DAMAI SECONDARY SCHOOL
Preliminary Examination 2024

CANDIDATE NAME

CLASS | | | | INDEX NUMBER | |

PRINCIPLES OF ACCOUNTS **7087/01**

Paper 1 **23 August 2024**

Secondary 4 Express / 5 Normal (Academic) **1 hour**

Setter: Miss Cristy Lin **40 Marks**

5107 MATH STUDIO

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

READ THESE INSTRUCTIONS FIRST

Write your index number, name 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 diagrams or graphs.
Do not use staples, paper clips, glue or correction fluid.

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.

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Answer **all** questions

1 Oppa Wen Hao sells snacks imported from South Korea and ends its financial year on 31 May. On 1 June 2021, the business had a capital balance of $50 000. The following transactions took place between 2021 and 2023.

Date	Description of Transaction
2021	
Aug 3	The owner contributed $7 000 cash to the business bank account.
2022	
Apr 25	The owner took $600 goods for personal use.
May 31	Profit for the year amounted to $89 400.
Aug 24	The owner contributed a chair $300 to the business.
2023	
May 31	Loss for the year amounted to $2 570.

5107 MATH STUDIO

REQUIRED

(a) Explain the accounting theory behind the transaction on 3 August 2021.

[2]

(b) Prepare the drawings account for the year ended **31 May 2022**.

Drawings

Date	Particulars	Debit	Credit	Balance
		$	$	$

[2]

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(c) Prepare the capital account for the years ended **31 May 2022 and 31 May 2023**.

Capital

Date	Particulars	Debit	Credit	Balance
		$	$	$

5107 MATH STUDIO

[6]

(d) Explain any two reasons why the owner's equity changed over the year ended **31 May 2022**.

[2]

[Total: 12]

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2 Yvonne runs a service business. The financial year end is 31 December.

On 1 April 2023, the business obtained a bank loan of $300 000 at an interest rate of 3% per annum. The loan is to be paid equally over 10 years.

The partial principal sum repayment and interest are to be made every year starting 31 March 2024.

REQUIRED

(a) Prepare journal entries to record the borrowing on 1 April 2023 and the interest expense incurred on 31 December 2023. Narrations are not required.

Journal

Date	Particulars	Debit	Credit
		$	$

[3]

(b) Prepare an extract of the statement of financial position as at 31 December 2023, showing only the liabilities section.

Yvonne

Statement of financial position as at 31 December 2023 (extract)

	$

[3]

[Turn over

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(c) Use a suitable accounting theory to explain why interest expense is recorded.

[2]

[Total: 8]

3 Iris owns a business selling eyewear. For the year ended 31 August 2023, she had the following information pertaining to her rental expenses account.

Rental expense

Date	Particulars	Debit	Credit	Balance
2022		$	$	$
Sep 1	Rent expense payable		300	300 Cr
2023				
Aug 30	Cash at bank	4 500		4 200 Dr
Aug 31	Prepaid rent		600	3 600 Dr
	?			

5107 MATH STUDIO

REQUIRED

(a) State the account in which the amount of rent expense is transferred to at the end of the financial year.

[1]

(b) Interpret the entries in the rental expense account on:

(i) 1 September 2022

[1]

(ii) 30 August 2023

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[1]

(iii) 31 August 2023

.....

.....

[1]

(c) Use an accounting theory to explain the recording on 31 August 2023.

.....

.....

.....

[2]

(d) Complete the following table by stating the effect 'understated' or 'overstated' on income and profit for the period when each item is **not adjusted**.

	Item	Effect on Income	Effect on Profit for the Period
(i)	Commission income received in advance		
(ii)	Income receivable		

MATH STUDIO

[2]

[Total: 8]

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[Turn over

4 Cornelius is the owner of a trading business and has the following information extracted for the year ended 30 June 2024.

	$
Inventory	30 600
Sales revenue	250 000
Sales returns	7 900
Cost of sales	185 000

5TQ7 MATH STUDIO

The inventory as at 1 July 2023 is $25 800.

REQUIRED

(a) Calculate the following for the year ended 30 June 2024. Show your answers to two decimal places.

(i) Rate of inventory turnover

[1]

(ii) Days sales in inventory

[1]

(b) Evaluate Cornelius' efficiency in inventory management against its competitor, Aman. Aman's rate of inventory turnover is 10.00 times, and days sales in inventory is 36.50 days.

