

- 1 Richard is a sole trader who started his business on 1 March 2014. He carries out all his transactions using cheque. The following transactions took place in March 2014:

Mar 1	Bought 5 units at \$500.
9	Bought 5 units at \$530.
17	Sold 5 units to Wilson.
18	Bought 5 units at \$520.
20	Sold 5 units to Gregory.
24	Wilson returned 5 units due to damages.

REQUIRED

- (a) Using the FIFO method, prepare Richard's Inventory Account for the month of March 2014.

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[6]

(b) State how Richard should value his inventory. Explain the accounting concept behind stock valuation.

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.....

.....

..... [3]

(c) Richard discovered that his inventory at 28 February 2015 was overstated. State the effect of this error on his profit for the period for the year ended 28 February 2015.

.....

..... [1]

[Total: 10]

2 Xavier's Cash at Bank Account for the month of June 2014 was as follows:

Cash at Bank					
		Cheque No.	Dr \$	Cr \$	Balance \$
2014					
Jun 1	Balance b/d				2 128 Dr
3	Mervin	13122		334	
7	Norman Ltd	13123		598	
12	Sales Revenue		133		
17	Mei Ling	13124		300	
20	Lester		149		
20	Sunny Ltd	13125		854	
24	Derrick		13		
27	Geetha	13126		123	?

The following Bank Statement was received in early July 2014:

Bank Statement				
2014		Payments \$	Receipts \$	Balance \$
Jun 1	Balance b/f			128
2	Credit transfer: Pool Ltd		2 000	2 128
5	Cheque No. 13122	334		1 794
9	Cheque No. 13123	598		1 196
13	Sales Revenue		133	1 329
18	Standing order: Insurance	400		929
23	Lester		149	1 078
24	Direct debit: Rent		1 200	2 278
26	Cheque No. 13125	854		1 424
28	Refer to Drawer	149		1 275
30	Bank charges	20		1 255

REQUIRED

(a) State **one** reason why Xavier performs bank reconciliation.

.....
 [1]

[5]

Smile

[5]

[Total: 11]

- 3 Sonia is a sole trader. She discovered the following errors in her books on 31 October 2014:
- i. Sonia issued a business cheque to pay for her personal utilities bill of \$500. This was not recorded in the books.
 - ii. Sonia purchased \$280 worth of stationery and it was wrongly recorded in the Inventory Account.
 - iii. Both the Trade Receivables and the Sales Revenue Account were overstated by \$3 000.

REQUIRED

(a) State the type of errors made in each case.

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..... [3]

(b) Prepare journal entries to correct the errors. Narrations are not required.

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..... [6]

- (c) Using the table below, state how each error affects the profit for the period. If there is no effect, write 'no effect'. [3]

	Effect on Profit for the Period
Error 1	
Error 2	
Error 3	

[Total: 12]

- 4 Kelvin and Eric are competitors in the same industry. The following information is extracted from Kelvin's books on 31 December 2014:

	\$
Cost of Sales	200 000
Inventory, 1 January 2014	18 640
Inventory, 31 December 2014	21 360
Gross Profit Margin	30%

REQUIRED

- (a) Calculate Kelvin's inventory turnover rate for the year ended 31 December 2014.

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..... [2]

- (b) Eric's gross profit margin is 25% and inventory turnover rate for the year ended 31 December 2014 was 15 times. Explain **two** reasons for the difference in the inventory turnover rate between the two businesses.

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..... [4]

(c) Suggest **one** method to improve Kelvin's inventory management.

.....
..... [1]

[Total: 7]

--- END OF PAPER ---

**YUAN CHING SECONDARY SCHOOL
MID-YEAR EXAMINATION 2015
SECONDARY FOUR EXPRESS
PRINCIPLES OF ACCOUNTS (7175/01)**

SUGGESTED MARKING SCHEME

QUESTION 1(a)

		Inventory		
		Dr	Cr	Balance
		\$	\$	\$
2014				
Mar 1	Cash at Bank	500✓		500 Dr
9	Cash at Bank	530✓		1 030 Dr
17	Cost of Sales		500✓	530 Dr
18	Cash at Bank	520✓		1 050 Dr
20	Cost of Sales		530✓	520 Dr
24	Cost of Sales (<i>Returns</i>)	530✓		1 050 Dr
Apr 1	Balance b/d			1 050 Dr

QUESTION 1 (b)

Richard should value his inventory at cost or net realizable value, whichever is lower. [1]
This is due to the prudence concept [1] which states that businesses should not overstate their assets. [1]

QUESTION 1 (c)

Profit for the period is overstated. [1]

QUESTION 2 (a)

Xavier needs to perform bank reconciliation in order to check that the difference between the balances in the Cash at Bank Account and Bank Statement is due to the timing of recording the transactions. [1]

QUESTION 2 (b)

Cash at Bank			
	Dr	Cr	Balance
2014	\$	\$	\$
Jun 30 Balance b/d			214 Dr✓
30 Insurance Expense		400✓	186 Cr
30 Rent Income	1 200✓		1 014 Dr
30 Trade Receivable: Lester (Dis Cheq)		149✓	865 Dr
30 Bank Charges		20✓	845 Dr
Jul 1 Balance b/d			845 Dr

QUESTION 2 (c)

Xavier	
Bank Reconciliation Statement as at 30 June 2014	
	\$
Balance as per Bank Statement	1 255✓
<i>Add:</i> Uncredited deposits – Derrick	13✓
<i>Less:</i> Unpresented cheques – Mei Ling	(300)✓
– Geetha	(123)✓
Balance as per updated Cash at Bank Account	<u>845✓ OF</u>

QUESTION 3 (a)

- i. Error of omission [1]
- ii. Error of principle [1]
- iii. Compensating errors [1]

QUESTION 3 (b)

GENERAL JOURNAL			
Date	Particulars	Dr \$	Cr \$
2014 Oct 31	Drawings Cash at Bank	500	500
31	Stationery Expense Inventory	280	280
31	Sales Revenue Trade Receivables	3 000	3 000

QUESTION 3 (c)

	Effect on Profit for the Period	
Error 1	No effect	[1]
Error 2	Overstated by \$280	[1]
Error 3	Overstated by \$3 000	[1]

