Class Index No.

Candidate Name: _____

FUHUA SECONDARY SCHOOL

Secondary Four Express
Secondary Five Normal (Academic)

Preliminary Examination 2023

4E/5N

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SUGGESTED SOLUTIONS

7087/01

Answer all questions.

1 Desiree wants to find out more information about business and accounting as she opens her own brownie store.

REQUIRED

(a) State the double entry to be recorded when an owner uses her personal cheque to pay for business' rental expenses.

Account to be debited	Account to be credited
Rental expense	Capital

[2]

(b) State and explain the accounting theory applied in the preparation of financial statements.

According to the accounting period theory, ✓ the life of a business is divided into regular time intervals. ✓ [2]

(c) Explain one professional ethics of accountants.

Integrity – accountant must be straightforward and honest in all professional relationships. / objectivity – an accountant must be objective and not let bias, conflict of interest or undue influence of others override his or her professional judgement. [2]

(d) State the source documents used for the following transactions.

Transaction details	Source document used
Sold goods on credit	Invoice
Increase amount previously undercharged to a credit customer	Debit note

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[2]

The following account was presented in the first month of the business.

Drawings				
Date 2021		Debit $	Credit $	Balance $
Sep 1	Cash at bank	10 000		10 000 DR
Sep 19	Motor vehicle	18 000		28 000 DR

(e) Interpret the entries on 1 September and 19 September.

1 Sep Owner withdrew cheque, $10 000

19 Sep Owner took motor vehicle for personal use, $18 000. [2]

[Total: 10]

2 Christian is reviewing how to better protect the cash kept in the office.

REQUIRED

(a) Explain **two** internal controls.

Segregation of duties. ✓ This means cash handling and cash recording duties should be done by two different employees. ✓ Custody of cash. ✓ Secure cash and cheques in a locked storage. ✓ [4]

(b) Explain **two** reasons why a business needs to have internal controls.

Safeguard assets of business / comply with laws and regulations / ensure business transactions are recorded accurately. (Any 2) [2]

(c) Define the monetary concept.

Only business transactions that can be measured in monetary terms are recorded. [1]

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The following information was available from the business.

Cash at bank				
Date 2022		Debit $	Credit $	Balance $
Jun 1	Balance b/d			15 000 DR
Jun 13	Trade receivable – Zola	3 400		18 400 DR
Jun 17	Cash in hand		100	18 300 DR
Jun 25	Trade receivable – Zola		3 400	14 900 DR
Jul 1	Balance b/d			14 900 DR

(d) Interpret the transactions on June 17 and June 25.

June 17 Business withdrew $100 for office use.

June 25 Cheque of $3400 from credit customer, Zola was rejected / dishonored. [2]

[Total: 9]

3 Stacy was reviewing the accounts in her trial balance when she found the following errors.

1 Business recorded commission income received through cheque, $400, by debiting the commission income account and crediting the cash at bank account.
2 Sale of goods on credit to Selina, $3 000 was omitted. The original cost of goods was $1 750.

The unadjusted profit for the year was $13 000.

REQUIRED

(a) Prepare the journal entries to correct the errors for the year ended 31 December 2022. Narrations are **not** required.

Journal

	Date 2022		Debit $	Credit $
1	Dec 31	Cash at bank	800 ✓	
		Commission income		800 ✓
2	Dec 31	Trade receivable – Matt	3 000 ✓	
		Sales revenue		3 000 ✓
	Dec 31	Cost of sales	1 750 ✓	
		Inventory		1 750 ✓

[6]

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(b) Prepare the statement to show adjusted profit for the year ended 31 December 2022.

Statement to show adjusted profit for the year ended 31 December 2022 ✓	
	$
Unadjusted profit for the year	13 000 ✓
Add: Commission income – was understated	800 ✓
Sales revenue – was understated	3 000 ✓
Less: Cost of sales – was understated	(1 750) ✓
Adjusted profit for the year	15 050 ✓

[6]

[Total: 12]

4 Mason provided the following information about the business.

	2021	2022
Rate of inventory turnover (times)	3.40	2.78
Days sales in inventory (days)	55	63

(a) Evaluate the inventory turnover of the business over the two years.

Rate of inventory turnover worsened from 3.40 times to 2.78 times. ✓

Rate of selling inventory has slowed down over the two years. ✓

Day sales in inventory increased from 55 days to 63 days. ✓

Business is taking a longer time to sell off goods. ✓

Overall, business is less efficient in managing inventory. ✓ [5]

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(b) The following transactions occurred in the month of May.

Date	Transactions
2021	
May 4	Bought goods worth $5 000 from credit supplier, Jack. The business received a 10% trade discount.
May 13	Returned goods bought on 4 May due to wrong specification. The original list price was $500.
May 20	Paid amount owing to Jack using cheque and received a 10% cash discount.

Prepare the journal entries to record the transactions on 20 May. Narrations are **not** required.

Journal

Date 2021		Debit $	Credit $
May 20	Trade payable - Jack	3 645 ✓	
	Cash at bank		3 645 ✓
May 20	Trade payable - Jack	405 ✓	
	Discount received		405 ✓

[4]

[Total: 9]

Workings

Amount owing after trade discount = $5 000 x 90% = $4 500
Amount owing after purchase returns = $4 500 - (90% x $500) = $4 050
Cash discount @ 10% = 10% x $4 050 = $405
Amount paid by cheque = $4050-$405 = $3645

END OF PAPER

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