

**Suggested Solution**  
**O-Level 2022**  
**Principles of Accounts**  
**Paper 1**

**Q1**

**(a)** 4 stages of accounting cycle:

1) Stage 1: Identify and record

Source documents are used to record transactions in the journal daily. Journal entries are posted to the ledger.

2) Stage 2: Adjust

The ending balances of ledger accounts are listed in a trial balance. Any adjusting entries are recorded in the journal and posted to the ledger. Accounts are adjusted at least once in a financial year.

3) Stage 3: Report

Based on adjusted trial balance, financial statements are prepared at least once in a financial year.

4) Stage 4: Closing

After the financial statements are finalised, income, expenses, income summary, drawings and dividends accounts are closed. Accounts are closed once at end of financial year. [4]

**(b)**

Transaction	Source document
Purchase motor vehicle on credit	Invoice
Paying credit supplier by cheque	Payment voucher
Notifying credit customer of overcharge	Credit note

[3]

**(c)**

Transaction	Account to be debited	Account to be credited
1	Office equipment	Capital
2	Trade payable Aisha	Inventory

[4]

[Total: 11]

**Q2**

**(a)** Revenue Recognition Theory [1]

Revenue is earned when goods have been delivered or services have been provided. [1]

**(b)** (i) 31 Dec 2021 – the business provided service to a customer on credit for \$34,900. [1]

(ii) 30 Sep 2022 – Service fee revenue of \$3,600 was received in advance as service has not been provided. [1]

**(c)** (i) Service fee revenue received in advance is not earned during the year, hence should be deducted from the statement of financial performance. Not adjusting it would cause profit for the year to be overstated by \$3,600. [1]

(ii) Service fee revenue received in advance is a current liability. Not adjusting for it will cause the current liabilities to be understated by \$3,600 [1]. Profit for the year overstated by \$3,600 would cause equity to be overstated by \$3,600. [1]

- (d) Advertising expense to be transferred to income summary  
 $= 7500 + 780 + 50$   
 $= \$8,330$  [2]

(e)

Extract of Statement of Financial Performance for the year ended 30 September 2022

	\$
Service fee revenue	82 600 [1]
<u>Other Income</u>	
Rental income (9000+500)	9 500 [1]
<u>Less: Other Expenses</u>	
Advertising expense	8 330 [1]

[3]

[Total: 12]

**Q3**

- (a) Working capital is current assets less current liabilities. [1]
- (b) The current ratio considers the total current assets of the business but the quick ratio considers only the quick assets, which does not include inventory and prepayments. [2]
- (c)
- The current ratio improved from 1.95 in 2021 to 2.64 in 2022. [1]
  - This was due to the \$45 000 increase in total current assets and the slight \$3 400 decrease in total current liabilities. [1]
  - However, the quick ratio worsened slightly from 1.58 in 2021 to 1.54 in 2022, but it is still above the general benchmark of 1. [1]
  - The improvement of current ratio and worsening of quick ratio indicates that the increase in total current assets could be mostly due to an increase in inventory and prepayment. [1]
  - In conclusion, Benedict's business is still able to repay its short term debts on time but its liquidity position has worsened slightly. [1]

[Total: 8]

**Q4**

- (a) Depreciation is the allocation of the cost of a non-current asset over its estimated useful life. [1]
- (b) Prudence theory; Matching theory [2]
- (c) Depreciation expense 2021 =  $(250\,000 - 0) \times 20\% = \$50\,000$  [1]  
 Depreciation expense 2022 =  $(250\,000 - 50\,000) \times 20\% = \$40\,000$  [1]
- (d) (i) Depreciation expense will be overstated by \$10 000, causing profit for the year to be understated by \$10 000. [2]  
 (ii) Accumulated depreciation will be overstated by \$10 000, causing the net book value of the gym equipment to be understated by \$10 000. [2]

[Total: 9]

**Suggested Solution**  
**O-Level 2022**  
**Principles of Accounts**  
**Paper 2**

**1(a)**

LMN Pte Limited  
Statement of Financial Performance for the year ended 31 August 2022

		\$	\$
Sales revenue	[1]	438 820	
Less: Sales returns	[1]	21 300	
Net sales revenue			417 520
Less: Cost of sales	[1]		265 900
Gross profit			151 620
<b>Other income</b>			
Commission income (28 200 – 1 200)	[1]		27 000
<b>Less: Other Expenses</b>			
Wages and salaries (63 000 + 870)	[1]	63 870	
Utilities expenses		7 800	
Rent and rates (10 750 – 500)	[1]	10 250	
Depreciation on fixtures and fittings [10% x (270 000 – 30 000)]	[1]	24 000	
Depreciation on motor vehicles [30% x (125 000 – 63 750)]	[1]	18 375	
Impairment loss on trade receivables [(5% x 28 480) – 1 050]	[1]	374	124 669
Profit for the year	[10F]		53 951