QUESTION 4 (a)

$$\begin{aligned}\text{Inventory Turnover Rate} &= \frac{\text{Cost of Sales}}{\text{Average Inventory}} [1] \\ &= \frac{200\,000}{20\,000} \\ &= 10 \text{ times } [1]\end{aligned}$$

QUESTION 4 (b)

- Eric is more effective at managing his inventory as compared to Kelvin.
- Eric has a higher inventory turnover rate of 15 times as compared to 10 times of Kelvin's business. This means that Eric replenished his inventory 15 times which is more frequent than the 10 times in Kelvin's business. Kelvin may have bought his inventory in bulk to enjoy trade discounts for bulk purchases in order to lower his cost of sales. [1] As a result, Kelvin does not have to replenish his inventory as often. [1]
- Another reason may be that even though both businesses are in the same industry, Kelvin may be selling goods that have a better reputation and is able to fetch a higher selling price. Due to the higher selling price, his inventory end up moving slower. [1] Even though his inventory is moving slower, he is able to earn more gross profit per dollar of net sales revenue. [1]

QUESTION 4 (c)

Any one of the following: [1]

- Kelvin can increase the units of inventory sold by advertising and marketing to attract more customers.
- Kelvin can decrease the inventory on hand by keeping just sufficient goods to meet customers' demand and not holding excessive inventory.

END OF MARK SCHEME

Section A
Answer all questions.

1 Chris & Bel Pty Ltd is a business providing legal consultancy services. The following balances were extracted from its books on 31 March 2016.

Trade receivables	\$	18 320
Allowance for impairment of trade receivables		6 280
Legal fee revenue		134 910
Issued share capital, 100 000 ordinary shares		150 000
Retained earnings		12 600
Rental expense		11 250
Other payables		8 330
Cash at bank		1 944
Utilities expense		14 780
General expenses		5 620
Motor vehicle		120 000
Property		500 000
Office equipment		96 000
Accumulated depreciation		
- Motor vehicle		91 834
- Property		255 000
- Office equipment		48 960
Loan from Tiger Bank		60 000

Additional information

- The rental expense of \$11 250 is paid up to 30 June 2016.
- During the year, payment for utilities expense of \$440 has been debited in error to other payables account.
- One of the trade receivables who owed \$2 950 was declared bankrupt during the year. The amount has yet to be written off.
- A review of the trade receivables showed that \$5 670 is unlikely to be collectible.
- The motor vehicle was sold for \$30 000 on credit during the year. No depreciation is to be provided during the year of sale.
- Property is to be depreciated at 3% per annum on cost.
- Office equipment is to be depreciated at 30% per annum on net book value.
- On 30 March 2016, dividends at \$0.08 per share were declared on all outstanding shares on this date. The dividends would be paid on 7 April 2016.

9 Interest on bank loan is at 2% per annum. No interest has been paid. The loan was obtained on 1 November 2015.

REQUIRED

- Prepare the income statement for the year ended 31 March 2016.
- Prepare the balance sheet as at 31 March 2016.

[Total: 20]

- 2 Ah Seng Pte Ltd, a trader in electronic gadgets, did not keep proper accounting records. The following balances were obtained from its books.

	1 Oct 2014	30 Sep 2015
	\$	\$
Trade receivables	23 850	20 760
Inventory	7 600	6 000

Additional information.

- 1 The following have taken place during the year ended 30 September 2015.

	\$
Total receipts from credit customers	17 100
Discount allowed	1 100
Interest charged on credit customers	440
Write-off of trade receivables	3 630
Offset between sales ledger and purchases ledger	1 780
Cash sales	4 600
Sales returns from credit customers	2 270

- 2 Ah Seng Pte Ltd only allows goods to be returned if they were sold on credit.
3 Inventory turnover rate was 2.82 times.

REQUIRED

- (a) Explain the difference between a cash sale and a credit sale. [2]
(b) Prepare the trade receivables control account. [7]
(c) Calculate cost of sales for the year ended 30 September 2015. [2]
(d) Prepare the trading portion of the income statement for the year ended 30 September 2015. [2]

Ah Chew Pte Ltd is a competitor of Ah Seng Pte Ltd. Ah Chew Pte Ltd had an inventory turnover rate of 5.34 times for the year ended 30 September 2015.

REQUIRED

- (e) Compare and comment on the inventory turnover rate of Ah Seng Pte Ltd and Ah Chew Pte Ltd. [3]
(f) Suggest two ways in which Ah Seng Pte Ltd could improve on its inventory management. [2]

[Total: 18]

- 3 The following information is extracted from the books of Merlie & Sisters Ltd for the year ended 31 October 2015.

	\$
Inventory	12 870
Impairment loss of inventory	1 820
Trade receivables	8 350
Allowance for impairment of trade receivables	1 250
Cash in hand	750
Cash at bank	4 420
Trade payables	11 940
Commission received in advance	1 600
Prepaid rent	2 400

REQUIRED

- (a) Calculate the following as at 31 October 2015, rounding off to two decimal places.

- (i) Net assets [2]
(ii) Working capital ratio [2]
(iii) Acid test ratio [2]
(b) Compare the liquidity ratios computed in part (a) against acceptable norms, and comment on the liquidity of Merlie & Sisters Ltd as at 31 October 2015. [4]

[Total: 10]

Section B

[Turn over]

Answer one question only

4. Ifraan, an accountant at De Sports Equipment, provided the following balances on 1 April 2015.

Cash at bank	\$ 3 770
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The following transactions took place in the month of April 2015.

3 April	Purchased golf balls worth \$200 and issued a cheque as payment less 10% trade discount.
7 April	Paid rental expense of \$1 500 by cheque.
11 April	Purchased a cupboard worth \$450 to store sports equipment. A cheque payment of \$100 was made and the remaining amount was to be paid to Daisan Ltd at a later date.
14 April	Withdrew \$750 from the business bank account to be used in the shop.
19 April	Sold tennis racquets to Mervin Enterprise on credit at a list price of \$2 400. A trade discount of 20% was given. The credit term stated that Mervin Enterprise would receive a 10% cash discount if payment was made within 10 days. The cost of the tennis racquets was \$1 100.
20 April	Mervin Enterprise returned damaged tennis racquets bought on 19 April at a list price of \$250.
23 April	Received commission income of \$300 in cash.
26 April	Received a cheque from Mervin Enterprise for the sale made on 19 April.
30 April	The bank statement for April 2015 showed that the cheque banked in on 26 April was dishonoured.

