

BUKIT PANJANG GOVERNMENT HIGH SCHOOL PRELIMINARY EXAMINATION 2022 SECONDARY 5 GCE 'O' LEVEL SYLLABUS

PRINCIPLES OF ACCOUNTS

Paper 1

7087 / 01

Date: 29 August, 2022 Duration: 1h Time: 0750 – 0850 h

Additional Materials: NONE

READ THESE INSTRUCTIONS FIRST

Write your name, class and index number 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, glue or correction fluid. The use of an approved calculator is approved.

Answer all questions.

The businesses described in this question paper are entirely fictitious.

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

MARKING SCHEME

Setter: Mr Alex Yong

[Turn over]

This paper consists of 10 printed pages

1 The accountant of Krusty Ltd provided the following cash at bank account of the business for the month of July 2022.

Cash at bank account					
Date	Particular	Cheque	Debit	Credit	Balance
		Number			
2022			\$	\$	\$
Jul 1	Balance b/d				3 100 Dr
5	Rui Rui Supplies	22026		857	2 243 Dr
8	Sales revenue		250		2 493 Dr
10	Dong Ding Warehouse	22027		500	1 993 Dr
19	Coriander Producers	22028		1 000	993 Dr
21	Sang Song Retail		375		1 368 Dr
24	Patrick Transport	22029		825	543 Dr
27	Sales revenue		300		843 Dr
30	Ah Meng Equipment		900		1 743 Dr
31	Xiao Ming Trading	22030		3 150	1 407 Cr
Aug 1	Balance b/d				1 407 Cr

The following bank statement for July 2022 received is as follows:

Bank statement				
Date	Particular	Withdrawal	Deposit	Balance
2022		\$	\$	\$
Jul 1	Balance b/d			3 200 Cr
1	Direct deposit – Kai		1 075	4 275 Cr
4	Cheque no. 22025	100		4 175 Cr
8	Cheque deposit		250	4 425 Cr
10	Cheque no. 22026	875		3 550 Cr
17	Cheque no. 22027	500		3 050 Cr
19	Standing order – Rent	2 365		685 Cr
25	Cheque no. 22028	1 000		315 Dr
27	Cheque deposit		375	60 Cr
28	Cheque deposit		300	360 Cr
31	Bank charges	20		340 Cr

Additional information:

The manager of Krusty Ltd, Gabriel, discovered that the accountant made an error in recording the transaction on 5 July 2022.

REQUIRED

(a) Explain the purpose of bank reconciliation.

The purpose is to check the business' records (cash at bank account)

against the bank's record (bank statement) so as to deter fraud.

[1]

(b) Prepare the adjusted cash at bank account for July 2022.

Date	Particular	Debit	Credit	Balance
2022		\$	\$	\$
Jul 31	Balance b/d			1 407 Cr
31	Trade payable – Rui Rui		18 [1]	1 425 Cr
	Supplies (875 – 857)			
31	Trade receivable – Kai	1 075 [1]		350 Cr
31	Rent expense		2 365 [1]	2 715 Cr
31	Bank charges		20 [1]	2 735 Cr
Aug 1	Balance b/d			2 735 Cr [1]

Cash at bank account

Note: 1 mark will be deducted from the total if date written is wrong. Note: Mark will be awarded even if students did not specify whether the person is a trade receivable/payable.

[5]

(c) Prepare the bank reconciliation statement as at 31 July 2022.

Bank reconciliation statement as at 31 July 2022

	\$	\$
Balance as per bank statement		340 [1]
Add: Deposits in transit		
Trade receivable – Ah Meng Equipment		<u>900 [1]</u>
		1240
Less: Cheques not yet presented		
Trade payable – Patrick Transport	(825) [1]	
Trade payable – Xiao Ming Trading	<u>(3 150)</u> [1]	<u>(3 975)</u>
Adjusted balance as per cash at bank account		<u>2 735</u> [1]

[5]

(d) Gabriel have a habit of depositing the sales proceeds at the end of every month. One day, the shop was robbed and the cash register was emptied by the burglar.

After a thorough investigation, the police found out that the cash register was not locked at all as there was no attempt by the burglar to force open it.

REQUIRED

(i) Explain two ways Gabriel can enhance the custody of cash in the business in the future.

One of the way is to keep the cash in a safe deposit box daily using combinations or passwords to secure it [1]. Another way is to deposit cash daily to minimize the amount of cash kept overnight [1].

Note: Do not accept the other answer – "limiting access of cash to authorized personnel" as it has no relevance to the scenario given

[2]

The accountant of Krusty Ltd recently found out that Gabriel also has poor internal control measures in place.

It was discovered that Gabriel has been handling all the cash and doing the recording duties by himself. Moreover, Gabriel is also the only one reviewing and approving all the purchases that were made with their supplier. There was also no proper documentation in place upon the receipt of the purchase of the inventory.

REQUIRED

(ii) Develop **two** ways Gabriel can do to enhance the internal control of his business.

1. Gabriel can separate the cash handling and recording duties among different employees so that no single person has control over the entire cash process [1].

2. Gabriel should ensure that at least 2 persons review and approve all payment to ensure segregation of duties [1].

Other point

• Gabriel should keep all supporting documents such as invoice upon the receipt of purchase.

