

Answer **all** questions.

- 1 Elliot owns a tailor business which has purchased a new automated display cabinet on wheels on credit from Bright Furnishings for \$50 000 on 2 February 2023. The following costs were incurred on the same day:

|  | \$    |
|--|-------|
| Installation of the automated cabinet on wheels  | 6 900 |
| Annual insurance premium of the automated cabinet  | 1 200 |
| Delivery fee for transportation of the cabinet to an exhibition venue to promote the tailor business | 1 000 |

### REQUIRED

- (a) Calculate the cost of the automated cabinet on wheels.

..... [2]

- (b) Prepare the journal entry to record the transaction on 2 February 2023. Narration **is not** required.

### Journal

| Date<br>2023 |  | Debit<br>\$ | Credit<br>\$ |
|--------------|--|-------------|--------------|
|              |  |             |              |
|              |  |             |              |

[2]

- (c) State the accounting theory applied by a business to record revenue and capital expenditure.

..... [1]

The business policy is to provide a full year's depreciation in the year of purchase and no depreciation is provided in the year of sale. Its financial year ends on 31 May. The original cost of two motor vans purchased as at 1 June 2020 is \$100 000 each. On 3 March 2023, the business sold one of the motor vans for \$80 000.

The business provided the following accumulated depreciation of motor vehicles account on 31 May 2023:

| Accumulated depreciation of motor vehicles account |  |        |                  |         |
|--|--|--------|------------------|---------|
| Date   | Particulars                              | Debit  | Credit           | Balance |
| 2021   |  | \$     | \$               | \$      |
| May 31   | Depreciation of motor vehicles           |        | 40 000           | 40 000  |
| Jun 1  | Balance b/d                              |        |                  | 40 000  |
| 2022   |  |        |                  |         |
| May 31   | Depreciation of motor vehicles           |        | 32 000           | 72 000  |
| Jun 1  | Balance b/d                              |        |                  | 72 000  |
| 2023   |  |        |                  |         |
| Mar 3  | Sale of non-current assets <b>(e)(i)</b> | 36 000 |                  | 36 000  |
| May 31   | Depreciation of motor vehicles           |        | ? <b>(e)(ii)</b> | ?       |
| Jun 1  | Balance b/d                              |        |                  | ?       |

## REQUIRED

(d) Calculate the rate of depreciation used to depreciate the motor vehicles.

..... [1]

(e) Interpret the entries on:

(i) 3 March 2023

.....  
 .....  
 ..... [1]

(ii) 31 May 2023 and state the amount of depreciation on 31 May 2023

.....  
 .....  
 ..... [2]



Elizabeth is considering investing in one the businesses in the food catering industry. The two businesses, Good Food Catering Pte Ltd and Delicious Delicacy Pte Ltd, provided the following information from their books for the year ended 30 April 2023:

|                   | Good Food Catering Pte Ltd | Delicious Delicacy Pte Ltd |
|-------------------|----------------------------|----------------------------|
|                   | \$                         | \$                         |
| Net sales revenue | 880 800                    | 720 090                    |
| Cost of sales     | 660 600                    | 500 780                    |
| Rental expenses   | 80 800                     | 50 380                     |
| Salaries expenses | 50 500                     | 65 200                     |

## REQUIRED

- (a) Calculate the profit margin for **each** business at 30 April 2023. Show your answers to **two** decimal places.

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[2]

- (b) Evaluate the profitability of Good Food Catering Pte Ltd and Delicious Delicacy Pte Ltd for the year ended 30 April 2023. Use the given information and your answer to (a).

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[5]

- (c) On 30 April 2023, Delicious Delicacy Pte Ltd issued additional 200 000 ordinary shares at \$1.80 each. In addition, it declared a dividend of \$0.05 per share payable in June 2023 based on the profit for the year ended 30 April 2023. Prepare the equity section of the statement of financial position at 30 April 2023 using the given information and your answers in (a). The share capital (comprising 100 000 ordinary shares) and retained earnings balance on 1 May 2022 is \$100 000 and \$20 000 respectively.

**Delicious Delicacy Pte Ltd**

[4]

- (d) Distinguish **two** differences between a sole proprietorship and a private limited company.

[4]

**[Total: 15]**

- 3 Wen Ling has started a sole proprietorship business trading in fashion clothing. She is seeking an understanding on how transactions of her business are recorded. In addition, she has requested her accountant to record her talent in fashion design as an asset of the business.

### REQUIRED

- (a) State the expanded accounting equation that governs the recording of transactions.

[1]

- (b) Advise Wen Lin if her talent in fashion design can be recorded as an asset of the business. Elaborate your advice with an explanation of an accounting theory that governs the recording of this transaction.