REQUIRED

- (a) Prepare the journal entry for the transaction on 19 April. [2]
 (b) Prepare the cash at bank account for the month of April 2015. [8]
 (c) State **two** reasons why a cheque may be returned dishonoured by the bank. [2]

[Total: 12]

5. Dakota, the owner of Dakota Pte Ltd, provided the business cash at bank account for the month of June 2016.

Date	Particulars	Cash at Bank Account Cheque Number	Debit \$	Credit \$	Balance \$
2016					
June 1	Balance b/d				13 410 Dr
2	Inventory	16133		2 900	10 510 Dr
10	Sales revenue		3 160		13 670 Dr
13	Stella Trading		1 690		15 360 Dr
17	Genie and Aladdin Holdings	16134		2 770	12 590 Dr
18	Rosalind Enterprise	16135		1 840	10 750 Dr
21	Jennifer Trading		2 550		13 300 Dr
24	Damien Group	16136		810	12 490 Dr
28	Drawings	16137		150	12 340 Dr
30	Hida Store		980		13 320 Dr
July 1	Balance b/d				13 320 Dr

The bank statement for the month of June 2016 was sent to Dakota Pte Ltd on 2 July 2016.

Date	Particulars	Bank Statement Withdrawal \$	Deposit \$	Balance \$
2016				
June 1	Balance b/d			14 670 Cr
3	Cheque No. 16133	2 900		11 770 Cr
4	Direct debit: Insurance	2 000		9 770 Cr
5	Cheque No. 16132	1 260		8 510 Cr
12	Cash		3 160	11 670 Cr
15	Deposit		1 690	13 360 Cr
18	Cheque No. 16134	2 770		10 590 Cr
21	Deposit		2 550	13 140 Cr
23	Cheque (rejected cheque on 21 Jun)	2 550		10 590 Cr
25	Cheque No. 16136	810		9 780 Cr
26	Direct credit: Margaret Stores		440	10 220 Cr
28	Interest income		500	10 720 Cr
30	Bank charges	80		10 640 Cr

REQUIRED

- (a) Prepare the adjusted cash at bank account for the month of June 2016. [6]
 (b) Prepare the bank reconciliation statement as at 30 June 2016. [4]
 (c) Explain **two** purposes of preparing bank reconciliation statements. [2]

[Total: 12]

End of paper

Paper 2 Answers

1a) Chns & Bel Pie Ltd

Income Statement for the year ended 31 March 2016	
	\$
Income	
Legal fee revenue	134,910 ✓
Gain on sale of non-current asset $[(120,000 - 91,814)]$	1,834 ✓
Less Expenses:	
Rental expense $[(11,250/15) \times 12]$	9,000 ✓
Utilities expense $[(14,780 \div 440)]$	15,220 ✓
Impairment loss on trade receivables $[(5,670 - 2,950)]$	2,340 ✓
Depreciation on property $[(500,000 \div 34)]$	15,000 ✓
Interest on loan $[(5/12 \times 2\% \times 560,000)]$	500 ✓
Depreciation on office equipment $[(96,000 - 48,960) \div 40\%]$	14,112 ✓
General expenses	5,620 ✓
Profit for the year	61,792
	74,952 (18)

1b) Chns & Bel Pie Ltd

Balance Sheet as at 30 September 2015	
	\$
Assets	
Non-current assets	
Property	500,000 ✓
Office equipment	96,000 ✓
	596,000
Current assets	
Prepaid rent	2,350 ✓
Other receivables	30,000 ✓
Trade receivables $[(18,320 - 2,950)]$	15,370 ✓
Less: Allowance for impairment of trade receivables	(5,670) ✓
Cash at bank	9,700 ✓
Total Assets	43,884
Equity and liabilities	
Shareholder's equity	
Issued share capital, 100,000 ordinary shares	150,000 ✓
Retained earnings $[(12,600 + 74,952 - 8,000)]$	79,552 ✓
Non-current liabilities	
Long-term borrowings	229,552
Current liabilities	
Other payables $[(18,330 + 440)]$	8,770 ✓
Accrued interest	500 ✓
Dividend payable $[(100,000 \times 0.08)]$	8,000 ✓
Total liabilities and equity	306,822 (12)

[Total: 20]

- 2a) Cash sale means that a customer pays at the point of purchase. ✓
Credit sale means that the cash is received from the customer at a later date from the date of purchase. ✓
(2)

b) Trade receivable control account

Date	Particulars	Debit	Credit	Balance
2014				
Oct 1	Balance b/d			23,850 Dr ✓
2015				
Sep 30	Sales returns	2,270		21,580 Dr
30	Allowance for impairment of trade receivables	3,630		17,950 Dr
30	Cash at bank		17,100	850 Dr
30	Discount allowed		1,100	250 Cr
30	Interest income	440		190 Dr
30	Trade payables control (contra-entry)		1,780	1,590 Cr
30	Sales revenue*	22,350		20,760 Dr
Oct 1	Balance b/d			20,760 Dr (7)

- c) Cost of sales = Inventory turnover rate \times Average Inventory
= $2.82 \times [(7,600 + 6,000)/2]$
= \$19,176 ✓
(2)

d) Ah Seng Pie Ltd

Income Statement for the financial year ended 30 September 2015 (Trading portion)	
	\$
Sales revenue $[(22,350 + 54,600)]$	26,950 ✓
Less: Sales returns	2,270 ✓
Net sales revenue	24,680
Less: Cost of sales	19,176
Gross Profit	5,504 ✓

