

Suggested Solution
O-Level 2023
Principles of Accounts
Paper 1

Q1(a)

- A business buys sufficient goods to keep on hand to prevent a stock-out situation, which often results in loss of sales.
- However, if the business buys too much goods, it will incur higher storage costs and increase the risk of the goods becoming obsolete.

(b)

- Keep proper computerised records to track changes in inventory balances using the perpetual inventory system so that the quantity of inventories are updated on a continuous basis to avoid buying too little or too many goods.
- Keep inventories in the shops and warehouse to avoid stock-out situation.
- Buy insurance to insure the inventory against risks of potential loss caused by damaged goods. Insurance claims are then made to seek compensation.

(c)

- (i) 18 Aug 2023 – The business purchased goods worth \$3 700 on credit from Handy Co.
- (ii) 22 Aug 2023 – Customer return goods costing \$2 200.
- (iii) 27 Aug 2023 – The owner withdrew goods worth \$180 for his personal use.

- (d)** Profit will be overstated by \$400

[Total: 8]

Q2

(a) Trade discount is reduction to the list price.

(b) To encourage:

- customers to buy in bulk
- customer patronage
- customer loyalty

(c)

Journal

Date	Particulars	Debit	Credit
2023		\$	\$
Mar 11	Cash at bank (98% x 5 700)	5 586	
	Discount allowed (2% x 5 700)	114	
	Trade receivable – Ahmed		5 700

(d)

	Bank loan	Bank overdraft
Amount of borrowing	Amount borrowed is fixed.	Amount borrowed is not fixed but it must not exceed limit agreed with the bank.
Transference of cash	Cash is transferred to the business.	No cash is transferred to the business. Business withdrew more than what is deposited in its bank account.
Repayment	Usually regular fixed cash repayments to reduce the amount borrowed. Sometimes the business is allowed to pay off entire amount only at the end of loan period.	No cash repayment. Any deposit into the bank account reduces the amount borrowed.
Double entry recording	Loan from bank account is credited	Reflected as a credit balance of the cash at bank account
Classification in statement of financial position	Shown as long term borrowing under non-current liabilities.	Shown as bank overdraft under current liabilities.

[Total: 10]

Q3
(a)

	No effect	Amount of increase \$	Amount of decrease \$	\$
Profit for the year before correction of errors				26 270
Error 1			800	
Error 2		150		
Error 3	✓			
Error 4			10 000	
Adjusted profit for the year				15 620

- (b)** The activities of a business are separate from the actions of the owner. All transactions are recorded from the point of view of the business.

(c)

Account to be debited	Account to be credited
Income summary	Capital

- (d)**
- (i)** Being straightforward and honest in all professional and business relationships
 - (ii)** Not letting bias, conflict of interest or undue influence of others override professional judgement.

[Total: 11]

Q4
(a)

JKL Bikes Pte Ltd
Statement of Financial Position as at 30 September 2023 (extract)

	\$	\$
<u>Shareholder's Equity</u>		
Share capital, 350 000 ordinary shares	437 500	
Retained earnings* (385 000 + 42 000 – 350 000X\$0.05)	409 500	
Total equity		847 000

- (b)** Return on equity = Profit for the year / average equity*
= 42 000 / 741 000 X 100
= 5.67 % (2 dp)

$$\begin{aligned}\text{*Average equity} &= (\text{Beginning equity} + \text{Ending equity})/2 \\ &= (250\,000 + 385\,000 + 847\,000)/2 \\ &= 741\,000\end{aligned}$$

- (c)** Let JKL be JKL Bikes Pte Ltd and SCC be SuperCycles Co

- The gross profit margin of JKL 49.35% is better than SCC's 42.38%.
- This means that JKL is selling its products at a higher price or sourcing its goods at a lower cost.
- However, the profit margin of JKL 22.14% is slightly worse than SCC's 23.54%.
- This shows that JKL is better at trading goods but less efficient in managing its expenses.
- In addition, the return on equity of JKL 5.67% is also slightly worse than SCC's 6.52%
- Overall, JKL is less profitable than SCC.

