

Name	Register Number	Class	Calculator Model
			ANSWER



MANJUSRI SECONDARY SCHOOL

文殊中學

PRELIMINARY EXAMINATION 2023

Subject: Principles of Accounts
 Paper: 7087 / 01
 Level: Secondary 4 Express / 5 Normal (Academic)
 Date: 28 August 2023
 Duration: 1 hour
 Setter: Ms Tan Ai Hua

Candidates answer on the Question Paper.
 No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Name, Register Number and Class in the spaces at the top of this page.
 Write in dark blue or black pen.
 You may use an HB pencil for any rough working.
 Do not use staples, paper clips, glue or correction fluid.
 The use of an approved calculator is allowed.

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.

For Examiner's Use	
Q1	/10
Q2	/9
Q3	/10
Q4	/11
Total	/40

This document consists of 9 printed pages and 3 blank pages.

[Turn over

Answer **all** questions.

- 1** Scott is a sole trader. After preparing the accounts for the year ended 30 June 2023, he discovered the following errors.

- 1 A payment received, \$280, from Jen, a credit customer, had been credited to the sales revenue account.
- 2 A cheque payment, \$39, for office expenses, had been recorded as \$93.
- 3 A cheque payment of \$826 to Kai Xiang, a credit supplier, had been incorrectly debited to the account of Kai Yu.
- 4 A credit note of \$250 issued to Ian, a credit customer, for defective goods returned, had been omitted from the books.

REQUIRED

- (a)** Complete the following table to calculate the adjusted profit **after** correcting errors 1 to 4. If there is no effect, place a tick (✓) in the "No effect" column. Do not write on the shaded boxes.

	No effect	Increase	Decrease	\$
Profit for the year before correction of errors				26 970
Error 1			280 [1]	
Error 2		54 [1]		
Error 3	✓ [1]			
Error 4			250 [1]	
Adjusted profit for the year				26 494 [1]

[5]

- (b)** Explain **two** reasons why a trial balance is prepared at the end of every financial year.

1. To check the arithmetical accuracy in recording i.e. whether the total equals to the total credits in the ledger. [1]
2. To facilitate the preparation of financial statements i.e. the statement of financial performance and the statement of financial position. [1]

[2]

- (c) Explain the limitation of a balanced trial balance.

Errors may still exist in a balanced trial balance when a transaction is not recorded at all [1] OR a transaction is recorded in the wrong account of the same or different accounting element. Any other relevant point.

[1]

- (d) State the **two** principles of professional ethics that accountants are required to adopt.

Integrity [1] and objectivity [1]

[2]

[Total: 10]

[Turn over]

- 2 Jovan Sports Trading is a business that buys and sells sportswear and equipment. Jovan Sports Trading wants to borrow money to buy computers and upgrade its accounting computing software.

REQUIRED

- (a) Describe **one** way in which a bank loan differs from a bank overdraft.

A bank loan arises when the business borrows a fixed amount for a fixed period and the amount is transferred to its bank account while a bank overdraft arises when the business withdraws more than what it has deposited in the bank a/c, up to the limit which the business and the bank have agreed upon. Any other reasonable contrasting point

[2]

On 1 April 2021, Jovan Sports Trading took a bank loan of \$60 000 at 4% interest per annum. The loan is to be paid equally over five years. The partial principal sum of the loan and the interest, is payable every year on 31 March. The first repayment of the loan and interest was made on 31 March 2022. The financial year of Jovan Sports Trading ends on 31 December.

REQUIRED

- (b) Prepare an extract of the statement of financial performance for the year ended 31 December 2021, showing only the expense section.

Statement of financial performance for the year ended 31 December 2021

Less Other expenses	\$
Interest expense (4% x \$60000 x 9/12)	1 800

[1]

- (c) Prepare an extract of the statement of financial position as at 31 December 2021, showing only the liabilities section.

Statement of financial position as at 31 December 2021

Non-current liabilities	\$
Long-term borrowings (60000 – 60000/5)	48 000 [1]

Current liabilities	
Current portion of long-term borrowing (60000/5)	12 000 [1]
Interest expense payable (4% x 60000 x 9/12)	1 800 [1]

[3]

- (d) Prepare a statement of financial performance for the year ended 31 December 2022.

Statement of financial performance for the year ended 31 December 2022

Less Other expenses	\$
Interest expense $(4\% \times \$60000 \times 3/12) + (4\% \times \$48000 \times 9/12)$	2 040 [1]

[1]

- (e) Name and explain the accounting theory underlying the accounting for interest expense incurred but not yet paid.

