EXP/NA	PUNGGOL SECONDARY SCHOOL SECONDARY 4/5 EXPRESS / NORMAL ACADEMIC 2024 PRELIMINARY EXAMINATION **ANSWER KEY**

NAME			
CLASS		INDEX NUMBER	

Principles of Accounts **7087/01**

Paper 1 **26 August 2024**

1 hour

READ THESE INSTRUCTIONS FIRST

Write your class, register number and name on all the work you hand in.
Write in dark blue or black ink on both sides of the paper.
You may use a soft pencil for any diagrams, graphs, tables or rough working.
Do not use staples, paper clips, glue or correction fluid.

Answer **ALL** questions.

Write your answers in the spaces provided.

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.
The use of an approved scientific calculator is expected, where appropriate.

For Examiner's use	
-	-
-	-
-	-
Total	/40

Parent's Signature

This paper consists of **8** printed pages and **0** blank page.

Setter(s) :	Vetter :

Answer **all** questions.

1 The following information was extracted from the books of Jayden Fishery Pte Ltd.

Advertising expense account				
Date	Particulars	Debit ($)	Credit ($)	Balance ($)
2023				
Aug 1	Advertising expense payable **(i)**		5 200	5 200 CR
Nov 7	Cash at bank **(ii)**	19 000		13 800 DR
2024				
Apr 9	Cash at bank	22 000		35 800 DR
Jul 31	Prepaid advertising expense **(iii)**		2 800	33 000 DR
	Income summary		29 000	-

REQUIRED

(a) Define Expense payable.

payments that a business owes to a supplier or vendor for goods or services but haven't received an invoice for those costs yet. [1]

(b) Explain the following transactions.

(i) 1 August 2023

Advertising expense of $5200 was **incurred but not yet paid** for in the last financial year ended 31 July 2022**[1]**. As such, it is now **reversed** and **deducted** from this year's advertising expense as it is not this year's advertising expense. **[1]**

(ii) 7 November 2023

Advertising expense of $20 000 was paid by **cheque** for the year ended 31 July 2022. **[1]**

(iii) 31 July 2024

Advertising expense amounting to $2 800 was **paid but not yet incurred** for the year ended 31 July 2024**[1]**. As such, it is recorded as a current asset and **deducted** from this year's advertising expense **[1]**.

(c) Explain, using an appropriate accounting theory, the need to adjust for prepaid advertising expense for the year ended 31 July 2022.

Accrual basis of accounting states that business activities that have occurred, regardless of whether cash is paid or received, should be recorded in the relevant accounting period**[1]**. As such, since prepaid advertising expense had not yet been incurred, it is deducted from advertising expense account and recorded as a current asset instead **[1]**.

[Total:8]

2 Hala owns a gocery shop. Details from the cash at bank account and bank statement of the business for the month of March 2024 are as follows:

Bank Statement

Date	Particulars	Withdrawal	Deposit	Balance
2024		$	$	$
Mar 1	Balance b/d			6 290 Cr
4	Credit transfer – Bobo		2 850	9 140 Cr
7	Cheque 10210	1 250		7 890 Cr
8	Cheque 10209	790		7 100 Cr
9	Cheque deposit		1 700	8 800 Cr
14	Cheque deposit		2 010	10 810 Cr
15	Cheque returned (deposited on 14 Mar)	2 010		8 800 Cr
18	Cheque 10212	8155		645 Cr
27	Cash		350	995 Cr
31	Interest		85	1 080Cr

Cash at Bank

Date	Particulars	Cheque Number	Debit	Credit	Balance
2024			$	$	$
Mar 1	Balance b/d				5 500 Dr
3	Utilities	10210		1 250	4 250 Dr
4	Liching Kitchen	10211		750	3 500 Dr
10	Sales revenue		1 700		5 200 Dr
12	Cocoa Store		2 010		7 210 Dr
15	Insurance	10212		8 355	1 145 Cr
22	Toys Shop	10213		875	2 020 Cr
27	Cash in hand		350		1 670 Cr
31	Commission		1 850		180 Dr

Additional information:

Hala has recorded the amount for cheque number 10212 incorrectly in his books.

REQUIRED

(a) Update the cash at bank account on 31 March 2024 and bring down the new balance.

Cash at bank account				
Date	Particulars	Dr	Cr	Balance
2024		$	$	$
Mar 31	Balance b/d			[1]180 Dr
31	Trade receivable - Bobo	[1]2850		3030 Dr
31	Trade receivable CoCoa Store		[1]2010	1020 Dr
31	Insurance expense (Correction)	[1]200		1220 Dr
31	Interest income	[1]85		1305 Dr
Apr 1	Balance b/d			1305 Dr

[5]

(b) Prepare a bank reconciliation statement on 31 March 2024.