- e) > Ah Chew Pie Ltd has a higher inventory turnover rate than Ah Seng Pie Ltd. ✓
> This means that Ah Chew Pie Ltd is selling goods more quickly than Ah Seng Pie Ltd. ✓
> Ah Seng Pie Ltd might have too many goods on hand. ✓
> Ah Seng could have been having difficulties to sell goods to customers. ✓
> Having such a high inventory turnover rate, nearly two times more than Ah Seng Pie Ltd could mean that Ah Chew Pie Ltd is selling more than what it can replenish. Over time, Ah Chew Pie Ltd might struggle to meet customer demands. ✓
> Ah Chew Pie Ltd might not be able to meet rising customer demands with such a high inventory turnover rate. ✓
Accept any 3 answers. (3)
f) > Reduce selling prices of goods. ✓
> Offer discounts to encourage customers to buy in bulk. ✓
> Give special promotions to encourage customers to buy products. ✓
> Advertise and market its products more to entice customers. ✓
> Keep just sufficient goods to meet customer demands and not hold excessive inventory. ✓
Accept any 2 answers. (2)

[Total: 18]

3a) Net assets = \$(12,870 + (8,350 - 1,250) + 750 + 4,420 + 2,400) - \$(11,940 + 1,600)
= \$14,000 ✓✓ [2]

ii) Working Capital Ratio = $\frac{\$(12,870 + (8,350 - 1,250) + 750 + 4,420 + 2,400)}{\$(11,940 + 1,600)}$
= 2.03 (2 dec. places) ✓✓ [2]

iii) Acid test ratio = $\frac{\$(7,100 + 750 + 4,420)}{\$(11,940 + 1,600)}$
= 0.91 (2 dec. places) ✓✓ [2]

- b) > Merlie & Sisters Ltd has an acceptable working capital ratio of 2.03:1 which is close to the acceptable norm of 2:1. ✓✓
- > This means that the business has sufficient current assets / twice as much current assets to pay off its short-term debts. ✓✓
- > Merlie & Sisters Ltd does not have an acceptable acid test ratio as its ratio is 0.91:1 which is lower than the acceptable norm of 1:1. ✓✓
- > This means that Merlie & Sisters Ltd might not be able to pay all its current debts when they are due. ✓✓
- > Merlie & Sisters Ltd could obtain a bank loan to improve on its working capital ratio and acid test ratio. ✓✓
- > Merlie & Sisters Ltd could also sell inventory at a lower price or offer bulk discounts so as to generate more cash. ✓✓
- > Merlie & Sisters could avoid having too much excess inventory on hand. This would result in there being more cash to fund operations and pay off debts. ✓✓

Students have to mention the two points underlined to get the first two marks. Any of the 6 remaining points mentioned will earn a student a max of 2 marks. [4]

[Total: 10]

4a)

General Journal			
Date	Particulars	Debit	Credit
2015			
Apr 19	Trade receivables - Mervin Enterprises	\$ 1,970 ✓	1,970 ✓
	Sales revenue		
Apr 19	Cost of sales	1,100 ✓	
	Inventory		1,100 ✓
			3,100 ✓

[2]

b)

Cash at Bank account				
Date	Particulars	Debit	Credit	Balance
2015				
Apr 1	Balance b/d	\$ 5		3,770 Dr ✓
3	Inventory		180 ✓✓	3,590 Dr ✓✓
7	Rental expense		1,500 ✓✓	2,090 Dr ✓✓
11	Furniture and fittings		100 ✓✓	1,990 Dr ✓✓
14	Cash in hand		750 ✓✓	1,240 Dr ✓✓
26	Trade receivable - Mervin Enterprises	1,548 ✓✓✓		2,788 Dr ✓✓
30	Trade receivable - Mervin Enterprises		1,548 ✓✓	1,240 Dr ✓✓
May 1	Balance b/d			1,240 Dr ✓✓

[8]

- c) > The cheque has expired. ✓✓
- > The cheque is post-dated. ✓✓
- > Information on the cheque is incomplete. ✓✓
- > Information on the cheque is inconsistent. ✓✓
- > The party issuing the cheque is not able to pay the amount stated on the cheque as he does not have sufficient funds or his bank account is closed. ✓✓
- Accept any 1 reasons [2]

[Total: 12]

5a)

Cash at Bank Account				
Date	Particulars	Debit	Credit	Balance
2016		\$	\$	\$
Jun 30	Balance b/d			13,320 Dr ✓
30	Insurance expense		2,000 ✓✓	11,320 Dr
30	Trade receivables - Jennifer Trading / Jennifer Trading (Dishonoured Cheque)		2,550 ✓✓	8,770 Dr
30	Trade receivables - Margaret Store / Margaret Store	440 ✓✓		9,210 Dr
30	Interest income			9,710 Dr
30	Bank charges	500 ✓✓	80 ✓✓	9,630 Dr
Jul 1	Balance b/d			9,630 Dr ✓ OF [6]

b)

Bank Reconciliation Statement as at 30 June 2016		
	Debit	Credit
	\$	\$
Credit balance as per bank statement		10,640 ✓
Add: Uncredited cheques		
Hida Store		980 ✓✓
		11,620
Less: Unpresented cheques		
Rosalind Enterprise	(1,840) ✓✓	
Drawings	(150) ✓✓	
		1,990
Balance as per adjusted cash at bank account (debit)		9,630 ✓ [4]

- c)
- > To reconcile the discrepancies between balances and transactions recorded in the cash at bank account and bank statement. ✓✓
 - > To identify errors in the cash at bank account or the bank statement. ✓✓
 - > To act as a deterrence against fraud. ✓✓
- Any 2 of the following are acceptable [2]

SECTION A

Answer ALL questions

Q1 The following balances were extracted from the books of Milk Photographie on 31 May 2016.

	\$
Capital	177 700
Photography fees income	454 100
General expenses	86 000
Wages and salaries	65 600
Insurance	25 000
Discount received	1 800
Rent income	1 200
Motor vehicle at cost	96 000
Property at cost	350 000
Accumulated depreciation:	
Motor vehicle	8 600
Property	30 000
Trade receivables	142 300
Trade payables	27 000
Bank overdraft	15 100
Interest on bank loan	600
4% Bank loan, repayable 31 December 2020	50 000

Additional information

- As at 31 May 2016:
 - Photography fees of \$5 200 is yet to be received.
 - \$2 300 of the insurance paid is for June and July 2016.
- Interest on the 4% bank loan is not fully paid up.
- A debtor who owed \$1 300 was written off as irrecoverable. This had not been recorded yet.
- Following a review of trade receivables, \$1 200 from Jasmine and \$900 from Chong Jie were estimated to be uncollectible as at 31 May 2016.
- Annual depreciation is charged as follow:
 - Motor vehicle at 25% per annum on net book value.
 - Property at 10% per annum on cost.
- A repayment, \$25 000, on the 8% bank loan is to be made during the financial year ended 31 January 2017.