[Total: 11]

Suggested Solution O-Level 2023
Principles of Accounts Paper 2
1(a)

Yong

Statement of Financial Performance for the year ended 31 December 2022

	\$	\$
Sales revenue	232 500	
Less: Sales returns	14 950	
Net sales revenue		217 550
Less: Cost of sales		123 200
Gross profit		94 350
Other income		
Gain on sale of non-current assets		3 600
Less: Other Expenses		
Wages and salaries (31 000 + 2 800)	33 800	
Rent expense	12 000	
Insurance expense (8 500 – 1 500)	7 000	
General expense	9 800	
Depreciation on fixtures and fittings (15% x 125 000)	18 750	
Depreciation on motor vehicles [20% x (30 000 – 6 000)]	4 800	
Interest expense (5% x 25 000)	1 250	
Reversal of impairment loss on trade receivables [(4% x 38 400) – 2 200]	(664)	86 736
Profit for the year		11 214

[10]

1(b)

Yong

Statement of Financial Position as at 31 December 2022

Assets	\$	\$	\$
<u>Non-current assets</u>	Cost	Accumulated Depreciation	Net book value
Fixtures and fittings (37 500 + 18 750)	125 000	56 250	68 750
Motor vehicles (6 000 + 4 800)	30 000	10 800	19 200
			87 950
<u>Current assets</u>			
Trade receivables	38 400		
Less: Allowance for impairment of trade receivables (4% x 38 400)	1 536	36 864	
Inventory		47 400	
Cash at bank		2 300	
Prepaid insurance		1 500	88 064
Total assets			176 014
Equity and Liabilities			
<u>Owner's Equity</u>			
Capital (133 750 – 22 000 + 11 214)			122 964
<u>Non-current liabilities</u>			
Long term borrowings (25 000 - 5 000)			20 000
<u>Current liabilities</u>			
Trade payables		24 000	
Current portion of long term borrowings		5 000	
Interest expense payable		1 250	
Wages and salaries payable		2 800	33 050
Total equity and liabilities			176 014

Q2

(a) Any three of the following

- a. Obsolescence
- b. Wear and tear

(b) Business might apply straight-line method when the non-current asset is expected to earn income evenly over its useful life.

(c)

Journal

2023	Particulars	Dr \$	Cr \$
Jun 1	Sale of non-current asset	8 200	
	Equipment		8 200
Jun 1	Accumulated depreciation (8 200-200)/ 4 years)	2 000	
	Sale of non-current asset		2 000
Jun 1	Cash in hand	5 600	
	Sale of non-current asset		5 600

(d)

Net book value = \$8 200 – \$2 000
= \$6 200

Loss on sale of motor vehicle = \$5 600 – \$6 200
= \$600

[Total: 12]

Q3

(a)

- (i) 12 Jun 2022 – The debt of \$2 200 owed by credit customer YoYo Co was written off.
- (ii) 31 Mar 2023 – The business made an increase in allowance for impairment of trade receivables by \$3 400.

(b) With reference to the prudence theory, the allowance for impairment of trade receivables is reported in the statement of financial position as a deduction against the trade receivables book value to ensure that the trade receivables balance is not overstated.

OR

With reference to the matching theory, as the increase in allowance for impairment of trade receivables is a likely expense, it should be recorded in the same accounting year as the sales revenue earned to obtain a true and fair profit for the year.

[Total: 14]

- (c) Trade receivables collection period
= $\frac{\text{Average net trade receivables}}{\text{Net credit sales revenue}} \times 365 \text{ days}$
= $89\,600 / 895\,000 \times 365 \text{ days}$
= 36.54 days

*Average net trade receivables
= $(77\,900 + 101\,300) / 2$
= 89 600

(d)

- Tuti's trade receivables collection period worsen from 29.85 days in 2021 to 32.27 days in 2022 to 36.54 days in 2023.
- This means that in 2023, the business was collecting payment from its credit customers on a less timely basis than the previous years 2021, 2022
- and taking a longer time to collect payment from its credit customers over the three years
- Overall, the business has become less efficient at managing its trade receivables from 2021 to 2023.