[2]

- (c) For each transaction below, show the effect (“+” for an increase and “-” for a decrease) on the accounting equation. Write “No effect” if the transaction does not affect the accounting equation. Item (i) has been done for you as an example.

| Item  | Transaction   | Effect on                       |                  |                            |
|-------|---|---------------------------------|------------------|----------------------------|
|       |   | Asset                           | Liability        | Equity                     |
| (i)   | Wen Ling contributed \$5 000 cash into the business bank account to start the business.                               | <i>Cash at bank</i><br>+\$5 000 | <i>No effect</i> | <i>Capital</i><br>+\$5 000 |
| (ii)  | Business sold fashion clothing for \$1200 on credit to Beautiful Boutique. The cost of the fashion clothing is \$600. |                                 |                  |                            |
|       |   |                                 |                  |                            |
| (iii) | The business bought fashion clothing for resale on credit at a list price of \$3 800 with a trade discount of 5%.     |                                 |                  |                            |

[6]

In an accounting information system, Wen Ling was told that an accountant first records transactions based on source documents.

### REQUIRED

- (d) State and explain the importance of source documents using an accounting theory.

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[2]

- (e) State **two** differences between cash and trade discounts.

1

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2

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[2]

- (f) State **three** reasons why the business cash at bank balance differed from the balance in the bank statement received from the bank.

1

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2

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3

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[3]

**[Total: 16]**

**End of paper**





**Sec 5NA Preliminary Examination Paper 1 2023**  
**Marking scheme**

1a)

|  | \$    |
|--|-------|
| Installation of the automated cabinet on wheels  | 6 900 |
| Annual insurance premium of the automated cabinet  | 1 200 |
| Delivery fee for transportation of the cabinet to an exhibition venue to promote the tailor business | 1 000 |

Calculate the cost of the automated cabinet on wheels.

$$\begin{aligned}\text{Cost of automated cabinet on wheels} &= \$50\,000 + 6900 \text{ [1]} \\ &= \$56\,900 \text{ [1]}\end{aligned}$$

1b)

**Journal**

| Date<br>2023 |                                    | Debit<br>\$ | Credit<br>\$ |
|--------------|------------------------------------|-------------|--------------|
| Feb 2        | Fixtures and fittings              | 56 900 1 OF |              |
|              | Trade payable – Bright Furnishings |             | 56 900 1 OF  |

1c) Materiality theory [1]

1d) Rate of depreciation =  $\$40\,000 / \$200\,000 \times 100$   
 = 20% [1]

1e)

Interpret the entries on:

(i) 3 March 2023

On 3 March 2023, the business sold one of its motor vehicles costing \$100 000 on credit for \$80 000. It has depreciated the motor vehicle by \$36 000 since it was purchased on 1 June 2020. [1]

(ii) 31 May 2023 and state the amount of depreciation on 31 May 2023

For the year ended 31 May 2023, the annual depreciation of the motor vehicle was \$12 800 [1] and as a result, the accumulated depreciation will increase by \$12 800. [1] Hence, the net book value of the motor vehicle will decrease by \$12 800.

2a)

|               | Good Catering Pte Ltd                            | Delicious Delicacy Pte Ltd                            |
|---------------|--|---|
| Profit margin | $= 88900 / 880800 \times 100$<br>$= 10.09\%$ [1] | $= 103\,730 / 720\,090 \times 100$<br>$= 14.41\%$ [1] |

2b)

|                     | Good Catering Pte Ltd                                | Delicious Delicacy Pte Ltd                                |
|---------------------|--|---|
| Gross profit margin | 25%  | 30.46%  |
| Profit margin       | $= 88900 / 880800 \times 100$ [1]<br>$= 10.09\%$ [1] | $= 103\,730 / 720\,090 \times 100$ [1]<br>$= 14.41\%$ [1] |

Delicious Delicacy Pte Ltd gross profit margin of 30.46% is better than Good Catering Pte Ltd's gross profit margin of 25%. [1] This indicates that Delicious Delicacy Pte Ltd sells its food at a higher selling price or buys its ingredients at a lower cost price as compared to Good Catering Pte Ltd. [1]

The profit margin of Delicious Delicacy Pte Ltd of 14.41% is also better than Good Catering Pte Ltd's profit margin of 10.09% [1] This shows that Delicious Delicacy Pte Ltd is more efficient in managing its operating expenses than Good Catering Pte Ltd. [1] This could be due to Delicious Delicacy Pte Ltd is able to secure a lower rent of \$50 380 for its premises as compared to Good Catering Pte Ltd's rental expenses of \$80 800. [1]

Therefore, Delicious Delicacy Pte Ltd is more profitable than Good Catering Pte Ltd. [1]

