Name of Candidate: ______________________ (   ) Class: ______ Calculator Model: [ ]

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.

Setter: Mr Alex Yong **[Turn over]**

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 Number	Debit	Credit	Balance
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.

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

Cash at bank account

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

Bank reconciliation statement as at 31 July 2022

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(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.

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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.

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[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 commission 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: ..………………………………………………………………………………

Explanation: ……………………………………………………………………………

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

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

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[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.

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

Journal

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

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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

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(ii) 26 January 2022

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(iii) 31 January 2022

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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 December 2020 $	Year ended 31 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		
Day sales in inventory (days)		

[4]

(f) Evaluate the management of inventory by Hot Heels Boutique over the two years ended 31 December 2020 **and** 2021.

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(g) Recommend **two** ways in which Hot Heels Boutique can further improve the day sales in inventory of the business.

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[Total: 17]

End of Paper