

**Answer all questions**

- 1 The cash at bank column of Busan's cash book and her bank statement for the month of July 2022 were as follows.

Cash at bank account

2022		DR (\$)	CR (\$)	Balance (\$)	
Jul 1	Balance b/d			5 000	DR
5	Gwangju (Cheque No. 334361)		2 810	2 190	DR
11	Sales revenue	3 600		5 790	DR
13	Anyang	2 220		8 010	DR
18	Equipment (Cheque No: 334362)		880	7 130	DR
26	Pohang	1 350		8 480	DR
31	Sejong Trading (Cheque No. 334363)		450	8 030	DR
Aug 1	Balance b/d			8 030	DR

Bank statement for the month of July 2022

2022		Withdrawal \$	Deposit \$	Balance \$	
Jul 1	Balance b/d			4 300	CR
4	Cheque 334359	700		5 000	CR
8	Cash deposit		3 600	8 600	CR
9	Cheque 334361	2 810		5 790	CR
14	Cheque deposit		2 220	8 010	CR
16	Refer to drawer (deposited: 14 Jul)	2 220		5 790	CR
19	Cheque 334362	800		4 990	CR
27	Cheque deposit		1 350	6 340	CR
31	Direct payment – Utilities	170		6 170	CR
31	Bank charges	60		6 110	CR

### Additional information

It was discovered that Busan had incorrectly recorded the transaction on 18 July for cheque no. 334362.

**REQUIRED**

- (a)** Update the cash at bank account for 31 July 2022.

Cash at bank account

[5]

- (b)** Prepare the bank reconciliation statement as at 31 July 2022.

Busan  
Bank reconciliation statement as at 31 July 2022

[3]

- (c) Explain why a debit balance in the cash at bank account is presented as a credit balance in the bank statement.

[2]

[2]  
[Total: 10]

- 2 Itaewon runs a business selling bicycles. All sales are made on credit. The standard credit terms are payment within 30 days. The following information has also been provided.

Net sales revenue for the year ended:

	\$
31 August 2021	178 000
31 August 2022	198 000

Net trade receivables at:

	\$
31 August 2020	12 000
31 August 2021	16 000
31 August 2022	22 000

#### REQUIRED

- (a) Calculate the trade receivables collection period for the years ended 31 August 2021 and 31 August 2022. Show your answers to **two** decimal places.

	31 August 2021	31 August 2022
Workings		
Trade receivables collection period (days)		

[4]

- (b) Evaluate the management of trade receivables by Itaewon's business over the **two** years ended 31 August 2021 **and** 31 August 2022.

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- (c) Suggest **two** ways in which Itaewon could improve the trade receivables

[3]

collection period of the business.

1 \_\_\_\_\_

2 \_\_\_\_\_ [2]

- (d) State **two** sources of non-accounting information that a business might use when deciding whether to grant credit to a customer.

1 \_\_\_\_\_

2 \_\_\_\_\_ [2]

- (e) Name the accounting theory which is applied when a business makes an allowance for impairment of trade receivables.

\_\_\_\_\_ [1]

[Total: 12]

- 3 Oksu Trading sublets out its excess shop space for additional income. The monthly rental income is \$3 000. The rent is paid for 6 months, once on 1 March and once on 1 September.

The following was extracted from the books of Oksu Trading.

Rental income account				
Date	Particulars	Debit (\$)	Credit (\$)	Bal (\$)
2021				
Jan 1	Rental income received in advance		6 000	6 000 Cr
Mar 1	Cash at bank		18 000	
Sep 1	Cash at bank		18 000	
Dec 31	(i) Rental income received in advance	?		
Dec 31	(ii) Income summary	?		-

#### REQUIRED

- (a) Explain both entries on **31 December 2021** and state the amounts to be shown in (i) and (ii).

(i) Rental income received in advance \_\_\_\_\_

\_\_\_\_\_

(ii) Income summary \_\_\_\_\_

\_\_\_\_\_

[4]

- (b) For the items listed, complete the following table by placing a tick (✓) in the appropriate column to indicate how **not** adjusting for the rental income received in advance at the end of the year will affect Oksu Trading's business.