1 mark per suitable comment to a maximum of 5 marks

2c)

| Delicious Delicacy Pte Ltd                                    |                |
|---|----------------|
| Statement of financial position as at 30 April 2023 (extract) |                |
| <u>Equity and liabilities</u>                                 |                |
| <u>Shareholders' equity</u> [1]                               | \$             |
| Share capital, 300 000 ordinary shares (\$100 000 + 360 000)  | 460 000 [1]    |
| Retained earnings (\$20 000 + 103 730 – 15 000) [1 OF]        | 108 730 [1 OF] |
|   | <hr/> 568 730  |

2d)

| <b>Difference</b>            | <b>Sole proprietorship (SP)</b>   | <b>Private limited company PLC</b>  |
|------------------------------|---|---|
| ownership                    | Owned by one person who contributes capital to set up the sole proprietorship   | Owned by 50 or less shareholders where each shareholder buys shares and contributes capital   |
| Access to funds              | It is less likely for banks and other lenders to lend money to the SP due to the lack of personal assets that can serve as collaterals. Hence, access to funds is usually limited to the personal funds of the owner. | It is more likely for banks and other lenders to lend money to the PLC as there are more business assets of high value to serve as collaterals. Alternatively, the company may issue more shares to raise funds.            |
| risk                         | When the SP incurs debts and losses, the sole owner is obliged to pay them using his or her personal assets.  | When the company incurs debts and losses, shareholders are not obliged to pay them using their personal assets and may not receive dividends. In the worst-case scenario, they will only need to forfeit their investments. |
| Level of control             | The only owner usually runs the business by himself or herself and has absolute control over it. The only owner may hire professionals to help him or her.  | The shareholders have no control over the running of the business, unless they are part of the management team. The company hires professionals to manage the business on behalf of shareholders.                           |
| Life span                    | The SP exists as long as the owner is alive and desires to continue operation.  | The company exists forever until wound up or struck off.  |
| Transferability of ownership | The sole owner can easily update the particulars of the new owner to notify the corporate regulatory authority of the transfer of ownership.  | Shareholders can pay a stamp duty to the tax authority to give their shares to another person or organisation.  |

Any two differences of the above for each form of entity, maximum 4 marks.

3a)  $\text{Assets} = \text{Liabilities} + \text{Capital} + (\text{Income} - \text{Expenses}) - \text{Drawings}$  [1]

3b) No, it cannot be recorded in the accounting books as Monetary theory [1] states that only business transactions that can be measured in monetary terms are recorded. [1]

3c)

| Item  | Transaction   | Effect on  |                                |                               |
|-------|---|--|--------------------------------|-------------------------------|
|       |   | Asset  | Liability                      | Equity(C-D+I-Ex)              |
| (i)   | Wen Ling contributed \$5 000 cash into the business bank account to start the business.                               | Cash at bank<br>+\$5 000                             | No effect                      | Capital<br>+\$5 000           |
| (ii)  | Business sold fashion clothing for \$1200 on credit to Beautiful Boutique. The cost of the fashion clothing is \$600. | Trade receivable – Beautiful Boutique<br>+\$1 200[1] | No effect                      | Sales revenue<br>+ \$1 200[1] |
|       |   | Inventory<br>-\$600[1]                               | No effect                      | Cost of sales<br>-\$600[1]    |
| (iii) | The business bought fashion clothing for resale on credit at a list price of \$3 800 with a trade discount of 5%.     | Inventory<br>+\$3 610[1]                             | Trade payables<br>+ \$3 610[1] | No effect                     |

3d)

Objectivity theory [1]

requires accounting information must be supported by reliable and verifiable evidence so that financial statements will be free from opinions and biases. [1]

3e)

Differences between cash and trade discounts

|             | Cash discount  | Trade discount   |
|-------------|--|--|
| Definition  | A reduction to the invoiced amount owed by credit customers.                             | A reduction to the list price.   |
| Purpose     | Given to encourage early payment by credit customers.                                    | Given to encourage credit customers to buy in bulk, their patronage and to encourage customer loyalty. |
| Calculation | Reduces invoice amount<br>Amount paid<br>= Invoiced amount – cash discount               | Reduces list price<br>Invoice amount<br>= List price – trade discount                                  |
| Recording   | Recorded as <b>discount allowed</b> and <b>discount received</b> in the ledger accounts. | Trade discount is <b>not</b> recorded in the ledger accounts as only the invoiced amount is recorded.  |

Any two differences of the above, maximum 2 marks.

3f)

Reasons for the difference between business' cash at bank account and bank statement:

- Direct deposits
- Direct payments
- Cheques not yet presented
- Deposits in transit
- Dishonoured cheques
- Errors made by the business or the bank

Any three of the above reasons, maximum 3 marks.