ST. MARGARET'S SECONDARY SCHOOL

Preliminary Examinations 2022

CANDIDATE NAME			
CLASS		REGISTER NUMBER	

PRINCIPLES OF ACCOUNTS **7087/01**

Paper 1 **25 August 2022**

Secondary 4 Express / 5 Normal (Academic) **1 hour**

Additional Materials: Nil

READ THESE INSTRUCTIONS FIRST

Do not turn over the pages until you are told to do so.
Write your name, class and index number on all the work you hand in, including the cover page.
Write in dark blue or black pen.
Do not use staples, paper clips, highlighters, glue or correction fluid.
The use of an approved calculator is allowed.

Answer **all** questions in the spaces provided in the Question Paper.

Where the columnar format is used, the running balance column should be updated for the first and last entries. Where applicable, the balance should be brought down to the next financial year.

All calculations must be shown adjacent to the answer.
The businesses described in this question paper are entirely fictitious.
At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

For Examiner's Use
40

Answer **all** questions.

1 The following information was extracted from the books of Amazing Food Pte Ltd.

Advertising expense account				
Date	Particulars	Debit ($)	Credit ($)	Balance ($)
2021				
Aug 1	Advertising expense payable **(i)**		4 000	4 000 CR
Oct 8	Cash at bank **(ii)**	20 000		16 000 DR
2022				
May 3	Cash at bank	15 000		31 000 DR
Jul 31	Prepaid advertising expense **(iii)**		2 000	29 000 DR
	Income summary		29 000	-

REQUIRED

(a) Explain the following transactions.

(i) 1 August 2021

…………………………………………………………………………………………...

…………………………………………………………………………………………...

…………………………………………………………………………………………...

…………………………………………………………………………………………...

[2]

(ii) 8 October 2021

…………………………………………………………………………………………...

…………………………………………………………………………………………...

…………………………………………………………………………………………...

…………………………………………………………………………………………...

[1]

(iii) 31 July 2022

…………………………………………………………………………………………...

…………………………………………………………………………………………...

…………………………………………………………………………………………...

……………………………………………………………………………………………...

[2]

(b) Explain, using an appropriate accounting theory, the need to adjust for prepaid advertising expense for the year ended 31 July 2022.

……………………………………………………………………………………………....

……………………………………………………………………………………………....

……………………………………………………………………………………………....

……………………………………………………………………………………………....

……………………………………………………………………………………………....

[2]

The accounting year of Amazing Pte Ltd ends on 31 July.

On 31 July 2021, a machine which was bought on 1 January 2019 for $180 000, was sold on credit for $120 000.

Machinery is depreciated using the reducing-balance method, at 20% per annum. A full year's depreciation is charged in the year of purchase.

REQUIRED

(c) Calculate the gain or loss on sale of non-current asset.

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

[3]

(d) Explain why the business uses the reducing-balance method of deprecation, rather than the straight-line method, to depreciate machinery.

....

....

....

....

....

[2]

[Total: 12]

2 Hanee is the owner of Sweet Honey, which sells bottled honey. The trial balance of the business was prepared as at 31 July and the followings errors were found.

1. Credit note of $345 received from W&B Brothers for damaged goods had been recorded as $435.
2. Bank interest paid of $50 shown in the bank statement had been recorded on the wrong sides of both accounts.
3. Payment for $3 700 for the Hanee's personal rent expense had been debited to the business' rent expense account.
4. A cheque of $3 200 received from a debtor Ms Tan for goods previously sold, had not been recorded.

REQUIRED

(a) Prepare journal entries to correct each of the errors above on 31 July 2022. Narrations are **not** required.

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

[8]

(b) Prepare a statement to show adjusted profit for the year ended 31 July 2022. If there is no effect, simply state "No effect". The profit for the year before discovering the errors was $78 900.

....

....

....

....

....

....

....

....

....

....

....

....

[4]
[Total: 12m]

3 Sky owns a business selling furniture. The following shows an extract of his statement of financial position for the three years ending 31 July.

Current assets	2019 ($)	2020 ($)	2021 ($)
Inventory	8 300	9 200	23 500
Trade receivables	14 200	16 700	18 100
Prepaid expenses	3 650	2 080	1 630
Cash at bank	12 300	5 400	-
Total current assets	38 450	33 380	43 230
Current liabilities			
Trade payables	6 100	9 800	11 400
Salaries expense payable	2 000	-	-
Bank overdraft	-	-	6 550
Commission income received in advance	-	600	1 320
Total liabilities	8 100	10 400	19 270

REQUIRED

(a) Calculate the following as at 31 July 2021. Show your answers to two decimal places.