[2]

[Total: 15]

2 Xia Hai Ltd's financial year end is on 31 March. The following balances were extracted from the books of Xia Hai Ltd.

	1 April 2021	31 March 2022
	\$	\$
Prepaid rent expense	1 980	
Rent expense payable		1 210
Commission income receivable	2 280	1 870

Additional information:

On 1 September 2021, the owner of Xia Hai Ltd paid \$8 900 rent by cheque and deposited \$6 800 fee income into the business bank account.

REQUIRED

(a) Using an accounting theory, explain why it is necessary for Xia Hai Ltd to make adjustments for prepaid rent expense.

Name: Accrual basis of accounting theory [1], Explanation: Expenses should be recognized in the period where goods have been delivered or services have been provided, regardless of whether they have been paid or not [1].

OR

Name: Matching theory [1] Explanation: Expenses incurred must be matched against its related income to determine the profit or loss in the same period [1].

[2]

(b) Calculate the rent expense for the year ended 31 March 2022.

Rent expense for the year ended 31 March 2022 = \$1 980 [1] + \$8 900 + \$1 210 [1] = \$12 090 [1]

[3]

(c) Calculate the commission income for the year ended 31 March 2022.

Commission income for the year ended 2022 = -\$2 280 [1] + \$6 800 + \$1 870 [1] = \$6 390 [1]

[3]

[Total: 8]

3 Hot Heels Boutique buys and sells fashionable heels for the ladies. Hot Heels Boutique's financial year ends on 31 December. On 1 December 2021, the business had inventory valued at \$45 000. On 23 December 2021, a fire broke out in the business' warehouse. After the fire was put out, it was found out that \$19 000 of the business inventory was destroyed.

On 27 December 2021, an insurance claim of \$11 000 was agreed and the amount was to be paid in December 2021.

REQUIRED

(a) Name the accounting theory which is applied when a business accounts for the loss of inventory.

Prudence theory [1].

(b) Prepare the journal entries to account for the insurance claim that took place on 27 December 2021. Narration is **not** required.

Date	Particular	Debit	Credit
2021		\$	\$
Dec 27	Insurance claim receivable	11 000 [1]	
	Impairment loss on inventory		11 000 [1]
	(e-)		

Journal

[2]

(c) Calculate the impairment loss on inventory that will be reflected in the statement of financial performance for the year ended 31 December 2021.

Impairment loss on inventory = \$19 000 - \$11 000 [1] = \$8 000 [1]

[2]

[1]

Hot Heels Boutique had the following entries in its inventory account in January 2022.

Inventory				
Date	Particular	Debit	Credit	Balance
2022		\$	\$	\$
Jan 1	Balance b/d			26 000 Dr
5	Trade payables – Jay Trading	2 500		28 500 Dr
24	Drawings		8 000	20 500 Dr
26	Cost of sales	1 000		21 500 Dr
31	Impairment loss on inventory		500	21 000 Dr

REQUIRED

- (d) Interpret the following entries in the inventory account.
 - (i) 24 January 2022

On 24 January 2022, the owner of Hot Heels Boutique took out goods costing \$8 000 for personal use.

[1]

(ii) 26 January 2022

On 26 January 2022, Hot Heels Boutique's customers returned goods / heels costing \$1 000.

[1]

(iii) 31 January 2022

On 31 January 2022, the cost of the remaining heels (inventory) was reduced by \$500 to its net realizable value.

[1]

The following is an extract of the statement of financial performance for the years ended 31 December 2020 and 2021 for Hot Heels Boutique.

	Year ended 31	Year ended 31
	December 2020	December 2021
	\$	\$
Sales revenue	160 000	220 000
Less: Cost of sales	(53 800)	(78 250)
Gross profit	106 200	141 750

Additional information

	\$
Inventory as at 31 December 2019	19 200
Inventory as at 31 December 2020	20 100
Inventory as at 31 December 2021	26 450

REQUIRED

(e) Calculate the days sales in inventory for the years ended 31 December 2020 and 2021. Show your answers to **two** decimal places.

	31 December 2020	31 December 2021
Workings	Average inventory = (19 200 + 20 100) / 2 = \$19 650 [1]	Average inventory = (20 100 + 26 450) / 2 = \$23 275 [1]
	Day sales in inventory = (Ave inventory / Cost of sales) x 365 days	Day sales in inventory = (Ave inventory / Cost of sales) x 365 days
	= (19 650 / 53 800) x 365	= (23 275 / 78 250) x 365
	= 133.31 days	= 108.57 days [1]
Day sales in inventory (days)	133.31 days [1]	108.57 days
L		[4]

- (f) Evaluate the management of inventory by Hot Heels Boutique over the two years ended 31 December 2020 and 2021.
 - Hot Heels Boutique's day sales in inventory has improved from 133.31 days to 108.57 days from 2022 to 2021 respectively [1].
 - This means that in average, Hot Heels Boutique takes 108.57 days to sells its inventory in a year which was an improvement from 133.31 days [1].
 - This suggests that in 2021, Hot Heels Boutique takes a shorter time now to sell its inventory. Hence, it is becoming more efficient in managing its inventory [1].

[3]

- (g) Recommend **two** ways in which Hot Heels Boutique can further improve the day sales in inventory of the business.
 - 1. Reducing selling price for slow-moving goods (unpopular products) [1].
 - 2. Provide trade discount to customers to encourage bulk purchase [1].

Other points

- Attract more customers through marketing campaign
- Use technology to improve accuracy prediction about customer demand so that business can know when and how much inventory to buy.

[2]

[Total: 17]

End of Paper