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[4]

[Turn over

(c) State two non-accounting information to consider when determining which non-current asset to purchase.

[2]

Cornelius oversees authorising cheque payments of the business.

MATH STUDIO

REQUIRED

(d) State the purpose of source documents.

[1]

(e) State and explain one type of internal control over the handling of cash.

[2]

(f) Explain objectivity.

[1]

[Total: 12]

End of paper

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Answer **all** questions

1 Oppa Wen Hao sells snacks imported from South Korea and ends its financial year on 31 May. On 1 June 2021, the business had a capital balance of $50 000. The following transactions took place between 2021 and 2023.

Date	Description of Transaction
2021	
Aug 3	The owner contributed $7 000 cash to the business bank account.
2022	
Apr 25	The owner took $600 goods for personal use.
May 31	Profit for the year amounted to $89 400.
Aug 24	The owner contributed a chair $300 to the business.
2023	
May 31	Loss for the year amounted to $2 570.

5T07 MATH STUDIO

REQUIRED

(a) Explain the accounting theory behind the transaction on 3 August 2021.

According to the accounting entity theory **[1]**, the activities of a business are separate from the actions of the owner. All transactions are recorded from the point of view of the business. **[1]**

[2]

(b) Prepare the drawings account for the year ended **31 May 2022**.

Drawings

Date	Particulars	Debit	Credit	Balance
2022		$	$	$
Apr 25	Inventory	600 **[1]**		600 Dr
May 31	Capital (Transfer)		600 **[1]**	-

[2]

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(c) Prepare the capital account for the years ended **31 May 2022 and 31 May 2023**.

Capital

Date	Particulars	Debit	Credit	Balance
2021		$	$	$
Jun 1	Balance b/d			50,000 Cr **[1]**
Aug 3	Cash at bank		7,000 **[1]**	57,000 Cr
2022				
May 31	Drawings	600 **[1]**		56,400 Cr
	Income summary		89,400 **[1]**	145,800 Cr
Jun 1	Balance b/d			145,800 Cr
Aug 24	Fixtures and fittings		300 **[1]**	146,100 Cr
2023				
May 31	Income summary	2,570 **[1]**		143,530 Cr
Jun 1	Balance b/d			143,530 Cr

[6]

(d) Explain any two reasons why the owner's equity changed over the year ended **31 May 2022**.

The owner had contributed cash $7,000 **[0.5]** which increased owner's equity. **[0.5]**

The owner took drawings $600 **[0.5]** which decreased owner's equity. **[0.5]**

The business made a profit of $89,400 **[0.5]** which increased owner's equity. **[0.5]**

[Any 2 reasonable reasons for 2 marks.]

[2]

[Total: 12]

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2 Yvonne runs a service business. The financial year end is 31 December.

On 1 April 2023, the business obtained a bank loan of $300 000 at an interest rate of 3% per annum. The loan is to be paid equally over 10 years.

The partial principal sum repayment and interest are to be made every year starting 31 March 2024.

REQUIRED

(a) Prepare journal entries to record the borrowing on 1 April 2023 and the interest expense incurred on 31 December 2023. Narrations are not required.

Journal

Date	Particulars	Debit	Credit
2023		$	$
Apr 1	Cash at bank	300,000	
	Bank loan		300,000 **[1]**
Dec 31	Interest expense ($300,000x3%)x9/12 **[1]**	6,750	
	Interest expense payable		6,750 **[1]**

[If interest expense is $9,000 with correct journal entry, award 0.5m only]

[3]

(b) Prepare an extract of the statement of financial position as at 31 December 2023, showing only the liabilities section.

Yvonne

Statement of financial position as at 31 December 2023 (extract)

	$
Non-current liabilities	
Long-term borrowing $300,000-($300,000/10)	270,000 **[1]**
Current liabilities	
Current portion of long-term borrowings	30,000 **[1]**
Interest expense payable	6,750 **[1OF]**

[3]

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[Turn over

(c) Use a suitable accounting theory to explain why interest expense is recorded.
According to the matching theory **[1]**, interest expense incurred must be matched against the income earned from using the loan to operate business in the same accounting period to determine profit for that period. **[1]**

[2]

[Total: 8]

3 Iris owns a business selling eyewear. For the year ended 31 August 2023, she had the following information pertaining to her rental expenses account.