REQUIRED

- Prepare the income statement for the year ended 31 May 2016. [8]
- Prepare the balance sheet as at 31 May 2016. [12]

[Total: 20 marks]

Q2 A-Pixels has supplied the following information about his business.

Year ended	31 December 2014	31 December 2015
Sales revenue	\$320 000	\$380 000
Total expenses	\$22 400	\$45 600
Gross profit margin	22%	25%
Profit margin	15%	???
Markup on cost	25%	???

REQUIRED

- (a) Calculate the following profitability ratios (to 1 decimal place) for the year ended 31 December 2015. Show all workings clearly. [3]
- (i) Profit margin [3]
- (ii) Markup on cost [2]
- (b) Using the appropriate figures, comment on A-Pixel's profitability over the two years. [6]

A-pixels discovered that as at 31 December 2014, a batch of inventory costing \$5 400 had a net realizable value of \$5 150. No adjustment was made. This batch of inventory was subsequently sold in 2015.

REQUIRED

- (c) State the effect of the non-adjustment on the:
- (i) Profit for the year ended 31 December 2015 [1]
- (ii) Ending inventory as at 31 December 2015 [1]
- (d) State the basis of inventory valuation. [1]

[Total: 14 marks]

Q3 Geoff Studio does not keep a complete set of records. The following information was provided for the year ending 31 December 2015:

	1 January 2015	31 December 2015
	\$	\$
Trade receivables control account	14 500	20 500
Trade payables control account	12 400	15 800
Inventory	13 200	11 300

The following transactions took place during 2015:

Credit notes issued to customers	5 250
Cheque received from credit customers	28 000
Cheque paid to credit suppliers	25 000
Total discount received	700
Cash purchases	500

REQUIRED

- (a) Prepare the trade receivable and the trade payables control accounts. [8]
- (b) Prepare the inventory account. [3]
- (c) Prepare the trading portion of the Income Statement for the year ended 31 December 2015. [3]

[Total: 14 marks]

SECTION B

Answer ONE question only

Q4 Groovy Studios is a commercial advertising company. The following errors and omissions were discovered:

- 1 Sales returns from a credit customer had been entered on the wrong side of both accounts.
- 2 Goods purchased on credit from Jasmine had been entered into Jamie's account.
- 3 A receipt of \$824 issued for a cash sales to Red Cosmetics had been recorded in the cash book as \$248.
- 4 Purchase of stationery worth \$54 has been recorded into the office equipment account.

REQUIRED

- (a) Name the type of errors from items 1 to 4. [4]
- (b) Prepare the journal entries to correct each of the errors 1 to 4. Narratives are not required. [4]
- (c) Copy the following table into your multi-column papers. Taking into account items 1 to 4 above, calculate the adjusted profit after the correction of errors. [4]

	\$
Profit before correction of error	12 500
Error (1)	
Error (2)	
Error (3)	
Error (4)	
Adjusted profit after correction of errors	

[Total: 12 marks]

Q5 Mengo, a clothing retailer, had the following information on trade receivables that are unlikely to be collectible for the three years ended 30 September 2014 to 2016.

	Trade receivables unlikely to be collectible as at 30 September	Total trade receivables as at 30 September
2014	Zaha \$ 600 Cotton In \$ 800	\$3 920
2015	Wush Puppies \$ 330 Niki \$ 540	\$ 5 700
2016	Hang Nine \$ 400	\$ 12 600

Additional information:

- (i) On 5 March 2015, a credit customer, Crocks, who owed \$250, could not be contacted. The business decided to write off his debts as irrecoverable.
- (ii) On 9 April 2016, Birken's, who owed \$2 400, was declared bankrupt and was ordered to pay \$0.40 for every dollar owed. The remaining amount was to be written off as irrecoverable.

REQUIRED

- (a) Explain, with the use of an accounting concept, the need for Mengo to prepare an allowance for impairment of trade receivables. [2]
- (b) Prepare the allowance for impairment of trade receivables account for the years ended 30 September 2014, 2015 and 2016. [7]
- (c) Prepare the Income Statement extract for the year ended 30 September 2015. [2]
- (d) State the effect on the profit for the period when a trade receivable is written off from the books. [1]

[Total: 12 marks]

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Hougeny for Prelim Paper 02 ANSWER KEY

Milk Photographie Income statement for the year ended 31 May 2016

Photography fees income (454100 + 5200)	\$	\$
Add: Other income	1200	459300
Rent income	1800	
Discount received	3000	
	462300	

Less: expenses		
General expenses	86000	
Wages and salaries	65600	
Insurance (25000 - 2300)	22700	
Depreciation of Motor Vehicles (25% x (96000 - 8600))	21850	
Depreciation of Property (10% x 350000)	35000	
Interest on loan (4% x 50000)	2000	
Impairment loss on trade receivables (1300 + 1200 + 900)	3400	
	236550	
Profit for the year	225750	

Balance Sheet as at 31 May 2016

	\$	\$	\$
Non-current assets			
Motor Vehicles	Cost	Acc. Dep	NBV
Property	96000	30450	65550
	350000	65000	285000
Total non-current assets	446000	95450	350550

Current Assets			
Trade receivables (142300 - 1300)	141000		
Less: Allowance for impairment of trade receivables	(2100)		
Net trade receivables	138900		
Photography fees income receivables	5200		
Prepaid insurance	2300		
Total current assets	146400		
Total assets	496950		

Owner's equity			
Beginning balance	177700		
Add: profit for the year	225750		
Ending balance	403450		

Non-current liabilities			
Long-term borrowings (50000 - 25000)	25000		

Current liabilities			
Trade payables	27000		
Short-term borrowings	15100		
Accrued interest (2000 - 600)	1400		
Current portion of long-term borrowings	25000		
	68500		
Total liabilities & equity	496950		

Q12

a(i) Gross profit = $0.25 \times 380000 = \$95000$

Profit = $95000 - 45600 = \$49400$

Profit margin = $49400 / 380000 \times 100 = 13\%$

(ii) Cost of sales = $380000 - 95000 = \$285000$

Markup on cost = $95000 / 285000 \times 100 = 33.3\%$

b) - Gross profit has increased from 22% in 2014 to 25% in 2015.

