd, a direct competitor are provided.

Additional information:

(b) Comment on the profitability of Goody Stuff Ltd against Jiajia Pte Ltd.

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

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.....[6]

(c) Which business should Liam invest in? Support your answers with reasons.

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.....[2]

[Total: 13]

- 3 The cash at bank account and bank statement of Leon's business for the month of January 2022 were as follows:

Cash at bank account

Date	Particulars	Cheque Number	Dr	Cr	Balance
2022			\$	\$	\$
Jan 1	Balance b/d				1 450 Dr
5	Utilities	104		850	600 Dr
8	Cash in hand		1 300		1 900 Dr
15	Rent	105		800	1 100 Dr
18	Betty		760		1 860 Dr
30	Andy		1 800		3 660 Dr
31	Bank charges			120	3 540 Dr
Feb 1	Balance b/d				3 540 Dr

Bank statement

Date	Particulars	Payments	Receipts	Balance
2022		\$	\$	\$
Jan 1	Balance b/d			1 660 Cr
2	Cheque 103	210		1 450 Cr
8	Cash		1 300	2 750 Cr
20	Cheque deposit		760	3 510 Cr
21	Cheque 105	800		2 710 Cr
25	Rejected cheque (Deposited 20 Jan)	760		1 950 Cr
29	Credit transfer: Larry Supplies		290	2 240 Cr
31	Bank charges	130		2 110 Cr

Additional information:

It was discovered that the accountant had incorrectly recorded the transaction on 31 Jan 2022.

REQUIRED

- (a) Update the cash at bank account at 31 January 2022 and bring down the new balance.

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.....[4]

(b) Prepare the bank reconciliation statement as at 31 January 2022.

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.....[3]

(c) State 2 reasons for a cheque to be dishonoured.

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.....[2]

(d) Describe the transaction on 8 January 2022.

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.....[1]

[Total: 10]

Setter: Ms Lynn Tay

END OF PAPER

ANSWER FOR 2022 POA PRELIMS 4E5N P1

1 (a) Journal

Date	Particulars	Dr (\$)	Cr (\$)
2021			
Jul 1	Advertising expense	700	
	Prepaid advertising expense		700
2022			
Jun 30	Advertising expense	3 000	
	Cash in hand		3 000
	Income summary	6 000	
	Advertising expense		6 000
	Advertising expense	2 300	
	Advertising expense payable		2 300

Every pair of journal entries carries 1 mark each.

(b) Commission income earned = $-580 + 5\,000$ [1] $-390 = \$4\,030$ [1]

(c) Stanley
Statement of financial position as at 30 June 2022

	\$
Current liabilities	
Advertising expense payable	2 300 [OF]
Commission income received in advance	390 [1]

(d) Profit will be overstated by \$390. [1]
Current assets has no effect. [1]

(e)

Trade payable – Mr Tan

Date	Particulars	Dr (\$)	Cr (\$) +	Bal (\$)
2022				
Mar 1	Balance b/d			4 000 Cr [1]
5	Inventory		2 000 [1]	6 000 Cr
8	Cash at bank	3 600 [1]		2 400 Cr
	Discount received	400 [1]		2 000 Cr
10	Inventory (80%x3000)		2 400 [1]	4 400 Cr
12	Inventory (80%x400)	320 [1]		4 080 Cr
Apr 1	Balance b/d			4 080 Cr [1]

2(a)

	Goody Stuff Ltd
Mark-up on cost	$(GP/COS) \times 100\% = (151\ 150/479\ 430) \times 100\%$ = 31.53% [1]
Gross profit margin	$(Gross\ Profit / NSR) \times 100\% = (151\ 150/630\ 580) \times 100\%$ = 23.97% [1]
Profit margin	$(Profit / NSR) \times 100\% = (97\ 570/630\ 580) \times 100\%$ = 15.47% [1]
Return on equity	Ending equity = beginning equity + profit – dividend = 340 590 + 97 570 – (0.50 × 200 000) = 338 160 [1] Return on equity = (profit / avg equity) X100 = {97 570 / [(340 590 + 338 160)/2]} X100 = 28.75% [1]

(b) Jiajia Pte Ltd gross profit margin is better than Goody Stuff Ltd as it has a higher gross profit margin at 30% as compared to Goody Stuff Ltd of 23.97%. [1]

This could be due to Jiajia Pte Ltd buying goods at lower cost or selling its goods at a higher price [1] as shown from the mark-up on cost as Jiajia Pte Ltd has a higher markup on cost of 40% as compared to Goody Stuff of 31.53%. [1]

Jiajia Pte Ltd also has a higher profit margin of 20% as compared to Goody Stuff Ltd of 15.47%. [1] This also shows that Jiajia Pte Ltd is better at managing its expenses as compared to Goody Stuff Ltd. [1] In conclusion, Jiajia Pte Ltd is more profitable than Goody Stuff Ltd. [1]

(c) Liam should invest in Goody Stuff Ltd [1] as it has a higher return on equity of 28.75% as compared to Jiajia Pte Ltd of 10%, hence Liam would have a higher return on the amount he invested in. [1] In addition, Liam would also receive dividend if he invests in Goody Stuff Ltd as compared to Jiajia Pte Ltd that does not declare dividend in 2021. [1]

Any 2 points for 2 marks

[Total: 13]

3(a)

Cash at bank					
Date	Particulars	Dr (\$)	Cr (\$)	Bal (\$)	
2022					
Jan 31	Balance b/d			3 540 Dr	[1]
	Larry Supplies	290		3 830 Dr	[1]
	Betty (dishonoured cheque)		760	3 070 Dr	[1]
	Bank charges (130-120)		10	3 060 Dr	[1]
Feb 1	Balance b/d			3 060 Dr	

(b)

Farah		
Bank reconciliation statement as at 31 January 2022		
	\$	
Balance as per bank statement	2 110	[1]
Add: Deposit in transit		
Trade receivable Andy	1 800	[1]
Less: Cheque not yet presented		
• Utilities (Cheque No 104)	850	[1]
Adjusted balance as per cash at bank account	3 060	

(c) Expired cheque

Post-dated chequeAny 2 for 2 marks

Missing details on cheque (must elaborate)

Wrong signature

(d) Business transferred \$1300 from office to bank/ Business deposited cash of \$1300 to business bank account. [1]