Rental expense

Date	Particulars	Debit	Credit	Balance
2022		$	$	$
Sep 1	Rent expense payable		300	300 Cr
2023				
Aug 30	Cash at bank	4 500		4 200 Dr
Aug 31	Prepaid rent		600	3 600 Dr
	?			

REQUIRED

(a) State the account in which the amount of rent expense is transferred to at the end of the financial year.

Income summary **[1]**

[1]

(b) Interpret the entries in the rental expense account on:

(i) 1 September 2022
$300 in rent expense was incurred last year but not paid, it will be paid this year. **[1]**

[1]

(ii) 30 August 2023
The business paid $4,500 in rent expense by cheque. **[1]**

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[1]

(iii) 31 August 2023
$600 in rent expense was paid but not incurred, it will be incurred next financial year. **[1]**

[1]

(c) Use an accounting theory to explain the recording on 31 August 2023.
According to the accrual basis of accounting **[1]**, only expenses incurred in the relevant accounting period should be recorded, regardless of whether cash is paid. **[1]**

[2]

(d) Complete the following table by stating the effect 'understated' or 'overstated' on income and profit for the period when each item is **not adjusted**.

	Item	Effect on Income	Effect on Profit for the Period
(ii)	Commission income received in advance	Overstated **[0.5]**	Overstated **[0.5]**
(iii)	Income receivable	Understated **[0.5]**	Understated **[0.5]**

[2]

[Total: 8]

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[Turn over

4 Cornelius is the owner of a trading business and has the following information extracted for the year ended 30 June 2024.

	$
Inventory	30 600
Sales revenue	250 000
Sales returns	7 900
Cost of sales	185 000

5TQ7 MATH STUDIO

The inventory as at 1 July 2023 is $25 800.

REQUIRED

(a) Calculate the following for the year ended 30 June 2024. Show your answers to two decimal places.

(i) Rate of inventory turnover

Rate of inventory turnover = Cost of sales/Average inventory

= $185,000/($25,800+$30,600)/2

= $185,000/$28,200

= 6.56 times **[1]**

[1]

(ii) Days sales in inventory

Days sales in inventory = Average inventory/Cost of sales x 365 days

= $28,200/$185,000 x 365 days

= 55.64 days **[1]**

[1]

(b) Evaluate Cornelius' efficiency in inventory management against its competitor, Aman. Aman's rate of inventory turnover is 10 times, and days sales in inventory is 36.50 days.

Cornelius' rate of inventory turnover of 6.56 times is worse than Aman's rate of inventory turnover of 10 times. **[1]**

This could be due to Cornelius taking a longer time to sell its goods compared to Aman. **[1]**

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This is further supported by Cornelius' days sales in inventory at 55.64 days being worse than Aman's of 36.50 days. **[1]**

Hence, Cornelius is less efficient at managing its inventory than Aman. **[1]**

[4]

[Turn over

(c) State two non-accounting information to consider when determining which non-current asset to purchase.

Purpose of the non-current asset/Features of the non-current asset/Customers' review of the non-current asset/Warranty **[2 marks for any 2 answers]**

[2]

Cornelius oversees authorising cheque payments of the business.

MATH STUDIO

REQUIRED

(d) State the purpose of source documents.

To provide evidence that a transaction has taken place **[0.5]** and to record the transaction at the original cost that it occurred **[0.5]**.

[1]

(e) State and explain one type of internal control over the handling of cash.

Segregation of duties **[1]** – Cash handling and cash recording duties are done by different employees **[1]**. Custody of cash **[1]** – Secure cash in a locked storage **[1]**. Authorisation **[1]** – Obtain proper approvals for all payments from authorised personnel **[1]**. Bank reconciliation **[1]** – Compare business' records with bank statements to identify items causing differences in ending balances **[1]**.

[2]

(f) Explain objectivity.

Accounting information recorded must be supported by reliable and verifiable evidence so that financial statements are free from biases and opinions. **[1]**

[1]

[Total: 12]

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DAMAI SECONDARY SCHOOL
Preliminary Examination 2024

CANDIDATE NAME			
CLASS		INDEX NUMBER	

5107 MATH STUDIO

PRINCIPLES OF ACCOUNTS 7087/02

Paper 2

Secondary Four Express / 5 Normal (Academic)

INSERT **2 hours**

READ THESE INSTRUCTIONS FIRST

This insert contains the data for Question 1.