Bank Reconciliation Statement as at 31 March 2024				
			$	$
Balance as per bank statement				1 080 [1]
Add: Deposits in transit*				
Commission		[1]		1850
Less: Cheques not yet presented*				
Trade payable Liching Kitchen		[1]	750	
Trade payable Toyshop		[1]	875	1625
Adjusted balance as per cash at bank account				1305

[4]

(c) State **one** possible reason why the cheque was returned on 15 January.

Cheque has expired. **(1)**
Cheque is post-dated. **(1)**
Inconsistent information on cheque. **(1)**
Incomplete information on cheque. **(1)**
Hala's bank account does not have sufficient money. **(1)**
bank account is closed or frozen. **(1)**

Any ONE

[1]

(d) State the effect of the bank reconciliation adjustments on the profit for the period.

Profit will **increase** [0.5] by **$2250**. [0.5]

[Total: 11]

3 Charvi, the owner of a trading business, started his operations on 1 April 2021. The total amount of trade receivables at the end of each financial period is shown below.

	31 March 2022	31 March 2023	31 March 2024
Trade receivables	$ 120 000	$90 000	$100 000

Additional information

1. Charvi reviews the list of trade receivables at the end of every financial year and estimates that 3% of its trade receivables is deemed to be uncollectible.

2. On 22 October 2022, Steven Trading who owed $4 000 was declared bankrupt. Charvi was able to collect 40 cents for every dollar owed by Steven Trading and wrote off the remaining amount.

REQUIRED

(a) Explain, with a relevant accounting theory, why an allowance for impairment of trade receivables should be made annually.

According to the prudence theory, assets and profits should not be overstated while liabilities and losses should not be understated. [1]
The allowance for impairment of trade receivables is a **deduction against the book value of trade receivables** and will **ensure that trade receivables is not overstated**. [1]

[2]

(b) Prepare journal entries to record the following transactions. Narrations are **not** required. Show all workings clearly.

(i) Write-off of balance on 22 October 2023.

2022		Dr ($)	Cr ($)
Oct 22	Dr Allowance for impairment of trade receivables	2 400	
	Cr Trade receivable – Steven Trading (60% x 4000)		2 400

[2]

(ii) Adjustments of the allowance for impairment of trade receivables on 31 March 2023 and 31 March 2024.

2023		Dr ($)	Cr ($)
Mar 31	Dr Allowance for impairment of trade receivables	900	
	Cr Impairment loss on trade receivables (Reversal) [(3% x 120 000)- (3% x 90000)]		900
2024			
Mar 31	Dr Impairment loss on trade receivables	300	
	Cr Allowance for impairment of trade receivables		300
	[(3% x 100 000) – (3%x90000)]		

[4]

(c) Explain the effect on owner's equity if the allowance for impairment of trade receivables was not adjusted on 31 March 2022.

Owner's equity will be **overstated by $3600** because **profit is ovderstated by $3600.**

[1]

[Total: 10]

4 Kane Limited is a football apparels trading company which prepares its financial statements to 31 December of every year.

REQUIRED

(a) State the order in which financial transactions are processed through the accounting information system.

Source documents, journal, ledger,[1] trial balance, statement of financial Performance and statement of financial position. [1]

[2]

(c) Name and explain **one** principle of professional ethics which must be applied by accountants in the preparation and presentation of accounting information.

Integrity[1] - being honest and trustworthy in all professional and business relationships; do not distort financial statements for personal gains [1] OR Objectivity[1] - being unbiased and prepare financial statements based on facts and not subject to undue influence from others.[1]

[2]

Maguire Private Limited is a footwear manufacturing business. As at 1 January 2023, the business has 55 000 shares previously issued to shareholders at $1.50 per share.

The following transactions took place in the business during the financial year ended 31 December 2023.

2023	
Feb 16	10 000 shares were issued at $1.80 per share. All the shares were fully paid.
Dec 31	The company made a profit of $86 000.
31	Dividends was declared at $0.06 per share. Dividends declared is agreed to be paid on 1 June 2021.

REQUIRED

(a) Define Retained Earnings.

represents all accumulated net income netted by all dividends paid to shareholders.

[1]

(b) Prepare the journal entries to record dividends declared, transferring of dividends and profit to the retained earnings account on 31 December 2023. Narrations are **not** required.

Journal

Date	Particulars	Debit	Credit
2023		$	$
Dec 31	Dividends ((55 000+10 000) x $0.06)	3 900 [1]	
	Dividends payable		3 900 [1]
31	Retained earnings	3 900 [1]	
	Dividends		3 900 [1]
31	Income summary	86 000 [1]	
	Retained earnings		86 000 [1]

[6]

[Total: 11]