- This is likely due to increase in sales, as can be seen from the increase in sales revenue from \$320000 to \$380000.

- The markup on cost has also increased from 25% to 33.3%, suggesting that the business could have purchased from a cheaper supplier to lower its cost of purchases.

- The profit margin has however decreased from 15% in 2014 to 13% in 2015.

- This is likely due to an increase in operating expenses, as can be seen from the expenses almost doubling from \$22400 in 2014 to \$45600 in 2015.

- Overall, the profitability of the business has decreased.

[any other suitable answers]

c(i) Profit will be understated.

(ii) No effect on ending inventory

d) Inventory is valued at the lower of cost or net realizable value.

QN 3a)			
Trade receivables control account			
Date	2015	Dr (\$)	Cr (\$)
Jan-01 Bal b/d			14500 Dr
Dec-31 Sales revenue		39250	
Sales returns		5250	
Cash at bank		28000	
Jan-01 Bal b/d	2016		20500 Dr
Trade payables control account			
Date	2015	Dr (\$)	Cr (\$)
Jan-01 Bal b/d			12400 Cr
Dec-31 Inventory		25000	
Cash at bank		700	
Discount received			29100
Jan-01 Bal b/d	2016		15800 Cr
Inventory account			
Date	2015	Dr (\$)	Cr (\$)
Jan-01 Bal b/d			13200 Dr
Dec-31 Trade payables		29100	
Cash at bank		500	
Cost of sales			31500
Jan-01 Bal b/d	2016		11300 Dr
Income statement for the year ended 31 Dec 2015			
Sales revenue		\$	\$
Less: sales returns			39250
Net sales revenue			(5250)
Less: Cost of sales			34000
Gross profit			(31500)
			2500

QN 4a)			
1 Error of complete reversal			
2 Error of commission			
3 Error of original entry			
4 Error of principle			
General Journal			
1 Sales returns	Dr (\$)	Cr (\$)	
Trade receivables	100	100	
2 Trade payables: Jamie	320	320	
Trade payables: Jamine			
3 Cash in hand/cash at bank	576	576	
Sales revenue			
4 Stationery	54	54	
Office Equipment			
			54
c)			
Profit before correction of error		Effect	
Error 1	12500	12500	
Error 2	(100)	(100)	
Error 3	0	0	
Error 4	576	576	
Adjusted profit after correction of errors	(54)	(54)	
	12922	12922	

QN 5a) Since some of the trade receivables are likely to be uncollectible, an allowance is prepared so that trade receivables will not be overstated. This in accordance to the prudence concept.

b)			
Date	2014	Dr (\$)	Cr (\$)
Sep-30 Impairment loss on trade receivables		1400	1400 Cr
Oct-01 Bal b/d			1400 Cr
2015			
Mar-05 Trade receivables: Crocks		250	1150 Cr
Sep-30 Impairment loss on trade receivables		280	870 Cr
Oct-01 Bal b/d			870 Cr
2016			
Apr-09 Trade receivables: Birkens		1440	570 Dr
Sep-30 Impairment loss on trade receivables			970 400 Cr
Oct-01 Bal b/d			400 Cr
c)			
Income statement for the year ended 30 September 2015			
Less: expenses		\$	\$
Reversal of impairment loss on trade receivables			(280)
d)			
profit will decrease.			

Section A
Answer all questions.

- 1 The following balances were extracted from the books of Max Pte Ltd on 30 June 2016

	\$
Issued share capital, 100 000 ordinary shares	220 000
Retained earnings	49 400
5% bank loan payable 31 March 2020	40 000
Interest on bank loan	1 500
Sales revenue	85 800
Sales returns	4 300
Cost of sales	57 700
Land and buildings	180 000
Motor vehicles	85 000
Accumulated depreciation:	
Motor vehicles	17 000
Utilities	3 600
Wages and salaries	6 800
Rental income	6 000
Trade receivables	23 800
Trade payables	19 200
Cash at bank	33 500
Allowance for impairment of trade receivables	3 700
Inventory	44 900

Additional information:

- Utilities have been paid for 15 months from 1 July 2015.
- Rental income received in advance amounted to \$1 200.
- Interest on bank loan was accrued on 30 June 2016.
- During the year, \$3 000 worth of goods was stolen. The insurance company agreed to compensate \$2 600. This amount was not paid to Max Pte Ltd as of 30 June 2016.
- \$4 000 of the bank loan is repayable on 31 October 2016.
- Depreciation is to be charged at 20% per annum on the net book value of motor vehicles.
- Trade receivable of \$1 800 for a bankrupt credit customer was not written off yet.

8. A review of the trade receivables showed that debts amounting to \$1 600 may be uncollectible.

9. On 26 June 2016, dividends of \$0.02 per share were declared. The dividends would be paid on 1 August 2016.

REQUIRED

- Prepare the income statement for the year ended 30 June 2016. [12]
- Prepare the balance sheet as at 30 June 2016. [8]

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- 2 The following information were extracted from the books of Khairul Trading for the financial years ended 31 May 2015 and 2016

	31 May 2015	31 May 2016
	\$	\$
Furniture	55 000	70 000
Inventory	9 800	22 100
Cash at bank	6 000	5 000
Cash in hand	2 700	1 300
Prepaid repairs	400	800
7% long-term borrowings (repayable in 10 years)	-	20 000
Trade receivables	9 300	11 000
Trade payables	12 500	14 000
Interest income received in advance	600	500

REQUIRED

- Calculate the following for each of the years ended 31 May 2015 and 2016. Show all working. Correct to two decimal places where necessary. [4]
 - Working capital ratio (current ratio)
 - Quick ratio (acid test ratio)
- Using the ratios calculated in part (a) above, compare and comment on the changes in the working capital ratio and quick ratio between 2015 and 2016. [6]
- State one possible reason for the increase of inventory in 2016 and one effect that the increase of inventory may have on the business. [2]
- Suggest two ways in which Khairul Trading can improve his working capital. [2]

[Total: 14]

- 3 On 1 June 2016, Jazz Trading had a balance of \$3 700 in its inventory account. It had the following transactions in June 2016:

Jun 4	Sold \$1 600 worth of goods on credit for \$2 800
12	Purchased goods from ADL Supplies on credit, which issued an invoice for \$2 400 list price, and a trade discount of 20% was given.
15	Customer returned half of the goods sold on 4 June.
23	Returned damaged goods purchased on 12 June. The list price of the goods returned was \$400.
29	Purchased goods worth \$500 and paid by cheque.