Accrual basis of accounting [1]. When the business has incurred interest expense, regardless of whether it has been paid or not, the interest expense should be recorded.[1]

[2]

[Total: 9]

[Turn over

- 3 The following information relates to Joshua Trading for the year ended 30 June 2023.

	\$
Credit sales revenue	260 000
Credit sales returns	9 500
Cash sales	12 000

The net trade receivables balances were provided.

	1 July 2022	30 June 2023
	\$	\$
Net trade receivables	22 000	27 000

REQUIRED

- (a) Calculate the following for the year ended 30 June 2023. Show your answers to two decimal places.

- (i) Rate of trade receivables turnover

$$= \text{Net credit sales revenue} / \text{Average net trade receivables}$$

$$= 260\,000 - 9\,500 / (22\,000 + 27\,000) \div 2$$

$$= 250\,500 / 24\,500 = 10.22 \text{ times}$$

[1]

- (ii) Trade receivables collection period

$$= \text{Average net trade receivables} / \text{Net credit sales revenue} \times 365 \text{ days}$$

$$= [(22\,000 + 27\,000) \div 2 / 260\,000 - 9\,500] \times 365 \text{ days}$$

$$= 35.70 \text{ days}$$

[1]

The following trade receivables efficiency ratios are extracted from the books of Isaac Co., a direct competitor of Joshua Trading.

Rate of trade receivables turnover	14.23 times
Trade receivables collection period	25.61 days

REQUIRED

- (b) Evaluate Joshua Trading's efficiency in trade receivables management against its competitor, Isaac Co..

Joshua Trading's rate of trade receivables turnover of 10.22 times is **worse than**

Isaac Co.'s rate of trade receivables turnover of 14.23 times. [1]

This indicates that Joshua Trading is **not** collecting payments from its credit customers **as promptly** as compared to Isaac Co..[1]

Joshua Trading's trade receivables collection period of 35.70 days is **worse**

than that of Isaac's of 25.61 days. [1] This implies that Joshua Trading is taking a **longer time** to collect payment from its credit customers as compared to Isaac Co..[1] Hence, Joshua Trading is **less efficient** in managing its trade receivables than Isaac Co..[1] Max 4 marks

[4]

- (c) Suggest **one** way to improve Joshua Trading's efficiency in trade receivables management.

Improve credit granting processes by ensuring credit is granted to customers who are financially able. [1] Any other relevant point.

[1]

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

Credit rating or history of repayment of customers [1], reputation of customers [1]

Any other relevant point – 1 mark each.

[2]

- (e) Explain the accounting of impairment loss on trade receivables using the matching theory.

To match the expenses incurred (impairment loss on trade receivables) with the income earned in the same period so as to determine the profit for the period.

[1]

[Total: 10]

[Turn over]

- 4 Jia Ying is a sole proprietor of a pet shop. The following cash at bank account was extracted from the books of the business on 31 May 2023.

Cash at bank Account					
Date	Particulars	Cheque Number	Debit (\$)	Credit (\$)	Balance (\$)
2023					
May 1	Balance b/d				6 200 Dr
7	Eva Minimart	100		2 800	3 400 Dr
11	Sales revenue		4 650		8 050 Dr
13	Asiya Co	101		3 650	4 400 Dr
15	Siaw Hung Trading	102		1 660	2 740 Dr
20	Peer Enterprise		886		3 626 Dr
22	Drawings	103		500	3 126 Dr
30	Jun Ming Ltd		1 560		4 686 Dr
Jun 1	Balance b/d				4 686 Dr

On 3 June 2023, Jia Ying received the following bank statement from the bank.

Bank Statement				
Date	Particulars	Withdrawal (\$)	Deposit (\$)	Balance (\$)
2023				
May 1	Balance b/d			6 800 Cr
11	Cash		4 650	11 450 Cr
12	Cheque 99	600		10 850 Cr
13	Cheque 100	2 800		8 050 Cr
15	Direct credit: Dividends		1 200	9 250 Cr
16	Cheque 101	3 650		5 600 Cr
21	Cheque deposit		886	6 486 Cr
23	Dishonoured cheque (deposited 21 May)	886		5 600 Cr
24	Cheque 103	500		5 100 Cr
30	Direct debit: Utilities	620		4 480 Cr
31	Bank interest	300		4 180 Cr

Additional Information

It was later discovered that the bank interest charged on May 31 was an error by the bank.

