

# MASTER PRINCIPLES of ACCOUNTS

**2016 GCE N LEVEL PAPER  
SUGGESTED SOLUTIONS**

**7088 Paper 1**

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1a) Features of cash at bank overdrawn (bank overdraft) and bank loan (any 2 from each column):

	<u>Bank loan</u>	<u>Bank overdraft</u>
How is the amount borrowed?	Cash is transferred to bank.	No cash is transferred. Business withdraws more than what it deposits.
Duration	Usually more than one year.	Few days/months.
Repayment	Fixed amount regularly Eg. \$1 000 monthly Or Pay off entire sum at end of loan period	No cash repayment. Any deposits reduce amount borrowed.
Balance sheet	Non-current liability (Long-term borrowings) or Current liability (Short-term borrowings)	Current liability (Short-term borrowings)

[2]

[2]

b) Effect on bank loan:

[5]

	Items	Increase	Decrease	No effect
(i)	<i>Non-current assets</i>			✓
(ii)	Bank overdraft		✓	
(iii)	Long-term loan amount	✓		
(iv)	Owner's capital			✓
(v)	Profit for the year			✓
(iv)	Working capital	✓		

2a)

Trade Payable control account				
Date	Particulars	Debit (-)	Credit(+)	Balance
2015		\$	\$	\$
Jan 1	Balance b/d			16 260
Dec 31	Inventory		41130	57 390
	Cash at bank	32 940		24 450
	Inventory (purchases returns)	8 630		15 820
	Trade receivable control a/c (contra-entry)	120		15 700
2016				
Jan 1	Balance b/d			15 700

[6]

b) Source document: Invoice (received)

[1]

c) Historical cost concept

[1]

3)

General Journal

Date		Debit \$	Credit \$
2015			
1 April	Motor vehicle	7300	
	Other payable: Axe Motors		7300
	Being motor vehicle purchased on credit		

c) Classify capital and revenue expenditure

	Capital Expenditure	Revenue expenditure
Diesel for motor van		✓
Painting business name on the motor van	✓	
Motor van service		✓
Motor van insurance		✓

b)

Explain capital and revenue expenditure:

<b>Capital Expenditure</b>	<b>Revenue Expenditure</b>
Spending to purchase or improve non-current assets	Spending to operate or run the noncurrent assets Examples: Petrol, machine oil
Expenses to put assets to usable condition  Examples: freight (delivery) charges, import duties (taxes), legal fees and installation costs	Costs to repair and maintain the non-current assets in working condition.
Benefits last more than one accounting period (1 year)  Increase the operating efficiency or capacity during their useful life.	Contributes to profit-earning and lasts less than one accounting period (1 year)  Provides a temporary influence on the profit-making activity.
Shown as Non-Current Assets in the Balance Sheet	Recorded as Expenses in the Profit and Loss account

[2]

[2]

Trade receivable - Wu				
Date	Particulars	Debit (-)	Credit(+)	Balance
2016		\$	\$	\$
Aug 1	Balance b/d			2 108 Dr
	Sales revenue	5 762		7 870 Dr
	Sales returns		1 584	6 286 Dr
	Cash at bank		4 500	1 786 Dr
Jul 1	Balance b/d			1 786 Dr

[6]

b)

Date	Ledger account name	Debit \$	Credit \$
2016			
September 5	Trade receivable – Wu	4 500	
	Cash at bank (dishonoured cheque)		4 500

[2]

ii) Cheques are dishonoured due to (any two):

- insufficient funds in the bank account
- post-dated cheque / expired cheque
- signature not as per bank records
- information mismatch in words and in numbers

[2]

c) Main benefit: Cash discount is given to customers to encourage prompt payment. [1]

Other benefits:

- Improves cash flow and reduces instances of allowance for impairment on trade receivables

ii) Discount allowed

[1]

**[TOTAL 12]**