

MASTER PRINCIPLES *of* ACCOUNTS

**2016 GCE N LEVEL PAPER
SUGGESTED SOLUTIONS**

7088 Paper 2

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1)

Tung

Income Statement for the year ended 30 April 2016

	\$	\$
Sales revenue	357 500	
Less: Sales returns	11 700	
Net sales revenue		345 800
Less: Cost of sales		232 800
Gross profit		113 000
Add other income:		
Discount received		4 500
Less: <u>Expenses</u>		
General expenses (20 795 + 192)	20 987	
Motor vehicle expense (600 – 395)	205	
Insurance expense (3000 – 500)	2 500	
Wages and salaries Expense	30 200	
Depreciation on motor vehicles (25% x (10000-2500))	1 875	
Depreciation of Fixtures and fitting (10% x 5000)	500	56 267
Profit for the year		<u>61 233</u>

of ACCOUNTS

It's funny that Tung's trading business' neither have Premises (non-current asset) nor rent expense. I wonder how does he operate his business without a physical space. And where does he store his inventory? Maybe in his motor vehicle. Or more likely, rent is parked in General expenses (quite high) - Caleb

(b)

Balance Sheet as at 30 June 201

Assets	\$	\$	\$
<u>Non-current Assets</u>	Cost	Accumulated Depreciation	Net Book Value
Motor Vehicle	10 000	4 375	5 625
Fixtures and fittings	5 000	1 500	3 500
<u>Total non-current assets</u>			9 125
<u>Current Assets</u>			
Cash at bank		23 650	
Trade Receivables	39 000		
Less: Allowance for impairment on trade receivables	(2 000)		
		37 000	
Inventory		17 500	
Prepaid insurance expense		500	
<u>Total current assets</u>			78 650
<u>Total Assets</u>			<u>87 775</u>
<u>Equity and Liabilities</u>			
<u>Equity</u>			
Beginning Balance, 1 May 2015		35 245	
Add: Profit for the period		61 233	
Less: Drawings (37500+395)		37 895	
			58 583
<u>Non-current Liabilities</u>			
Long Term Borrowings			
<u>Current Liabilities</u>			
Accrued general expense		192	
Trade Payables		29 000	29 192
<u>Total Equity and Liabilities</u>			<u>87 775</u>

2)

Allowance for impairment on trade receivables

Date		Dr \$	Cr \$	Bal \$
2015				
Aug 31	Impairment loss on trade receivables (2500+1320)		3 820	3 820 Cr
Sept 1	Balance b/d			3 820 Cr
2016				
Aug 31	Impairment loss on trade receivables (4000 – 3280)		180	4000 Cr
Sept 1	Balance b/d			4000 Cr

Impairment on trade receivables

Date		Dr \$	Cr \$	Bal \$
2015				
Aug 31	Allowance for impairment loss on trade receivables (2500+1320)	3 820		3 280 Dr
	Profit and loss		3 820	0
2016				
Aug 31	Allowance for impairment loss on trade receivables	180		180 Dr
	Profit and loss		180	0

d) **Matching Concept/Prudence concept**

3a)

Adjusted Cash book

Date		Dr \$	Cr \$	Bal \$
2016				
Jun 30	Balance b/d			993 Dr
	Bank charges		72	921 Dr
2016				
Jul 1	Balance b/d			921 Dr

b)

Top Tables

Bank Reconciliation Statement as at 30 June 2016

	\$
Balance as per bank statement	988
Add: Cheques yet to be credited	
F Short	257
	1 245
Less: Cheques yet to be presented	
S Lee	324
Balance as per cash at bank (adjusted)	921

Top Tables

Bank Reconciliation Statement as at 30 June 2016

	\$
Balance as per adjusted cash at bank	921
Add: Cheques yet to be presented	
S Lee	324
	1 245
Less: Cheques yet to be credited	
F Short	257
Balance as per bank statement	988

b) Current asset (for \$921 cash at bank)

c) To reconcile the difference between the cash at bank balance and the bank statement balance at the end of every month.

To determine what should be the business actual balance in the cash book

To deter fraud

To check which are the cheques that have not been presented or credited into the bank account.

4a)

Journal				
	Date		Debit	Credit
	2016		\$	\$
1	30 Sept	Fixtures and fittings	5000	
		Capital		5000
2		Rent expense	350	
		Capital		350
3		Depreciation	750	
		Accumulated depreciation		750

b) Recording:

- allowance for impairment,
- drawings of goods/non-current assets for personal use
- correction of error
- purchase or sale of non-current assets on credit

c) The general journal provides a chronological record of all non-specialized entries that would otherwise have been recorded in one of the specialty journals*. The short narration explains why the journal entry is being recorded.

d) Accounting (business) entity concept

e) Government, investors, supplier and customers (any one)

*Sales, Sales Returns, Purchases, Purchases Returns journals

5a)

General expense

Date		Dr \$	Cr \$	Bal \$
2015				
Jul 1	Accrued general expense			220 Cr
2016				
Jun 30	Cash at bank	5 250		5 030 Dr
	Accrued general expense	175		5 205 Dr
	Profit and loss		5 205	0

b) Prepaid expenses are resources paid for in the current period that has not been incurred in the same period. The resources is available for use in the next accounting period and is treated as a current asset in the balance sheet.

c) Income received in advance is cash or cheque received in this period for which the service has not been provided. The business owes the customer services and has to be performed by the end of the next financial period. It is treated as a current liability in the balance sheet.

d) Integrity/Objectivity