(i) Current ratio

…………………………………………………………………………………………..

…………………………………………………………………………………………..

…………………………………………………………………………………………..

…………………………………………………………………………………………..

…………………………………………………………………………………………..

[2]

(ii) Quick ratio

…………………………………………………………………………………………..

…………………………………………………………………………………………..

…………………………………………………………………………………………..

…………………………………………………………………………………………..

………………………………………………………………………………………………..

[2]

The following information relates to the business on 31 July of each respective year.

	2019	2020	2021
Current ratio	4.75	3.21	?
Quick ratio	3.27	2.13	?

REQUIRED

(b) Using your answers in **(a)**, comment on the changes in the liquidity position of the business over the three years ended 31 July 2019, 2020 and 2021. Give two possible reasons for the changes.

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

[5]

[Total: 9m]

4 Azizah operates a trading business. She has provided the following information from the business bank statement and cash at bank account for the month of July 2022.

Cash at bank

Date	Particulars	Debit	Credit	Balance
2022		$	$	$
Jul 1	Balance b/d			9 900 Dr
3	June Trading	1 670		11 570 Dr
7	Inventory (cheque 2020)		2 700	8 870 Dr
11	Karuso Pte Ltd (cheque 2021)		4 680	4 190 Dr
16	Utilities (cheque 2022)		2 900	1 290 Dr
19	My Little Place	6 320		7 610 Dr
22	Amiko Pte Ltd (cheque 2023)		200	7 410 Dr
23	Insurance (cheque 2024)		495	6 915 Dr
27	James Enterprise	7 700		14 615 Dr
28	Lim Supplies (cheque 2025)		935	13 680 Dr
Aug 1	Balance b/d			13 680 Dr

Bank Statement for July 2022

Date		Payments	Receipts	Balance
2022		$	$	$
Jul 1	Balance b/d			10 350 Cr
2	Cheque 2019	450		9 900 Cr
4	June Trading		1 670	11 570 Cr
6	Standing order: rental expense	2 500		9 070 Cr
13	Cheque 2020	2 700		6 370 Cr
14	Cheque 2021	4 680		1 690 Cr
18	Credit transfer: J&J Co		3 820	5 510 Cr
18	Cheque 2022	2 900		2 610 Cr
20	Cheque deposit		6 320	8 930 Cr
24	Cheque 2024	459		8 471 Cr
25	Rejected cheque (Deposited 20 July)	6 320		2 151 Cr
29	Cheque 2025	935		1 216 Cr
31	Bank charges	60		1 156 Cr

Additional information:

It was discovered that the accountant had incorrectly recorded the transaction on 23 July.

REQUIRED

(a) Prepare the adjusted cash at bank account for the month of July 2022.

....
....
....
....
....
....
....
....
....
....
....
....
....

[5]

(b) Prepare the Bank Reconciliation Statement as at 31 July 2022.

....
....
....
....
....
....
....
....
....
....
....

[2]

[Total: 7m]

End of Paper

BLANK PAGE

2022 4E POA PRELIM P1
MARKING SCHEME

<u>Question 1</u>

1(a) (i) Advertising expense of $4000 was **incurred but not yet paid** for in the last financial year ended 31 July 2021**[1]**. As such, it is now **reversed** and **deducted** from this year's advertising expense as it is not this year's advertising expense. **[1]**

(ii) Advertising expense of $20 000 was paid by **cheque** for the year ended 31 July 2022. **[1]**

(iii) Advertising expense amounting to $2 000 was **paid but not yet incurred** for the year ended 31 July 2022**[1]**. As such, it is recorded as a current asset and **deducted** from this year's advertising expense **[1]**.

(b) **Accrual basis of accounting** states that business activities that have occurred, regardless of whether cash is paid or received, should be recorded in the relevant accounting period**[1].** As such, since prepaid advertising expense had not yet been incurred, it is deducted from advertising expense account and recorded as a current asset instead **[1]**.