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Data for Question 1

Jayden is the owner of Money Counts Pte Ltd, an accounting firm. He has the following balances extracted from its books on 31 May 2024.

	$
Retained earnings, 1 June 2023	39 990
Share capital, 200 000 ordinary shares	240 000
5% bank loan	100 000
Accounting fee revenue	98 700
Interest on bank loan	4 000
Stationery	3 600
Salaries	89 000
Advertising	12 100
Commission income	8 000
Trade receivables	14 780
Trade payables	2 300
Cash at bank (cr)	5 890
Office equipment at cost	130 000
Fixtures and fittings at cost	250 000
Motor vehicles at cost	44 000
Accumulated depreciation:	
Office equipment	3 000
Fixtures and fittings	10 000
Motor vehicles	39 600

5TQ7 MATH STUDIO

Additional information

1. $1 800 in accounting fee revenue received will only be earned in June 2024.
2. During the year, a cheque $150 was received on the sale of all the motor vehicles. No entry on the sale was made in the books. No depreciation is to be charged in the year of sale.
3. Depreciation policy:
   - Office equipment – 10% per annum using the reducing balance method.
   - Fixtures and fittings – 5 years with a scrap value of $4 900 using the straight-line method.
4. A trade receivable owing $780 went bankrupt but has not been written off yet.
5. Following a review of the trade receivables, 2% of the trade receivables were estimated to be uncollectible.
6. Commission income earned amounted to $10 000 per year, and advertising, $870, was prepaid.
7. 100 000 ordinary shares at $1.20 each were issued and fully paid up during the year.
8. Dividends at $0.08 per share were declared and will be paid on 1 July 2024.
9. Interest on bank loan has not been fully paid and a repayment of $10 000 of the bank loan is to be made on 1 July 2024.

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End of Insert

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DAMAI SECONDARY SCHOOL
Preliminary Examination 2024

CANDIDATE NAME			
CLASS		INDEX NUMBER	

PRINCIPLES OF ACCOUNTS 7087/02

Paper 2 **21 August 2024**

Secondary 4 Express / 5 Normal (Academic) **2 hours**

60 Marks

Setter: Miss Cristy Lin

No Additional Materials are required.

5107 MATH STUDIO

READ THESE INSTRUCTIONS FIRST

An answer booklet will be provided with this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional paper, ask the invigilator for a continuation booklet.

Answer **all** questions.

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.
All questions in this paper carry equal marks.

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Answer **all** questions.

1 Refer to the Insert for data for Question 1.

REQUIRED

(a) Prepare the statement of financial performance for the year ended 31 May 2024.

5107 MATH STUDIO

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5107 MATH STUDIO

[10]

[Turn over

(b) Prepare the statement of financial position as at 31 May 2024.

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[10]

[Total: 20]

[Turn over

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2 Yi Xuan, the owner of Ho Trading, provided the business cash at bank account for June 2024 as follows.

Cash at bank

Date	Particulars	Cheque	Debit	Credit	Balance
2024			$	$	$
Jun 1	Balance b/d				4 000 Dr
7	Neo Yong Holdings	6789		500	3 500 Dr
9	Yan Shan & Sisters	6790		800	2 700 Dr
12	Gwenny Pte Ltd		10 000		12 700 Dr
17	Shahidah Sports		7 800		20 500 Dr
21	Mavis Enterprise	6791		3 000	17 500 Dr
25	Joy & Hope		14 800		32 300 Dr
30	Brendan Trading		200		32 500 Dr

5107 MA STUDIO

The following bank statement for June 2024 was received on 5 June 2024. The balances in the cash at bank account and bank statement did not tally.

Bank statement

Date	Particulars	Withdrawal	Deposit	Balance
2024		$	$	$
Jun 1	Balance b/d			4 000 Cr
9	Cheque no. 6789	500		3 500 Cr
10	Credit transfer – Eka Trading		658	4 158 Cr
14	Cheque deposit		10 000	14 158 Cr
15	Rejected cheque (14 June)	10 000		4 158 Cr
19	Direct payment – Insurance	245		3 913 Cr
24	Cheque no. 6791	8 000		4 087 Dr
30	Interest		578	3 509 Dr

Additional information

The accountant discovered that the accounting clerk had incorrectly recorded cheque 6791.

[Turn over

REQUIRED

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(a) Prepare the adjusted cash at bank account for June 2024.

[4]

(b) Prepare the bank reconciliation statement as at 30 June 2024.

