

# MASTER PRINCIPLES of ACCOUNTS

**2016 GCE O LEVEL PAPER  
SUGGESTED SOLUTIONS**

**7175 Paper 1**

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Paper 1

(Reference: pg 83/84 of Pearson Textbook):

1. General Ledger

| Discount allowed account |                         |       |        |         |
|--------------------------|-------------------------|-------|--------|---------|
| Date                     | Particulars             | Debit | Credit | Balance |
| 2016                     |                         | \$    | \$     | \$      |
| Jul 31                   | Total trade receivables | 15    |        |         |

| Discount received account |                      |       |        |         |
|---------------------------|----------------------|-------|--------|---------|
| Date                      | Particulars          | Debit | Credit | Balance |
| 2016                      |                      | \$    | \$     | \$      |
| Jul 31                    | Total trade payables |       | 3      |         |

Sales Ledger

| Jin Ma account |                  |       |        |         |
|----------------|------------------|-------|--------|---------|
| Date           | Particulars      | Debit | Credit | Balance |
| 2016           |                  | \$    | \$     | \$      |
| Jul 10         | Cash at bank     |       | 485    |         |
|                | Discount allowed |       | 15     |         |

Purchases Ledger

| Lu Lan account |                   |       |        |         |
|----------------|-------------------|-------|--------|---------|
| Date           | Particulars       | Debit | Credit | Balance |
| 2016           |                   | \$    | \$     | \$      |
| Jul 17         | Cash at bank      | 117   |        |         |
|                | Discount received | 3     |        |         |

b) The objectivity concept states that all business transactions must be supported by verifiable evidence that is free from personal bias. The transactions written in the cash book must be supported by source documents such as the bank statement and invoice which contains information of payment terms, amounts and conditions for cash discounts.

c) any from:

- Sales journal
- Sales returns journal
- Purchases journal
- Purchases returns journal

2a).

| Trading Business                                 | Service Business   |
|--|--|
| A business that buys and sells goods for profit. | A business that earns revenue through the provision of service to customers. It does not engage in any merchandising operations. |

b) Trading: Stationery/Fruits/Bookstore/Provision shop

(any business that involves buying/selling of goods)

Service business: Consultancy/Advertising/Tuition/Hair Salon

(any business that involves providing a service for income)

c)

|      |  | True | False |
|------|--|------|-------|
| i)   | A service business shows gross profit in the trading section of its income statement |      | ✓     |
| ii)  | A trading business can calculate gross profit margin as a measure of profitability   | ✓    |       |
| iii) | A service business has no inventory in its balance sheet                             | ✓    |       |
| iv)  | A trading business can only earn revenue from the sale of goods                      |      | ✓     |

Drawings Account (contra-capital)

| 2015   | Particulars     | Debit \$<br>+ | Credit \$<br>- | Balance \$ |
|--------|-----------------|---------------|----------------|------------|
| Nov 15 | Cash in hand    | 240           |                | 240 Dr     |
| Dec 22 | Inventory       | 264           |                | 504 Dr     |
| 2016   |                 |               |                |            |
| Jun 16 | Cash at bank    | 326           |                | 830 Dr     |
| Aug 31 | <i>Capital*</i> |               | 830            | 0          |

b) Accounting/Business entity. The business and the owner are separate entity and as such, any drawings of resources belong to the business is recorded as a transaction in the books.

c) Drawings has no effect on the profit for the year

d) General ledger

4. Calculate the following:

i) Working Capital = Current assets – Current liabilities

= (Inventory + trade receivables + other receivables + Cash in hand) – (trade payables + bank overdraft)

= (8340 + 25 630 + 1450 + 250) – (19 640 + 7200)

= 35670 – 26840

= \$8,830

ii) Working Capital Ratio:

Current asset :1

Current liabilities

= 35670/26840 = 1.33: 1

ii) Quick Ratio:

Current assets – Prepayment – Inventory : 1

Current liabilities

= 25650+1450+250 :1 = 1.02:1

26840

b) Any 3 from:

- Owner withdrew funds from the business for personal use
- Allowance for impairment increased significantly due to an economic downturn
- A significant amount of trade receivables became insolvent
- Too much funds were tied up in purchasing non-current assets

Any other suitable points

c)

1) Action:

- Pay suppliers nearer to due date if it is longer than 14 days or request supplier for an extended period for due date.

Reason: Improves cashflow as the business has more time to sell the inventory and collect cash from customers to pay for its supplies.

2) Action:

- Make the credit policy more stringent for customers who wants to buy on credit.
- Encourage prompt payment by giving customers cash discount

Reason: reduces the risk of bad debts/ impairment loss on trade receivables.

3) Action:

- Invest in a Just-in-time (inventory management) software that allows a business to stock up adequately to meet customers' demands

Reason:

- To avoid goods from going obsolete/expiring and incurring unnecessary storage/insurance cost on inventory.

- To reduce funds tied up in inventory

4) Action:

- Engage the services of a debt collection agency to chase trade receivables who are overdue in their accounts
- Consider factoring\* the trade receivables to another company

Reason:

- Financing the business cashflow with bank overdraft causes the business to incur additional interest expense.
- Failure to pay off bank overdraft will also result in the bank suing the business to bankruptcy.

\*factoring is like selling your trade receivables account for another company to collect at a discount. The business will be able to recover a decent amount of cash instead of writing the whole account as bad.