	Overstated	Understated	No effect
Profit for the year			
Current assets			
Current liabilities			

[3]

#### REQUIRED

- (c) State the accounting theory applied when businesses make adjustments to its income and expenses at the end of a financial year.

\_\_\_\_\_

[1]

[Total: 8]

- 4 Chungmuro runs a business selling handbags. She had the following entries in her inventory account in June 2022.

Inventory account				
Date	Particulars	Debit (\$)	Credit (\$)	Bal (\$)
2022				
Jun 1	Balance b/d			3 800 Dr
4	Trade payable, Hongik	4 500		
9	Cost of sales		3 800	
15	Drawings		1 200	
24	Cash in hand		300	
28	Impairment loss on inventory		?	

#### REQUIRED

- (a) Interpret each of the entries in the inventory account.

(i) Trade payable, Hongik

\_\_\_\_\_

[1]

(ii) Cost of sales

\_\_\_\_\_

[1]

(iii) Drawings

\_\_\_\_\_

[1]

(iv) Cash in hand

\_\_\_\_\_

[1]

- (b) On 30 June 2022, the net realisable value of the inventory was \$2 910. Calculate the amount of impairment loss on inventory on this date.

\_\_\_\_\_

[1]

After preparing the financial statements for the financial year ended 30 June 2022, Chungmuro discovered an error.

An invoice, \$2 000 issued to Sinchon was wrongly recorded in Sinchon's account.

### REQUIRED

- (c) Using an accounting theory, explain the purpose of an invoice.

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[2]

- (d) Prepare the journal entries to correct the error. Narrations are not required.

Date	Particulars	Debit (\$)	Credit (\$)

[2]

Chungmuro's profit for the year ended 30 June 2022 before correcting the errors was \$55 824.

- (e) State the effect on Chungmuro's profit for the year, **after** correcting the above error. If there is no effect, write 'No effect'.

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[1]

[Total: 10]

- END OF PAPER -

Answer **all** questions.

- 1 The following balance were extracted from the books of Incheon Limited on 30 June 2022.

	\$
Issued share capital, 50 000 ordinary shares	50 000
Retained earnings	25 600
Motor vehicles at cost	48 000
Accumulated depreciation of motor vehicles	4 800
Property	50 000
Inventory	15 600
3% Bank loan	30 000
Commission income	1 540
Trade payables	13 890
Trade receivables	35 400
Bank overdraft	3 400
Sales revenue	171 330
Sales returns	9 850
Cost of sales	74 150
Interest expense	300
Utilities expense	15 400
Wages and salaries	49 890
Stationery	4 870
Discount received	2 600
Allowance for impairment of trade receivables	300

### Additional information

- Unused stationery for the year amounted to \$800.
- Annual wages and salaries amounted to \$54 000.
- The allowance for impairment of trade receivables is to be maintained at 5% of trade receivables.
- Motor vehicles are to be depreciated at 10% per annum using the reducing-balance method.
- Interest on bank loan had not been fully paid.
- 25% of the loan is repayable on 31 December 2022.
- The company declared a dividend of \$0.10 per share. The dividend will be paid on 31 August 2022.

### REQUIRED

- (a) Prepare the statement of financial performance for the year ended 30 June 2022. [8]
- (b) Prepare the statement of financial position as at 30 June 2022. [12]

[Total: 20]

- 2 Gangnam sells goods to Namsan on credit. He allows Namsan a trade discount of 10% on all purchases and also a cash discount of 2% if invoices are paid within 15 days.

There was no outstanding balance owed by Namsan to Gangnam on 1 May 2022.

The following transactions took place during May 2022.

May	
5	Namsan purchased goods, list price \$2 500. The original cost of the goods was \$1 800.
18	Namsan settled his account by bank transfer.

#### REQUIRED

- (a) Prepare journal entries to record these transactions in the books of Gangnam's business. Narrations are not required. [8]
- (b) State **one** reason for a business to offer trade discounts to its customers [1]
- (c) State **one** reason why a business would offer cash discounts to its customers. [1]
- (d) Explain the accounting theory applicable to the valuation of inventory. [2]

[Total: 12]

- 3 Jongno hopes to give an edge to his business by offering personalised delivery services to his customers. He is considering the purchase of a van to allow him to transport and deliver smaller items instead of relying on the services provided by courier companies. He hopes to have the van latest by end October 2022.

