

Chung Cheng High School (Yishun)
Preliminary Examination 2024
Principles of Accounts Paper 2 (7086/02)
Secondary 4NA
Suggested answers and marking scheme

Question 1

(a)

Bovy			
Statement of financial performance for the year ended 30 June 2023			
	\$	\$	[m]
Service fee revenue		74 000	1
Other income			
Rental income (6 000 – 2 000)	4 000		1
Discount received	2 200	6 200	1
		80 200	
Less: Other expenses			
Salaries	34 000		
Repairs expense (3 000 + 400)	3 400		1
Depreciation of office equipment(15% x 40 000)	6 000		1
Depreciation of machinery[(20%x(80 000 – 16 000))	12 800		1
Advertising expenses (15 000 – 3 000)	12 000		1
Discount allowed	3 500	(71 700)	
Profit for the year		8 500	1 OF

[8m]

(b)

Bovy				[m]
Statement of Financial Position as at 30 June 2023				
	Cost	Acc	Net book	
Assets		Dep	value	
Non-current assets	\$	\$	\$	
Office equipment	40 000	18 000	22 000	2
Machinery	80 000	28 800	51 200	2
			73 200	
Current assets				
Cash in hand		4 300		
Trade receivables		58 000		
Prepaid advertising expense		3 000	65 300	1
Total assets			138 500	
Equity and Liabilities				
Capital (57 900 + 8 500 - 1 100 (1))			65 300	1 OF
Non-current liabilities				
Long-term borrowings			45 000	1
Current liabilities				
Trade payables		23 000		
Rental income received in advance		2 000		1
Repairs expense payable		400		1
Bank Overdraft		2 800	28 200	1
Total equity and liabilities			138 500	1 OF

[12m]

[Total: 20m]

Question 2

(a)

Cash at bank account

		Debit	Credit	Balance	[m]
2023		\$	\$	\$	
Nov 30	Balance b/d			2 250 Dr	1
	Suzy Sheep, Trade receivable	3 025			1
	Utilities expense		270		1
	Rebecca Pte Ltd, Trade receivable (dishonoured cheque)		2 500		1
	Interest expense		20	2 485 Dr	1
Dec 1	Balance b/d			2 485 Dr	1

[6m]

(b)

Bank Reconciliation Statement as at 30 November 2023

	\$	[m]
Balance as per bank statement	635	1
<u>Add: Deposits in transit</u>		
Rental income	3 800	1
	4 435	
<u>Less: Cheques not yet presented</u>		
Emily Traders (cheque no. 117236)	(1 950)	1
Adjusted Balance as per cash at bank account	2 485	1

[4m]

(c) Any 2 causes

- (i) the payer's bank account does not have enough money, is closed or frozen;
- (ii) the cheque is post-dated;
- (iii) the cheque has expired (over 6 months old);
- (iv) the cheque may contain errors (eg signature missing, amounts differ).

[2m]

(d) Any two of the following

- Check the cash at bank balance of the business against the bank's records
- Find out the items that caused the difference between the business and bank's records
- Identify errors in the bank statement or cash at bank account
- Determine the accurate bank balance after updating the cash at bank account
- Acts as deterrence against fraud
- A form of internal control of cash

[2m]

[Total: 14m]

Question 3

(a)

Journal

Date 2023	Particulars	Debit \$	Credit \$	[m]
Jun 16	Allowance for impairment of trade receivables	500		1
	Trade receivable, Max		500	1

[2m]

(b)

Date 2023	Particulars	Debit \$	Credit \$	[m]
Dec 31	Impairment Loss on trade receivables [(5% \times 40 000) – (600 – 500)]	1 900		1
	Allowance for impairment of trade receivables		1 900	1

[3m]

(c)

Prudence theory [1m] states that accounting treatment chosen should be the one that least overstate assets and profits and least understate liabilities and losses. Provision of an allowance for impairment of trade receivables it is to ensure that the value of the trade receivables and the profit for the period are not overstated. [1m]

[2m]

(d) Any 2 factors

- economic outlook
- specific industry outlook
- reputation of customer
- customer history of repayment

[2m]

(e)

Immediate payment by cash or cheque is made in a cash sales [1m]

Deferred payment is made by the credit customer in a credit sales [1m]

[2m]

[Total: 11m]

Question 4

(a)

(1) Given to encourage customer loyalty and patronage	1
(2) Given to encourage bulk purchases	1

[2m]

(b)

Micole Coffee account, Trade payable					
Date	Particulars	Debit	Credit	Balance	[m]
2022		\$	\$	\$	
Sep 1	Balance b/d			3 500 Cr	1
9	Inventory (80% x 5 000)		4 000	7 500 Cr	1
11	Inventory (80% x 1 000)	800		6 700 Cr	1
30	Cash at bank	3 500		3 200 Cr	1
Oct 1	Balance b/d			3 200 Cr	1

[5m]

(c)

Angela				
Extract of Statement of Financial Position as at 31 December 2022				
	\$	\$	\$	[m]
Non-current liabilities				
Long-term borrowings			400 000	1
Current liabilities				
Current portion of long term borrowings		100 000		1
Interest expense payable		6 250		1

[3m]

(d) [1m for decision + 4m for 2 sets of evidence and explanation]

Decision: The business should buy from Micole Coffee. [1]

Reasons for buying from Micole Coffee (**any two**):

1. Since the business has always ordered from Micole Coffee, they have formed a long-term relationship (**1 basic statement**) and are satisfied with the quality of the goods and level of service provided. (**1 development**).
2. No relationship has been established with the new overseas supplier, Kopi House (**1 basic statement**). Moreover there is a greater risk of the relationship not getting established with an overseas supplier. (**1 development**)
3. Micole Coffee made refunds 8 days earlier than Kopi House. (**1 basic statement**). If need to make a refund, Angela will be able to receive the amount refunded earlier, therefore will be more able to pay the business' debts when they are due. (**1 development**).
4. If there is a need to order or return spoilt coffee powder, Micole Coffee delivers or replaces coffee powders five days earlier than Kopi House with no additional cost. (**1 basic statement**). If the coffee powder is running low, Angela will be able to restock faster to prevent loss of sales. (**1 development**).

Decision: The business should buy from Kopi House. [1]

Reasons for buying from Kopi House (**any two**):

1. The overall price of 600 kilograms of coffee powder, including delivery fees is more expensive by \$2 940 of buying from Micole Coffee/cheaper from Kopi House. (**1 basic statement**).

Workings:

a. Micole Coffee: $600 \text{ kilograms} \times \$80 \text{ per unit} + (600/50 \times 30) = \$48\,360$

b. Kopi House: $600 \text{ kilograms} \times \$75 \text{ per unit} + (600/50 \times 35) = \$45\,420$

c. Difference: $\$48\,360 - \$45\,420 = \$2\,940$

Assuming that sales revenue remain constant, this will result in a decrease in gross profit. (**1 development**).

2. Kopi House provides 10 more days for payment to qualify for 2% cash discount. (**1 basic statement**). Angela's business can be more flexible and can pay for more urgent expenses first and still utilise the 2% cash discount. (**1 development**).
3. Kopi House has good reviews from customers, indicating that it has good reputation and is reliable in providing quality products. (**1 basic statement**). Angela is able to make profits and remain in business from the good coffee powder quality. (**1 development**).

[5m]

[Total: 15m]