[4]

(c) State one reason for a bank to reject a cheque.

[1]

[Total: 9]

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3 Emily Trading provided the following information as at 31 March 2024.

	$
Fixtures and fittings	90 000
Inventory	11 800
Trade receivables	8 700
Allowance for impairment of trade receivables	700
Prepaid advertising	400
Cash in hand	600
10-year Bank loan	63 000
Current portion of long-term borrowings	7 000
Trade payables	1 100
Salaries expense payable	2 340
Bank overdraft	6 320

5107 MATH STUDIO

Additional information

1 The business' return on equity as at 31 March 2023 was 36.44%.
2 The business had a beginning equity balance of $22 450 on 1 April 2023.
3 For the year ended 31 March 2024, net sales revenue amounted to $70 000, and total operating expenses amounted to $62 000.

REQUIRED

(a) Calculate the following as at **31 March 2024**. Show your workings to two decimal places.

(i) Current ratio

[2]

(ii) Quick ratio

[2]

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[Turn over

(iii) Return on equity

[3]

For the previous year ended 31 March 2023, the business' current ratio was 2.43 and its quick ratio was 1.87.

REQUIRED

(b) Evaluate Emily Trading over the two years ended 31 March 2023 and 31 March 2024. Use the information provided and your answer to **part (a) (i) and (ii)** to support your answer.

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[8]

[Turn over

Natalie is considering investing in Emily Trading.

REQUIRED

(c) Recommend if Natalie should invest in Emily Trading. Use your answer in **part (a) (iii)** to support your recommendation.

[3]

[Total: 18]

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4 Umar owns a sports equipment business and extracted the following information from his books of business on 1 July 2023.

Allowance for impairment of trade receivables $4 500

The following transactions took place during the financial year 30 June 2024.

1 On 6 December 2023, Shiraz Holdings announced its departure from the industry and that it would not be able to repay its debt of $1 800 owing to Umar. This amount is to be written off.

2 On 18 February 2024, Jayla Enterprise confirmed that it was ending its business and could only pay 40 cents for every dollar of its outstanding debt of $2 600. On the same day, Umar received a cheque from Jayla Enterprise for the amount it could pay.

5107 MATH STUDIO

On 30 June 2024, the trade receivables balance was $50 500 and Umar maintains an allowance of impairment of trade receivables at 2% of the trade receivables balance at every financial year.

REQUIRED

(a) Prepare the allowance for impairment of trade receivables account for the year ended 30 June 2024.

[4]

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[Turn over

(b) Use an accounting theory to explain the purpose of recording an allowance for impairment of trade receivables.

[2]

Umar sells its goods mainly on credit. The credit policy to his customers is as follow.

1 Credit period is 15 days.
2 Cash discount 1% is given if payment is made earlier within 5 days. Most of Umar's customers are able to pay within 5 days.

Mavis Enterprise, an online sports shop, has approached Umar to buy sports equipment on credit. As Mavis Enterprise has only been in business for under one year, Umar did his research on Mavis Enterprise and found the following information:

1 Mavis Enterprise takes an average of 17 days to repay its debts owing.
2 It has a monthly trade receivables balance of $35 000 compared to the industry average of $10,000.
3 Mavis Enterprise does not have a physical shop and only operates online.
4 More customers are buying from online shops due to convenience.
5 In promoting its products, Mavis Enterprise is highly active on all social media platforms and has an average of 70 000 followers on social media.

REQUIRED

(c) Advise Umar if he should sell on credit to Mavis Enterprise. Justify your advice with **three** reasons.

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[7]

[Total: 13]

Additional page

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Additional page

MATH STUDIO

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End of Paper

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Answer **all** questions.

1 Refer to the Insert for data for Question 1.

REQUIRED

(a) Prepare the statement of financial performance for the year ended 31 May 2024.

Money Counts Pte Ltd

Statement of financial performance for the year ended 31 May 2024

	$	$
Accounting fee revenue ($98.700-$1,800)		96,900 **[1]**
Add: Other income		
Commission income		10,000 **[1]**
Total income		106,900
Less: Other expenses		
Interest on bank loan (5%x$100,000)	5,000 **[1]**	
Stationery	3,600	
Salaries	89,000	
Advertising ($12,100-$870)	11,230 **[1]**	
Impairment loss on trade receivables (2%x$14,000)-(-780) **[0.5]**	1,060 **[1]**	
Depreciation of office equipment ($13,000-$3,000)x10% **[0.5]**	12,700 **[1]**	
Depreciation of fixtures and fittings ($250,000-$4,900)/5 **[0.5]**	49,020 **[1]**	
Loss on sale of non-current assets $150-($44,000-$39,600) **[0.5]**	4,250 **[1]**	
Total other expenses		(175,860)
Loss for the year		(68,960)

MATH STUDIO

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5107 MATH STUDIO

[10]

[Turn over

(b) Prepare the statement of financial position as at 31 May 2024.