He carried out some research and provided the following information on two options.

Option A: Purchase the van	Option B: Lease the van
<u>Purchase costs of vehicle</u> <ul style="list-style-type: none"> <li>Cost of the van: \$80 000</li> </ul>	<u>Leasing costs of vehicle</u> <ul style="list-style-type: none"> <li>\$1 200 per month.</li> <li>Minimum lease period: 12 months.</li> </ul>
<u>Terms of payment:</u> <ul style="list-style-type: none"> <li>Down payment of 10%</li> <li>90% financing is available from OSS Bank.</li> </ul> Loan is repayable by monthly instalment \$1 440 for 60 months.	<u>Terms of payment:</u> <ul style="list-style-type: none"> <li>Lease charges are due on 1<sup>st</sup> day of each month.</li> <li>Late payment charges of 5% per month</li> </ul>
<u>Service and maintenance:</u> <ul style="list-style-type: none"> <li>Free servicing for van at authorised workshop for first 2 years, or 50,000 km, whichever occurs earlier. Not inclusive of cost of replacement parts.</li> </ul>	<u>Service and maintenance:</u> <ul style="list-style-type: none"> <li>24/7 services in customer support, breakdown and towing assistance and replacement vehicles.</li> </ul>
<u>Additional information</u> <ul style="list-style-type: none"> <li>\$6 000 for modifications (vinyl stickers of business name on the van and installation of shelves)</li> </ul>	<u>Additional information</u> <ul style="list-style-type: none"> <li>Modifications permissible. Subject to the approval of the leasing company.</li> <li>Upon termination of lease of van, the van must be restored to its original condition. All charges to be borne by the business leasing the van.</li> </ul>

Jongno's current ratio was calculated to be **1.98** as at 30 June 2022.

#### REQUIRED

- (a) If you are Jongno, will you purchase the van or lease the van, based on the factors in the given scenario? Justify your decision with **three** reasons. [7]

The following information was extracted from Jongno's statement of financial position on 30 June 2021.

	\$
Equipment	32 000
Accumulated depreciation of equipment	8 400

On 1 January 2022, Jongno sold half of its equipment for \$15 000 by bank transfer.

On the same day, Jongno bought new equipment for \$5 000 on credit from Mapo.

Depreciation is provided at a rate of 20% per annum using the reducing balance method. The financial year ends on 30 June.

#### REQUIRED

- (b) Calculate the depreciation expense for equipment for the year ended 30 June 2022. [3]
- (c) Calculate the gain or loss on the sale of the equipment. [1]
- (d) Prepare an extract of the statement of financial position as at 30 June 2022, showing only the non-current section for equipment. [3]

[Total: 14]

- 4 Suwon runs a retail business. All sales are made on credit. The following information relates to her business at 31 July 2021 and 31 July 2022.

	2021 \$	2022 \$
Net credit sales revenue	100 000	150 000
<u>Current assets</u>		
Inventory	10 000	12 000
Trade receivables	7 000	8 400
Cash at bank	3 500	-
Prepaid expenses	1 900	700
	<u>22 400</u>	<u>21 100</u>
<u>Current liabilities</u>		
Trade payables	2 000	8 400
Expenses payable	200	400
Short-term borrowings	-	800
Current portion of long-term borrowings	5 000	5 000
	<u>7 200</u>	<u>14 600</u>

Current ratio	3.11	?
Quick ratio	1.46	?

#### REQUIRED

- (a) Explain the importance to a business of its liquidity. [2]
- (b) Calculate the current ratio and quick ratio for the year ended 31 July 2022. Show your answers to **two** decimal places. [4]
- (c) Evaluate the trend in liquidity of the business over the two years. Use the given information and your answer to (a). [6]
- (d) Explain **one** way in which a bank loan is different from a bank overdraft. [2]

[Total: 14]

- END OF PAPER -