Jazz Trading's financial year ends on 30 June.

REQUIRED

- (a) Prepare the inventory account for June 2016. [6]
 (b) Prepare the cost of sales account for June 2016. [3]
 (c) Using an accounting concept, explain how inventory is valued. [2]
 (d) Explain what trade discount is, and why and when it is given. [3]

[Total: 14]

Section B Answer ONE question

- 4 Yu Ling's draft profit for the year ended 31 July 2016 was \$62 920. After calculating the profit for the year, the following errors were discovered:
- (i) Purchase of fixtures and fittings, \$2 940, on credit from Sung Ki Trading was debited to Sung Ki Trading's account and credited to fixtures and fittings account.
 - (ii) A cheque of \$4 150 was received from a credit customer, William, in full settlement of amount owing of \$4 500. This transaction was not recorded in the books.
 - (iii) The inventory account was understated by \$650 and the cost of sales account was overstated by \$650.
 - (iv) Inventory withdrawn for advertising purposes, \$2 000, was recorded as debit drawings account and credit inventory account.

REQUIRED

- (a) Show the entries in the general journal of Yu Ling to correct each of the errors above. Narrations are not required. [9]
 (b) Show the effects of correcting the above errors on the profit for the year by preparing a statement of amended profit for the year ended 31 July 2016. [3]

[Total: 12]

- 5 Koko Ltd. is a business that sells stationary. The following information relates to the business's motor vehicles on 1 August 2015.

Motor vehicle (at cost)	\$ 356 000
Accumulated depreciation	128 160

On 1 March 2016, Koko Ltd. sold one of their existing delivery vans for \$6 500 cash. This delivery van was bought at \$20 000 on 1 April 2013. On the same day, the business bought a replacement delivery van, \$38 000, on credit from Motor World Ltd.

It is Koko Ltd.'s policy to depreciate motor vehicles at 20% per annum, using the reducing balance method. A full year's depreciation is charged in the year of purchase, but no depreciation is charged in the year of sale.

The business's financial year ends on 31 July.

REQUIRED

- (a) Prepare the motor vehicles account for the financial year ended 31 July 2016. [3]
 (b) Prepare the accumulated depreciation account for the financial year ended 31 July 2016. [3]

- (c) State the double entry, as well as the amount, to record the gain or loss on the sale of motor vehicle when preparing the financial statement. Narrations are not required. [2]
- (d) State the effect a debit balance on the sale of non-current asset account would have on Koko Ltd.'s profit. [1]
- (e) State one cause of depreciation. [1]
- (f) Explain, using a relevant accounting concept, the need for depreciation. [2]
- [Total: 12]

----- End of Paper -----

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1a

Max Pie Ltd
Income Statement for the year ended 30 June 2016

Sales Revenue	✓85 800	\$	\$
Less Sales returns	✓(4 300)		
Net Sales revenue	81 500		
Less Cost of sales	✓(57 700)		
Gross Profit			✓23 800
Add other income			
Rental income (6000-1200)			✓4 800
			28 600
Less expenses			
Interest on bank loan (5% x 40000)	✓2 000		
Utilities expense (3600x12/15)	✓2 880		
Wages and salaries expense	✓6 800		
Impairment loss on inventory (3000-2600)	✓400		
Depreciation of motor vehicle [20% x (85000-17000)]	✓13 600		
Reversal of impairment loss on trade receivables	✓(300)		(25 380)
Profit for the year			✓3 220

[12✓ x 1m = 12m]

1b

Max Pie Ltd
Balance sheet as at 30 June 2016

Assets	Cost	Accumulated Depreciation	Net Book Value
Non-current assets			
Land and buildings	180 000		✓180 000
Motor vehicles	85 000	(30 600)	✓54 400
			234 400
Current assets			
Trade receivables (23800 - 1800)	✓22 000		
Less Allowance for impairment of trade receivable	✓(1 600)	20 400	
Inventory (44900 - 3000)		✓41 900	
Insurance claim receivable		✓2 600	
Cash at bank		✓33 500	
Prepaid utilities expense		✓720	
			99 120
Total assets			333 520
Equity and liabilities			
Shareholders' equity			
Issued share capital, 100000 ordinary shares			✓220 000
Retained earnings (49400+3220-(0.02x100000))			✓50 620
			270 620
Non-current liability			
Long-term borrowing (40000-4000)			✓36 000
Current liabilities			
Trade payables			✓19 200
Rent income received in advance			✓1 200
Accrued interest on loan (2000-1500)			✓500

2a

Current portion of long-term borrowings	✓4 000
Dividends payable (0.02 x 100000)	✓2 000
Total equity and liabilities	333 520

[16✓ x 0.5m = 8m]

	31 May 2015	31 May 2016
(i) Working capital ratio (current ratio)	Current Assets / Current Liabilities = \$19800 + 6000 + 2700 + 400 + 9300 / (\$12500+600) = \$28200 / \$13100 = 2.15 : 1 [1]	Current Assets / Current Liabilities = (\$22100 + 1300 + 800 + 11900) / (\$14 000 + 5000 + 500) = \$35 200 / \$19 500 = 1.81 : 1 [1]
(ii) Quick ratio (acid test ratio)	Quick Assets / Current Liabilities = (\$28200 - 9800 - 400) / \$13100 = \$18000 / \$13100 = 1.37 : 1 [1]	Quick Assets / Current Liabilities = (\$35200 - 22100 - 800) / \$19500 = \$12300 / \$19500 = 0.63 : 1 [1]