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Money Counts Pte Ltd

Statement of financial position as at 31 May 2024

Assets	$	$	$
Non-current assets	Cost	Accumulated Depreciation	Net book value
Office equipment ($3,000+$12,700)	130,000	(15,700)	114,300 **[0.5]**
Fixtures and fittings ($10,000+$49,020)	250,000	(59,020)	190,980 **[0.5]**
Total non-current assets	380,000	(74,720)	305,280
Current assets			
Cash at bank $(-5,890+150+120,000)		114,260 **[0.5]**	
Trade receivables ($14,780-780)	14,000 **[0.5]**		
Less: Allowance for impairment of trade receivables (2%x$14,000)	(280) **[0.5]**		
Net trade receivables		13,720 **[0.5]**	
Commission income receivable		2,000 **[0.5]**	
Prepaid advertising expense		870 **[0.5]**	
Total current assets			130,850
Total assets			436,130
Equity and liabilities			
Shareholder's equity			
Share capital, 300,000 ordinary shares **[0.5]** ($240,000+$120,000)		360,000 **[0.5]**	
Accumulated losses**[0.5]** $(39,990 **[0.5]**-24,000**[0.5]**-68,960**[0.5OF]**)		(52,970)	
Total equity			307,030
Non-current liabilities			
Long-term borrowings $(100,000-10,000)			90,000 **[0.5]**
Current liabilities			
Dividends payable ($0.08x300,000)		24,000 **[0.5]**	
Current portion of long-term borrowings		10,000 **[0.5]**	
Accounting fee revenue received in advance		1,800 **[0.5]**	
Interest expense payable $(5,000-4000)		1,000 **[0.5]**	
Trade payables		2,300 **[0.5]**	
Total current liabilities			39,100
Total equity and liabilities			436,130

5TQ7 MATH STUDIO

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[10]

[Total: 20]

[Turn over

2 Yi Xuan, the owner of Ho Trading, provided the business cash at bank account for June 2024 as follows.

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Cash at bank

Date	Particulars	Cheque	Debit	Credit	Balance
2024			$	$	$
Jun 1	Balance b/d				4 000 Dr
7	Neo Yong Holdings	6789		500	3 500 Dr
9	Yan Shan & Sisters	6790		800	2 700 Dr
12	Gwenny Pte Ltd		10 000		12 700 Dr
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30	Brendan Trading		200		32 500 Dr

The following bank statement for June 2024 was received on 5 June 2024. The balances in the cash at bank account and bank statement did not tally.

5107 MATHSTUDIO

Bank statement

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2024		$	$	$
Jun 1	Balance b/d			4 000 Cr
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15	Rejected cheque (14 June)	10 000		4 158 Cr
19	Direct payment – Insurance	245		3 913 Cr
24	Cheque no. 6791	8 000		4 087 Dr
30	Interest		578	3 509 Dr

Additional information

The accountant discovered that the accounting clerk had incorrectly recorded cheque 6791.

[Turn over

REQUIRED

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(a) Prepare the adjusted cash at bank account for June 2024.

Cash at bank

Date	Particulars	Debit	Credit	Balance
2024		$	$	$
Jun 30	Balance b/d			32,500 Dr **[0.5]**
	Trade receivable – Eka Trading	658 **[0.5]**		33,158 Dr
	Interest income	578 **[0.5]**		33,736 Dr
	Trade payable – Mavis Enterprise (correction of error, $8,000-$3,000) **[0.5]**		5,000 **[0.5]**	28,736 Dr
	Trade receivable – Gwenny Pte Ltd (Dishonoured cheque) **[0.5]**		10,000 **[0.5]**	18,736 Dr
	Insurance		245 **[0.5]**	18,491 Dr
Jul 1	Balance b/d			18,491 Dr

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[4]

(b) Prepare the bank reconciliation statement as at 30 June 2024.