(e)

- Ensure credit is granted to customers who are financially able
- Offer cash discounts to encourage credit customers to pay early
- Send regular reminders to credit customers who delay payment or refuse to pay
- Engage professional debt recovery agencies to collect payment from financially distressed credit customers

[Total: 14]

Q4(a)

Billy's Clothing Account

Date	Particulars	Debit	Credit	Balance
2023		\$	\$	\$
Jul 1	Balance b/d			2 850 Cr
5	Inventory	750		2 100 Cr
13	Cash at bank (2 100 X 98%)	2058		42 Cr
13	Discount received (2 100 X 2%)	42		0

(b)

- Through providing accounting information for stakeholders' decision-making, accountants act as **stewards** of businesses. Accountants do not own the business but are given the responsibility to manage the business.
- Accountants set up the **accounting information system** to collate, record, organise and report accounting information so that owners and other stakeholders can make decisions regarding the management of resources and the performance of businesses.
- They think critically, **solve problems**, adapt and meet the need for sophisticated accounting and business information.
- In the face of an evolving business environment and rapid technological advancement, accountants have to provide relevant information in a timely manner for decision-making and insights that are easily and appropriately understood by owners and other stakeholders based on **accounting theories**.

(c)

(i) Accounting period theory states that the life of a business is divided into regular time intervals to allow meaningful reporting.

(ii) Historical cost theory states that transactions should be recorded at their original cost.

1 mark for Decision

2 marks for each pairs of basic statement and development

Up to 3 basic statement and development

Decision		[1]	Molly should choose Top Coats as the new supplier.
1	Basic statement	[1]	No charge for returns to Top Coats but Jolly jackets requires Molly to bear all shipping cost of returning the jackets.
	Development	[1]	Molly does not need to incur additional cost if there are defects on the jackets. This cost savings may help Molly to have more cash available for other operating expenses. OR Free exchange policy provides assurance of the quality of products from Top Coats.
2	Basic statement	[1]	Top Coats allows a longer return period of 45 days compared to 30 days for Jolly Coats.
	Development	[1]	A longer credit term gives Molly a greater flexibility in managing its cash flow and allow the business to avail its cash for other business needs.
3	Basic statement	[1]	Molly will be able to visit Top Coats local warehouse and physical shop to check the quality of jackets unlike Jolly Jackets that only offer online sales.
	Development	[1]	This will ensure that the jackets are of good quality to meet the needs of Molly's business, hence there is higher level of assurance to Molly.
4	Basic statement	[1]	Top Coats has reviews from customers saying that the coats are very good quality.
	Development	[1]	The good quality and positive review online may mean that Top Coats has proven its reliability as a supplier and quality provider.

[7]

Decision		[1]	Molly should choose Jolly Jackets as the new supplier.
1	Basic statement	[1]	Jolly Jackets sells each of its jackets at \$26 cheaper than Top Coats at \$30.
	Development	[1]	The cost savings will allow Molly to have more cash for other business needs.
2	Basic statement	[1]	Jolly Jackets has been in business for more than 10 years which is longer than newly established Jolly Jackets's .
	Development	[1]	Jolly Jackets is more established and probably a reputable business that can provide quality jackets for Molly.
3	Basic statement	[1]	Jolly Jackets provides a 2% cash discount for payment within 14 days unlike Top Coats.
	Development	[1]	The cost savings will allow Molly to have more cash for other business needs.
4	Basic statement	[1]	Jolly Jackets has reviews from customers saying the speedy delivery .
	Development	[1]	The speedy delivery of jackets will ensure Molly has steady supply of jackets and reduce the risk of stockout situation which may results in loss of sales.
5	Basic statement	[1]	Jolly Jackets provide online sales
	Development	[1]	Buying from an online from Jolly Jackets will offer Molly convenience. Molly can browse online for product specifications and product reviews before making informed purchase decisions.