Q2b Explanation based on OF from part (a):

- Khairul's current ratio declined from 2.15:1 in 2015 to 1.81:1 in 2016.
- This means that for every \$1 dollar of current liabilities, the business has \$0.34 less current assets available in 2016 for repayment.
- While the current ratio appeared relatively healthy for 2015 and 2016, the quick ratio suggested otherwise.
- Khairul's current ratio declined from 1.37:1 in 2015 to 0.63:1 in 2016.
- This means that for every \$1 dollar of current liabilities, the business has \$0.74 less quick assets available in 2016 for repayment.
- An analysis of the current assets and current liabilities of Khairul revealed the following which were the probable reasons for the decrease in quick ratio:
 - Increase in amount of inventory by about 125.51% / from \$9 800 in 2015 to \$22 100 in 2016
 - Increase in trade payables by about 12% / from \$12 500 in 2015 to \$14 000 in 2016
 - Positive bank balance of \$6000 in 2015 decreased into a bank overdraft of \$5000 in 2016
- Possible effects/consequences on the business:
 - The quick ratio for 2016 was a sign that not all its immediate debts could be settled as and when they fall due
 - Unable to meet the day-to-day running expenses of the business
 - The ability to maintain its future profit is reduced
 - Funds might not be available for profitable ventures
 - Unable to take advantage of cash discounts as business is unable to pay promptly
 - Reputation of the business will suffer if it cannot meet its liabilities when they fall due for payment

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2c Possible reasons for increase of inventory in 2016:

- Increase in selling price of goods, leading to a decrease in sales volume
- Goods are outdated and do not appeal to customers' demands

[any one of the above x 1m = 1m]

Possible effects for increase of stocks in 2016:

- High storage expenses
- Risk of goods turning obsolete
- Funds are tied up in stocks and not available for profitable ventures

[any one of the above x 1m = 1m]

2d To improve his working capital:

- Sell off his inventory as fast as possible to raise cash
- Bring in additional capital in the form of cash
- Sell off underutilised non-current assets (furniture) to raise cash/ pay off short-term debts
- Obtain long-term loan to pay off short term debts
- Rent out premises to raise cash

[any two of the above x 1m = 2m]

3a

Inventory Account				
Date	Particulars	Dr	Cr	Bal
2016		\$	\$	\$
Jun 1	Bal b/d			3 700 Dr
4	Cost of sales		1 600	2 100 Dr
12	Trade payable – APL Supplies (2400x0.8)	1 920		4 020 Dr
15	Cost of sales	800		4 820 Dr
23	Trade payable – APL Supplies (purchase returns) (400x0.8)		320	4 500 Dr
29	Cash at bank	500		5 000 Dr
Jul 1	Bal b/d			5 000 Dr
				[6✓ x 1m = 6m]

3b

Cost of Sales Account				
Date	Particulars	Dr	Cr	Bal
2016		\$	\$	\$
Jun 4	Inventory	1 600		1 600 Dr
15	Inventory		800	800 Dr
30	Trading		800	
				[3✓ x 1m = 3m]

3c

Based on prudence concept [1], inventory is valued at cost or net realisable value, whichever is lower. [1]

3d

Trade discount is a deduction off the list price of goods or services. [1]

- It is given to encourage customers to bulk in bulk/ to encourage customer patronage and loyalty/ clear excess or outdated goods [1] – any point
- It is given to the buyer at the point of purchase. [1]

4a

General Journal			
(i)	Dr (\$)	Cr (\$)	
Fixtures and fittings (2940 x 2)	5 880		
Other payable – Sung K Trading		5 880	
(ii)			
Cash at bank	4 150		
Discount allowed	350		
Trade receivable – William		4 500	
(iii)			
Inventory	850		
Cost of sales		850	
(iv)			
Advertising expense	2 000		
Drawings		2 000	
			[1m x 9 = 9m]

Statement of amended profit for the year ended 31 July 2016

	\$	
Unadjusted profit for the year	62 920	✓
(i) No effect		✓
(ii) Less: Discount allowed understated	(350)	✓
(iii) Add: Cost of sales overstated	650	✓
(iv) Less: Advertising expense understated	(2 000)	✓
Amended profit for the year	61 220	✓
	[5✓ x 0.5m = 3m]	

5a

Motor Vehicles Account				
Date	Particulars	Dr	Cr	Bal
2015		\$	\$	\$
Aug 1	Bal b/d			356 000 Dr
2016				
Mar 1	Sale of non-current asset		20 000	336 000 Dr
	Other payable – Motor World Ltd	38 000		374 000 Dr
Aug 1	Bal b/d			374 000 Dr
				[3✓ x 1m = 3m]

5b

Accumulated Depreciation Account				
Date	Particulars	Dr. \$	Cr. \$	Ball \$
2015				
Aug 1	Ball b/d			128 160 Cr
2016				
Mar 1	Sale of non-current asset [w1]		9 760	118 400 Cr
Jul 31	Depreciation [w2]		51 120	169 520 Cr
Aug 1	Ball b/d			169 520 Cr

[3 x 1m = 3m]

[w1] Accumulated depreciation = $(20000 \times 2) + (20000 - 4000 \times 2) + (20000 - 7200 \times 2)$
= 9760

[w2] Depreciation = $(356000 - 20000) \div (128160 - 9760) \times 0.2 + (36000 \times 0.2)$
= 43520 + 7600
= 51120

5c

General Journal			
		Dr (\$)	Cr (\$)
Profit and loss	$(20000 - 9760) - 6500$	3 740	[1]
Sale of non-current asset			3 740 [1]

5d
Profit will decrease: [1]

5e

Usage/ wear and tear/ obsolescence / legal limits [1] – any one

5f

According to the matching concept [1], the allocated cost of the non-current asset (expense) must be matched against the income earned from using the non-current asset [1] to derive the profit or loss for the period.

OR

In accordance with the prudence concept [1], assets and profits should not be overstated and losses and liabilities should not be understated [1]. Or Non-current assets will be used in the business for several accounting periods and are subjected to wear and tear, resulting in a decrease in the book value of the non-current assets [1] over the years.

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