

MASTER PRINCIPLES of ACCOUNTS

**2016 GCE N LEVEL PAPER
SUGGESTED SOLUTIONS**

7088 Paper 1

7 Oct 2016

By Caleb Ho, B.Acc
thepoatutor@gmail.com

www.principlesofaccounts.com.sg

Just so you know:

Nothing in this document is endorsed or acknowledged by The Cambridge Local Exam Syndicate nor is guaranteed to be free from errors. Using this document may induce or cure insomnia, depending on how you read it.

Copyleft: Feel free to share this document with anyone. Use this link when forwarding:
bit.ly/poaNlevelSS15

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:

Capital Expenditure	Revenue Expenditure
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]