(c)

1 Jan 2019 – 31 July 2019	= 180000 x 20% (full year depn)	= $36000
1 Aug 2019 – 31 July 2020	= (180000-$36000) x 20%	= $28800
1 Aug 2020 – 31 July 2021	= (180000-$36000-$28800) x 20%	= $23040
Accumulated depn		= $87840

NBV = Cost – Acc Depn
= $180000 - $87840
= $92160

Proceed = $120000

Since Proceeds > NBV

Hence it is a **gain** on sale of non-current asset = $120000 - $92160**[2]**
=$27840**[1]**

(d) Using the reducing-balance method will better **reflect the usage of the machinery[1]** where the business uses the machinery in its earlier years since it is most efficient and less when it becomes less efficient over the years.**[1]** Hence a higher amount of depreciation expense is recorded in the earlier years and reduces as time goes by.

Question 2

2(a)

	Sweet Honey Journal

	Date	Particulars	Debit ($)	Credit ($)
	2022			
1	31 Jul	Inventory (435-345)	90**[1]**	
		Trade payable – W&B Brothers		90**[1]**
2	31 Jul	Interest expense (50 x 2)	100**[1]**	
		Cash at bank		100**[1]**
3	31 Jul	Drawings	3 700**[1]**	
		Rent expense		3 700**[1]**
4	31 Jul	Cash at bank	3 200**[1]**	
		Trade receivable – Ms Tan		3 200**[1]**

(b)

Statement to adjust profit for the year ended 31 July 2022		
	$	
Profit before adjustment	78 900	
(1) No effect	-	**[1]**
(2) Less: Interest expense was understated	(100)	**[1]**
(3) Add: Rent expense was overstated	3 700	**[1]**
(4) No effect	-	**[1]**
Profit after adjustment	**82 500**	

Question 3

	2019	2020	2021

Current ratio	4.75	3.21	**2.24**
Quick ratio	3.27	2.13	**0.94**

(a)(i) Current ratio for 2021
= Current assets/ Current liabilities
= 43230 **[½]** /19270**[½]**
= 2.24 **[1]**

(a)(ii) Quick ratio
= (Current assets – Inventory – Prepayments)/ Current liabilities
= (43230 – 23500 – 1630) **[½]**/ 19270**[½]**
= 0.94 **[1]**

(b) **[Either 2 point from describing trend and 3 points from reasons or 3 point from describing trend and 2 points from reasons]**

- The current ratio decreased from 4.75 in 2019 to 3.21 in 2020 to 2.24 in 2021. **[1]**The current ratio for the three years was above the general benchmark of 2 even though it was on a declining trend. This suggests that the business had sufficient current assets to pay off its immediate debts. **[1]**

- Similarly, the quick ratio also decreased from 3.27 in 2019 to 2.13 in 2020 to 0.94 in 2021**[1]**. In 2021, the quick ratio of 0.94 <u>was less than 1</u>, this means that business <u>had insufficient quick assets</u> to meet immediate debts, and was facing <u>a cashflow problem</u>. **[1]**

<u>REASONS</u>

- The declining and worsening liquidity trend could be due to the drop in bank balance from $12 300 in 2019 to a bank overdraft position of $6 550 in 2021. **[1]**

- Another reason for the worsening liquidity was due to an increase in current liabilities over the 3 years where the trade payables balance doubled from $6 100 to $11 400 in 2021**[1]**.

- Inventory had also increased from $8 300 in 2019 to $23 500 in 2021. This has caused quick ratio to drop sharply from 3.27 in 2019 to 2.13 in 2020 to 0.92 in 2021**[1]**.

- Overall the <u>business liquidity position had worsened</u> over the 3 years.

<u>Question 4</u>

(a)

Cash at Bank a/c

Date	Particulars	Debit	Credit	Balance

2022		$	$	$	
Aug 31	Balance b/d			13 680	Dr
	Rent expense		2 500**[1]**	11 180	Dr
	Trade receivable-J&J Co	3 820**[1]**		15 000	Dr
	Bank charges		60**[1]**	14 940	Dr
	Insurance (495-459)	36**[1]**		14 976	Dr
	My Little Place (dishonoured cheque)		6 320**[1]**	8 656	Dr
				8 656	Dr
Sep 1	Balance b/d			8 656	Dr

(b)

Bank reconciliation statement as at 31 July 2022

	$	$
Balance as per bank statement		1 156
Add: Deposits in transit		
Trade receivables - James Enterprise		7 700**[1]**
		8 856
Less: Cheque not yet presented		
Trade payable - Amiko Pte Ltd (cheque 2023)		200**[1]**
Balance as per cash at bank		8 656