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):

	Bank loan	Bank overdraft
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]

b) Effect on bank loan:

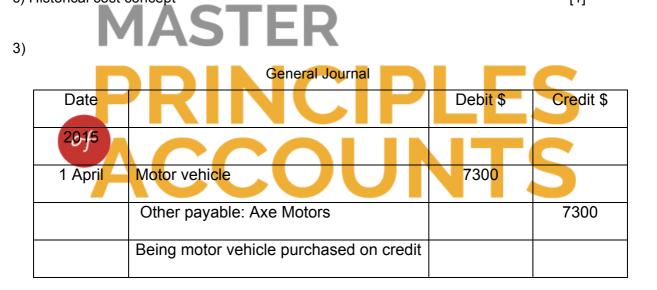
[5]

	Items	Increase	Decrease	No effect
(i)	Non-current assets			√
(ii)	Bank overdraft		1	
(iii)	Long-term loan amount	\checkmark		
(iv)	Owner's capital			√
(v)	Profit for the year			✓
(iv)	Working capital	V		

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 120 15 700 (contra-entry)		15 700			
2016					
Jan 1	Balance b/d			15 700	
				[6]	

b) Source document: Invoice (received)

c) Historical cost concept



[1]

[1]

2a)

c) Classify capital and revenue expenditure

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

b)

Explain capital and revenue expenditure:

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

[2]

[2]

	Trade receivable - Wu				
Date	Date Particulars [Credit(+)	Balance	
2016	2016		\$	\$	
Aug 1	Aug 1 Balance b/d			2 108 Dr	
	Sales revenue			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]

[2]

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

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]

4

b)