**[10]**

**1(b)**

LMN Pte Limited  
Statement of Financial Position as at 31 August 2022

<b>Assets</b>	\$	\$	\$
<b>Non-current assets</b>	Cost	Accumulated Depreciation	Net book value
Fixtures and fittings (48 000 + 24 000)	270 000	72 000	[1] 198 000
Motor vehicles (63 750 + 18 375)	125 000	82 125	[1] 42 875
			240 875
<b>Current assets</b>			
Trade receivables	28 480		
Less: Allowance for impairment of trade receivables (5% x 28 480)	1 424	[1] 27 056	
Inventory		42 500	
Cash at bank		[1] 11 900	
Prepaid rent and rates		[1] 500	39 456
Total assets			322 831
<b>Equity and Liabilities</b>			
<b>Shareholders' Equity</b>			
Issued share capital, 75 000 ordinary shares	[1]	150 000	
Retained earnings (99 510 + 53 951 – 7 500)	[1]	145 961	295 961
<b>Current liabilities</b>			
Trade payables		17 300	
Commission income received in advance	[1]	1 200	
Wages and salaries payable	[1]	870	
Dividends payable (0.10 x 75 000)	[1]	7 500	26 870
Total equity and liabilities			322 831

**[10]**

**Q2**

- (a) (i) Amount owed by Zheng =  $5\,000 \times 95\% = \underline{\$4\,750}$  [1]  
 (ii) Cash discount received by Zheng =  $4\,750 \times 2\% = \underline{\$95}$  [1]

- (b) Double entry:  
 Debit Trade payable KQ Computers \$4 750 [1]  
 Credit Discount received \$95 [1]  
 Credit Cash at bank \$4 655 [1]

- (c) Any 2

	Type of stakeholder	The use of accounting information
1	Owners / Shareholders	1) To evaluate whether to continue investing in business, depending on the risks and returns
2	Managers	1) To evaluate how the business is doing 2) To consider ways to improve the performance of the business
3	Employees	1) To decide whether to continue working for the business
4	Lenders	1) To decide whether to grant loans to the business 2) Evaluate whether the business is able to repay its debts
5	Suppliers	1) To decide whether to sell to the business on credit 2) Evaluate whether the business is able to repay its debts
6	Customers	1) Consider whether to buy from the business, depending on its ability to provide goods and/or services that they need and good after-sales service
7	Government	1) To decide the amount of tax to collect 2) Evaluate whether the business complies with the tax regulations
8	Competitors	1) To compare their performance against the business 2) To consider how to improve their own performance

[4]

- (d) Non-accounting information: (Any two)

- 1) Local or overseas seller
- 2) After-sales service
- 3) Return policy
- 4) Online or brick-and-mortar supplier
- 5) Reputation of supplier
- 6) Warranty

[2]

[Total: 11]

### Q3

**(a) Double entry:**

Debit	Impairment loss on inventory	\$2250	[1]
Credit	Inventory	\$2250	[1]

**(b) Double entry:**

Debit	Insurance claim receivable \$2250	[1]
Credit	Impairment loss on inventory \$2250	[1]

**(c)** Prudence theory states that business should not overstate its assets and profits by recognising the inventory value at the lower of cost and net realisable value [1]

**(d) Days sales in inventory 2022** = Average inventory / Cost of sales x 365  
= [(50 000 + 59 000) / 2] / 326 000 x 365  
= 54 500 / 326 000 x 365  
= 61.02 days **[2]**

(e)

- Luna's days sales in inventory has worsened from 45.78 days in 2020 to 52.34 days in 2021 to 61.02 days in 2022. [1]
- This means that Luna has become less efficient in managing its inventory [1] and is taking a longer time to sell its inventory. [1]
- This worsening trend of the day sales in inventory could be probably due to the lack of advertising efforts. [1]
- Another possible reason could be due to Luna's business increasing its selling price of goods over the years, and thus lowering sales volume. [1]

**(f)**

- Offer trade discounts and special promotions to encourage customers to buy more.
- Advertise and market aggressively to attract more customers.
- Reduce selling price for slow-moving goods.
- Use technological tools to improve the accuracy of predictions about customer demand in order to know when and how much inventory to buy.

[Total: 16]

- Q4(a)** On 30 Sep 2021, Owner contributed personal motor vehicle worth \$12 000 into the business.
- (b)** Accounting/Business entity theory. The business and the owner are separate entities. Any contributions from the owner to the business is therefore recorded as a transaction in the books of the business
- (c)** Capital + Additional capital + Profit – Drawings = Ending Capital  
Profit for the year = 60500-42000 = \$18500
- (d)** Historical cost theory
- (e)**

Decision	I would recommend Aiden to set up a sole proprietorship
Evidence 1	Aiden enjoys the challenge of being self-employed
Explanation 1	Having a sole trader set up allows him the level of control he desires
Evidence 2	Aiden has expertise and strong understanding of the market needs in the field of F&B
Explanation 2	Hence, this means that Aiden can have control over generating sales for himself
Evidence 3	Although he lacks skills in the other areas of operations,
Explanation 3	He can hire an in-house team for marketing or outsource the non-core areas of the business and save costs

Or

Decision	I would recommend Aiden to set up a limited liability partnership with his sister
Evidence 1	Aiden does not have much savings while his sister can contribute capital
Explanation 1	Food supply is a capital-intensive business. His sister's contribution allows the business a longer runway to profitability while maintaining a going concern with the liquidity from the cash contribution
Evidence 2	Aiden's sister is strong with marketing skills, which he lacks.
Explanation 2	The combination of strengths and expertise can propel the business to profitability faster since marketing will help the business reach new market segments and increase revenue streams
Evidence 3	It's easier to raise funds as an LLP
Explanation 3	Banks are more willing to lend to the LLP as there's personal and business assets to serve as collaterals

