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ANDERSON SECONDARY SCHOOL
Preliminary Examination 2022
Secondary Five Normal Academic

CANDIDATE NAME: **ANSWER SCHEME**

CLASS: / INDEX NUMBER:

PRINCIPLES OF ACCOUNTS **7087/01**

Paper 1 **25 August 2022**

1 hour

Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your name, class and index number on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
Do not use staples, paper clips, highlighters, glue or correction fluid/tape.
The use of an approved calculator is allowed.

Answer **all** the questions.
Where layouts are to be completed, you may not need all the lines for your answers.

The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

40

This document consists of __ printed pages.

Setter: Mdm June Liau

Qn 1

(a) (i) Amounts owing from credit customers. [1]

(ii) Amount of debts estimated to be uncollectible from credit customers. [1]

(b) Prudence theory states that the accounting treatment chosen should be the one that least overstates assets and profits. Recording allowance for impairment of trade receivables as a deduction against trade receivables will ensure that trade receivables balance (asset) is not overstated.
OR
Matching theory states that expenses incurred must be matched against income earned in the same period to determine profit for that period. The business is to record the impairment loss on trade receivables (expense) in the same financial period as the credit sales revenue earned.

[2]

(c)

Date		Dr	Cr
2021		$	$
Aug 10	Cash at bank (3500 x 20%) [1]	700	
	Allowance for impairment of trade receivables [1]	2 800	
	Trade receivable – Jacky Trading [1]		3 500

OR

Date		Dr	Cr
2021		$	$
Aug 10	Cash at bank (3500 x 20%) [1]	700	
	Trade receivable – Jacky Trading [0.5]		700
Aug 10	Allowance for impairment of trade receivables [1]	2 800	
	Trade receivable – Jacky Trading [0.5]		2 800

[3]

(d)

Allowance for impairment of trade receivables = 22 700 x 10% = 2 270
Impairment loss on trade receivables = 2 270 – (3 450 – 2 800) = 2 270 – 650 = 1 620

Date		Dr	Cr
2021		$	$
Sep 30	Impairment loss on trade receivables [1]	1 620	
	Allowance for impairment of trade receivables [1]		1 620

[2]
[Total: 9]

Qn 2

(a) Explain the difference between a trading business and a service business. [2]

A trading business earns its main income from buying and selling goods while a service business earns its main income from providing services

(b) Prepare the journal entry to adjust service fee revenue received in advance on 31 May 2022. A narration is **not** required. [2]

Journal

Date	Particulars	Dr $	Cr $
2022			
May 31	Service fee revenue	5 600	
	Service fee revenue received in advance		5 600

(c) Calculate the service fee revenue earned for the year ended 31 May 2022. [1]

88600 – 8800 – 5600 = $74 200

(d) Explain the revenue recognition theory. [1]

Revenue recognition theory states that revenue is earned when goods are sold and delivered or when services have been provided.

(e) Calculate the rental expense incurred for the year ended 31 May 2021. [1]
5500x12 = $66000

(f) Prepared rental expense. $5 500. Current Asset. [3]

[Total: 10]

Qn 3

(a) Prepare journal entries to record interest for the year ended 31 December 2021, including the closing entries. Narrations are **not** required. [6]

Journal

Date	Particulars	Dr $	Cr $
2021			
Sep 30	Interest expense (100000x4%x6/12)	2 000	
	Cash at bank		2 000
Dec 31	Interest expense (90000x4%x3/12)	900	
	Interest expense payable		900
Dec 31	Income summary	2 900	
	Interest expense		2 900

(b) Prepare an extract of the statement of financial performance for the year ended 31 December 2021 to show the expenses section. [1]

John Bakery

Statement of financial performance for the year ended 31 December 2021 (extract)

Less expenses	$
Interest expense	2900

(c) Prepare an extract of the statement of financial position as at 31 December 2021 to show the liabilities section. [3]

John Bakery

Statement of financial position as at 31 December 2021 (extract)

Non-current liabilities	$
Long term borrowings (100000-10000-20000)	70 000
Current Liabilities	
Current portion of long term borrowings	20 000
Interest expense payable	900

(d) Accrual basis of accounting. [1]

[Total: 11]

Qn 4

(a) (i) On 18 January 2022, the business purchased inventory costing $1 200 and paid by cheque.

(ii) On 23 January 2022, the business withdrew $100 cash from the business bank account for office use.

[2]

(b)

Cash at bank				
Date	Particulars	Debit	Credit	Balance
2022		$	$	$
Jan 31	Balance b/d			7 190 Dr
31	Insurance Expense		600	6 590 Dr
31	Commission income	230		6 820 Dr
31	Trade receivable – Indra (Dishonoured Cheque)		400	6 420 Dr
Feb 1	Balance b/d			6 420 Dr

[4]

(b)

Shahid Bank reconciliation statement as at 31 January 2022		
	$	$
Balance as per bank statement		5 530
Add: deposits in transit		
Trade receivable - Ken		1 150
Less: Cheque not yet presented		
Trade payable - Edward		(260)
Balance as per updated cash at bank account		6 420

[4]

[Total:10]