Ho Trading

Bank reconciliation statement as at 30 June 2024 **[0.5]**

	$	$
Balance as per bank statement (Debit)		(3,509) **[0.5]**
Add: Deposits in transit **[0.5]**		
Shahidah Sports	7,800 **[0.5]**	
Joy & Hope	14,800 **[0.5]**	
Brendan Trading	200 **[0.5]**	22,800
Less: Cheques not yet presented **[0.5]**		
Yan Shan & Sisters (cheque no. 6790)		(800) **[0.5]**
Adjusted balance as per cash at bank account		18,491

[4]

(c) State one reason for a bank to reject a cheque.

Insufficient funds in the payer's account, cheque has expired or is post-dated, information is not consistent or not complete **[1m for any 1 reasonable answer]**

[1]

[Total: 9]

3 Emily Trading provided the following information as at 31 March 2024.

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	$
Fixtures and fittings	90 000
Inventory	11 800
Trade receivables	8 700
Allowance for impairment of trade receivables	700
Prepaid advertising	400
Cash in hand	600
10-year Bank loan	63 000
Current portion of long-term borrowings	7 000
Trade payables	1 100
Salaries expense payable	2 340
Bank overdraft	6 320

Additional information

1 The business' return on equity as at 31 March 2023 was 36.44%.
2 The business had a beginning equity balance of $22 450 on 1 April 2023.
3 For the year ended 31 March 2024, net sales revenue amounted to $70 000, and total operating expenses amounted to $62 000.

REQUIRED

(a) Calculate the following as at **31 March 2024**. Show your workings to two decimal places.

(i) Current ratio
Current ratio = Total current assets/Total current liabilities **[1]**

=$(11,800+8,700-700+400+600)/$(7,000+1,100+2,340+6,320)

= $20,800/$16,760

= 1.24 **[1]**

[2]

(ii) Quick ratio
Quick ratio = Total current assets– Prepayments – Inventory /Total current liabilities **[1]**

= $20,800 - $400 - $11,800/$16,760

= $8,600/$16,760

= 0.51 **[1]**

[2]

[Turn over

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(iii) Return on equity

Return on equity = Profit for the period/Average equity x 100% **[1]**

= $70,000-$62,000/$(22,450+31,040)/2 x 100%

= $8,000/$26,745 x 100%

= 29.91% **[1]**

Ending equity = $110,800-$79,760 = $31,040 **[1]**

Assets = $(90,000+11,800+8,700-700+400+600) = $110,800

Liabilities = $(63,000+7,000+1,100+2,340+6,320) = $79,760

[3]

For the previous year ended 31 March 2023, the business' current ratio was 2.43 and its quick ratio was 1.87.

REQUIRED

(b) Evaluate Emily Trading over the two years ended 31 March 2023 and 31 March 2024. Use the information provided and your answer to **part (a) (i) and (ii)** to support your answer.

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The current ratio has worsened from 2.43 in 2023 to 1.24 in 2024. **[1]**

In 2024, this falls below the general benchmark of 2. **[1]**

This means that the business has insufficient current assets to meet its current liabilities in 2024. **[1]**

The quick ratio has worsened from 1.87 in 2023 to 0.51 in 2024. **[1]**

In 2024, this falls below the general benchmark of 1. **[1]**

This means that the business has insufficient quick assets to meet its current liabilities in 2024. **[1]**

This could be due to a bank overdraft position of $6,320 in 2024. **[1]**

A negative cash balance means that business would not have cash to pay for its daily operating expenses **[1]**.

The business current liabilities could have increased due to part of the 10-year loan being repaid within a year. **[1]**

Overall, liquidity has worsened in 2024 from 2023. **[No marks awarded for conclusion.]**

[1m each for 8 reasonable points]

[8]

[Turn over

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Natalie is considering investing in Emily Trading.

REQUIRED

(c) Recommend if Natalie should invest in Emily Trading. Use your answer in **part (a) (iii)** to support your recommendation.

Natalie should not invest in Emily Trading. **[1]**

The return of equity has worsened from 36.44% in 2023 to 29.91% in 2024. **[1]**

This means that Emily Trading has become less efficient at generating profits in 2024 for its shareholders. **[1]**

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[3]

[Total: 18]

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4 Umar owns a sports equipment business and extracted the following information from his books of business on 1 July 2023.

Allowance for impairment of trade receivables $4 500

The following transactions took place during the financial year 30 June 2024.

