2017 GCE N LEVEL PAPER SUGGESTED SOLUTIONS 7175 Paper 1 & 2
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By Caleb Ho, B.Acc
The POA Tutor
www.principlesofaccounts.com.sg

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2017 7175 GCE N LEVEL Paper 2 SUGGESTED SOLUTIONS

Q1ai) Assets are resources owned by the business to generate income.

aii) Current Liabilities is the amount to be paid in one year while Non-current Liabilities is the amount owning to be paid in more than one year.

b)
Ending capital = Total assets – Total liabilities

= (Office equipment + inventory + trade receivables + prepaid expense) –

(Bank overdraft + Accrued expense + Trade payable)

= 19 740 + 5553 +4690 +400 – (1358+325 + 3700)

= 30 383 – 5 383

= 25 000

Beginning capital + Profit – Drawings = Ending capital

10,000 + Profit = 25 000

Profit = $15000

c) No effect as the motor vehicle is a non-current assets.

d)
1. Objectivity
2. Integrity

Q2a

		Dr $	Cr $
1)	General Expense	640	
	Cash in Hand		640
2)	Cash at Bank	1000	
	Sales Revenue		1000
3)	Motor Vehicle	600	
	Motor Vehicle Repairs		600

b)

	Effect on profit		Effect on profit	
	Increase	Decrease	Increase	Decrease
1		✓		✓
2	✓		✓	
3		✓		✓

c)

1 Error of Omission

2 Error of Original Entry

3 Error of Principle

di) Advantage of sole trader
1 Easy to set up
2 Full control of business

dii) Advantage of company
1 Easy to obtain Loans
2 Easy to transfer ownership

MASTER PRINCIPLES of ACCOUNTS

3)

2017		Dr $	Cr $
Apr 30	Sales Returns	1150	
	Trade Receivables		1150

b) General Journal

c) Sales Returns A/C

d) Sales Ledger

e)

1. Damaged Goods

2. Wrong Specifications

c) No effect as the motor vehicle is a non-current assets.
d) 1. Objectivity
2. Integrity

f) Inventory turnover

g- sell at a lower price
- advertising of products

Q4
a)
b) 1 Decrease, Decrease
2 Increase, Increase
3 Decrease, Decrease

MASTER PRINCIPLES of ACCOUNTS

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Jason Chin

Income Statement for the year ended 31 May 2017

	$	$
Sales revenue (92,385 – 195)	92 190	
Less: sales returns	(780)	
Net sales revenue		91 410
Less: cost of sales		64 570
Gross Profit		26 840
Add: other income		
Gain on sale of non-current assets		195
Less: Expenses		
General expense (2000 + 625)	2 625	
Impairment loss on trade receivables (500-300)	200	
Wages and salaries	8 000	
Insurance expense (450-90)	360	
Rent expense	3 500	
Interest on loan (5% * 7 500)	375	
Discount allowed	252	
Depreciation of equipment (10% * 28 000)	2 800	
Depreciation of motor vehicles	5 760	
(20% - [45 000 – 16 200]		23 872
Profit for the year		3 163

(b) Jason Chin

Balance Sheet as at 31 May 2017

	$	$	$	$
Assets				
Non-current assets	Cost	Accumulated depreciation	Net book value	
Fixtures & fittings	28 000	8 400 (5 600 + 2800)	19 600	
Motor vehicles	45 000	21 960 (16 200 + 5760)	23 040	
Total non-current assets	73 000	30 360		42 640
Current assets				
Trade receivables		11 720		
Less: Allowance for Impairment of trade receivables		(500)		
Net trade receivables			11 220	
Prepaid insurance expense			90	
Cash at bank			1 958	
Inventory (12 800 -350)			12 450	
Total current assets				25 718
Total assets				68 358
Equity and Liabilities				
Owners Equity				
Capital, 1 June 2016			52 615	
Add: Profit for the year			3 163	
Less: Drawings (4500 + 350)			(4850)	
Total equity				50 928
Non current liability				
5% Loan/ Long term borrowings				7 500
Current liabilities				
Trade payables			8 930	
Accrued interest expense			375	
Accrued general expense			625	
Total current liabilities				9 930
Total equity and liabilities				68 358

[10]

2a) Liquidity measures a business ability to pay off short-term debts

b)

	30 September 2016	30 September 2017
Working capital $\frac{\text{Current Assets}}{\text{Current Liabilties}}$	$\frac{58\ 400}{20\ 500}$ = 2.85 : 1	$\frac{68\ 500}{36\ 230}$ = 1.89 : 1

(b) Comments must relate over the three-year period. Max 6 marks.