1 On 6 December 2023, Shiraz Holdings announced its departure from the industry and that it would not be able to repay its debt of $1 800 owing to Umar. This amount is to be written off.

2 On 18 February 2024, Jayla Enterprise confirmed that it was ending its business and could only pay 40 cents for every dollar of its outstanding debt of $2 600. On the same day, Umar received a cheque from Jayla Enterprise for the amount it could pay.

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On 30 June 2024, the trade receivables balance was $50 500 and Umar maintains an allowance of impairment of trade receivables at 2% of the trade receivables balance at every financial year.

REQUIRED

(a) Prepare the allowance for impairment of trade receivables account for the year ended 30 June 2024.

Allowance for impairment of trade receivables

Date	Particulars	Debit	Credit	Balance
2023		$	$	$
Jul 1	Balance b/d			4,500 Cr **[1]**
Dec 6	Trade receivables – Shiraz Holdings	1,800 **[1]**		2,700 Cr
2024				
Feb 18	Trade receivables – Jayla Enterprise	1,560 **[1]**		1,140 Cr
	($0.60x$2,600)			
Jun 30	Impairment loss on trade receivables	130 **[1]**		1,010 Cr
	(2%x$50,500)-$1,140			
Jul 1	Balance b/d			1,010 Cr

[4]

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[Turn over

(b) Use an accounting theory to explain the purpose of recording an allowance for impairment of trade receivables.

According to the prudence theory **[1]**, the accounting treatment chosen should be the one that ensures the trade receivables balance is not overstated and reflects the amount that is collectible **[1]**.

[2]

Umar sells its goods mainly on credit. The credit policy to his customers is as follow.

1 Credit period is 15 days.
2 Cash discount 1% is given if payment is made earlier within 5 days. Most of Umar's customers are able to pay within 5 days.

Mavis Enterprise, an online sports shop, has approached Umar to buy sports equipment on credit. As Mavis Enterprise has only been in business for under one year, Umar did his research on Mavis Enterprise and found the following information:

1 Mavis Enterprise takes an average of 17 days to repay its debts owing.
2 It has a monthly trade receivables balance of $35 000 compared to the industry average of $10,000.
3 Mavis Enterprise does not have a physical shop and only operates online.
4 More customers are buying from online shops due to convenience.
5 In promoting its products, Mavis Enterprise is highly active on all social media platforms and has an average of 70 000 followers on social media.

REQUIRED

(c) Advise Umar if he should sell on credit to Mavis Enterprise. Justify your advice with **three** reasons.

Decision: Umar should sell on credit to Mavis Enterprise. [1]

Evidence 1: Mavis Enterprise operates online and does not have a physical store. **[1]**

Development 1: This means that she is able to save on rent expenses which are high. Lower expenditures would mean that Mavis Enterprise is more able to pay Umar debts owing. **[1]**

Evidence 2: Due to convenience, more customers are buying online. **[1]**

Development 2: This convenience would lead to a greater demand of Mavis Enterprise's products, leading to higher sales revenue and being more able to pay Umar debts owing. **[1]**

Evidence 3: Mavis Enterprise has a strong following of over 70,000 followers. **[1]**

Development 3: Being popular and active on social media would increase the visibility of the brand and when more people recognise the brand, this would lead to an increase in

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[7]

[Total: 13]

Additional page

potential customers and sales. **[1]**

Decision: Umar should not sell on credit to Mavis Enterprise. [1]

Evidence 1: Mavis Enterprise takes 17 days to repay its debts compared to Umar's credit policy of 15 days. **[1]**

Development 1: This would mean that Umar would take a longer time to collect cash affecting his liquidity position should he need cash for other business areas. **[1]**

Evidence 2: Mavis Enterprise average trade receivables balances of $35,000 which is $20,000 above the industry average of $10,000. **[1]**

Development 2: This above average balance could mean that the business is having issues collecting debts owing, thus, having cash flow problems. This could mean that the business might not be able to pay Umar debts outstanding. **[1]**

Evidence 3: Mavis Enterprise has only been in business for less than one year. **[1]**

Development 3: Being a new business could mean that Mavis Enterprise lacks brand recognition and this makes it challenging for the business to attract customers away from more established competitors, leading to low sales and having issues to pay Umar debts owing. **[1]**

[1m each for any 1 reasonable Evidence with related Development]

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End of Paper

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