Working capital has worsen each year from $38 000 in 2015 to $37 900 in 2016 and to $32 270 in 2017. [1]

Working capital (current) ratio has worsened from 3.62:1 in 2015 to 2.85:1 in 2016 and 1.89:1 in 2017 which is below the acceptable norm of 2:1 [1]

Inventory holdings have worsened since inventory has increased each year from $25 750 in 2015 to $29 200 in 2016 and to $39 900 in 2017. [1]

Increasing inventory may mean funds are tied up in current assets. [1]

Trade receivables position has worsened since trade receivables have increased by $14 150 from 2015 to 2017. [1]

Increasing trade receivables may mean trade receivables are not paying the debts. [1]

The bank balance has worsened each year from $8 750 in 2015 to $5 400 in 2016 and to an overdraft of $700 in 2017. [1]

The decline in bank balance into overdraft in 2017 may mean that the business is unable to pay day-to-day expenses. [1]

Trade payables position has worsened since they have increased from $12 000 in 2015 to $18 500 in 2017. [1]

Increasing trade payables may affect its ability to obtain credit. [1]

In 2017, the a portion of the bank loan becomes payable within a year, resulting in an increase in current liability and therefore reduced substanitally the current ratio. [1]

Allow any reasonable alternatives.

d) Profit is derived from taking income less expenses.
Anything transactions affecting either income or expenses will affect profit
Liquidity on the other hand, is affected by current assets and current liabilities. Therefore any changes to current assets and current liabilities will affect the liquidity of the business.
Allow any reasonable alternatives.

e) Any two from:
Gross Profit Margin
Mark up (Gross Profit Mark up)
Percentage of expenses to turnover
Return on equity
Profit margin
Inventory turnover (storage cost)

3a) Retained earnings is profit that has not been distributed to shareholders

b) Dividends refers to the distribution of the business earnings to its investors

c) The changes in the Shareholders' Equity is affected by:
- Issued share capital
- Profit or loss for the period
- Dividends

d) General Journal

2017		Dr $	Cr $
Apr 30	Cash at bank	55	
	Issued share capital		55
	Being share capital issued for cash		

Retained earnings

2016		Dr $	Cr $	Bal $
July 1	Balance b/d			175 000 Cr
2017				
Jun 30	Profit and loss		75 000	250 000 Cr
30	Dividends (0.1 * 250 000)	25 000		225 000 Cr
Jul 1	Bal b/d			225 000 Cr

Caleb says:

- Issued share capital and retained earnings are both capital/equity accounts (credit nature)

4a)

Trade Payable Control Account

2017		Dr $	Cr $	Bal $
Jul 1	Balance b/d			9 845 Cr
31	Inventory		15 382	25 227 Cr
	Cash at bank	10 245		14 982 Cr
	Inventory (purchases returns)	720		14 262 Cr
	Interest expense		105	14 367 Cr
	Discount received	324		14 043 Cr
Aug 1	Bal b/d			14 043 Cr

b) It is under the expenses portion of the income statement

c) Prevent overcrowding the general ledger
Deter fraud.
Use as a check against the totals of the subsidiary ledgers

d) Prompt payment
Customer loyalty

5a)

Cost of sales:
Total tyres sold = 30 + 10 = 40
Cost of these tires = 1800 + 650 = $2450

b) Value of inventory = $1625 + $1860 = $3485

c) $1625 + $1600 = $3 225

d)

2017		Dr $	Cr $
Aug 31	Impairment loss on inventory	260	
	Inventory (1860 – 1600)		260
	Being impairment loss on inventory		

e) Net realisable value refers to the market value of inventory less transaction costs

f) Prudence.