



**END OF YEAR MOCK EXAMINATION
SECONDARY THREE
BASED ON 2024 SEAB SYLLABUS**

PRINCIPLES OF ACCOUNTS

Paper 1 and Financial Statement

7087/01

September 2024

110 minutes

READ THESE INSTRUCTIONS FIRST

Write in dark blue or black pen.

Do not use staples, paper clips, glue or correction fluid.

Answer **ALL** questions in the spaces provided.

The number of marks is given in brackets [] at the end of each question or part question.

The use of an approved scientific calculator is expected, where appropriate.

1.

(a) State the accounting theory that applies to each scenario and state whether the accounting theory is violated(V) or followed(F). [4]

	Accounting Theory	V / F
a) Business transactions are recorded based on supporting source documents		
b) Financial statements are sometimes prepared every 12 months while other times at every 15 months		
c) Valuating inventory at its lower of cost or net realisable value		
d) Business does not record transactions at its original price		

(b) Identify the source document applicable to the various scenarios below. [4]

Scenario	Source Document
Charging more to customer	
Purchasing non-current asset on credit	
Return of credit sales	
Issued cheque for rent expense	

(c) Explain going-concern theory. [1]

[9m]

2. Laurent's business buys and sells handbags.

The business uses the First-In-First-Out (FIFO) method to determine its cost of sales. On 1 August 2022, the business had 45 handbags costing \$7 300.

During the month of August 2022, the following purchases were made.

Handbags purchased		
Date	Units	Cost
Aug 8	20	3 100
19	35	5 890
23	30	4 600

On 21 August 2022, 65 handbags were sold for \$17 920 to Slay Trading on credit.

(a) Explain what is meant by the FIFO method of inventory valuation. [1]

(b) Prepare the journal entries to record the transaction on 21 August 2022. [2]

(c) Calculate the gross profit for the month of August 2022. [2]

(d) Calculate the inventory valuation as at 31 August 2022. [2]

[7m]

After the valuation of inventory on 31 August 2022, Laurent discovered that the handbags costing \$4 600 had a net realisable value is \$4 000.

(e) Prepare the journal entry to record the loss in value of the handbags. **[2]**

(f) State how inventory is valued in the statement of financial position. **[1]**

As at 31 August, the batch of handbags was reflected as \$4 600 in the statement of financial position.

(g) Put a tick in the table to indicate which statements are true or false. **[3]**

Statement	True	False
Current assets were understated by \$600.		
Other expenses were understated by \$600.		
The business had violated the Prudence theory.		

[6m]

3. Binance is a consultancy firm. The financial year the business ends on 30 September. The following information relating to salaries expense is provided.

	1 August 2021	30 September 2022
Salaries expense payable	2 000	
Prepaid salaries expense		750

Additional information:

The monthly salaries & wages was \$1 200.

- (a) Calculate the salaries expense incurred for the year ended 30 September 2022. [1]
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- (b) Prepare the journal entries to account for the following accounts for the financial year ended 30 September 2022 including the closing entry. [8]

Date	Particulars	Debit (\$)	Credit (\$)

[9m]

(c) Prepare an extract of the statement of financial performance for the year ended 30 September 2022. [2]

(d) Prepare an extract of the statement of financial position as at 30 September 2022. [2]

(e) Explain the effects on profit for the year and current assets if the prepaid salaries expense was NOT adjusted. [2]

4. Fruit Valley sells fruits. Details from the cash at bank account and bank statement for the business for the month of July 2021 are as follows.

		<u>Cash at Bank</u>				
Date	Particulars	Cheque Num	Debit	Credit	Balance	
2021			\$	\$	\$	
Jul 1	Balance b/d				5 636	Dr
2	Smoo trading	1500		900	4 736	Dr
4	Zouk Ltd	1501		528	4 208	Dr
10	Sales revenue		1 000		5 208	Dr
12	FreshCo.		857		6 065	Dr
17	Drawings	1502		824	5 241	Dr
21	Urban Fresh		2 700		7 941	Dr
27	Peaches C Ltd	1503		310	7 631	Dr
Aug 1	Balance b/d				7 631	Dr

		<u>Bank statement</u>			
Date	Particulars	Withdrawal	Deposit	Balance	
2021		\$	\$	\$	
Jul 1	Balance b/d			6 236	Cr
2	Cheque 1499	600		5 636	Cr
7	Cheque 1501	528		5 108	Cr
10	Cheque 1500	300		4 808	Cr
14	Credit Transfer: Sun's Berry		730	5 538	Cr
15	Standing order: Utilities	1 300		4 238	Cr
19	FreshCo.		857	5 095	Cr
24	Credit transfer: Morning Side		1 930	7 025	Cr
27	Cheque 1502	824		6 201	Cr
31	Bank charges	45		6 156	Cr
Aug 1	Balance b/d			6 156	Cr

Additional information:

The accountant had incorrectly recorded the transaction on July 2 in the cash at bank account.

(a) Update the cash at bank account for the month of July 2021.

[6]

Date	Particulars	Debit (\$)	Credit (\$)	Bal (\$)

(b) Prepare a bank reconciliation statement at 31 July 2021.

[5]

(c) Provided two reasons for cheques to be dishonoured.

[2]

[13m]

5. Following is the unadjusted trial balance of Oillie Enterprise, a business selling tea, as at 31 July 2022.

<u>Oillie Enterprise</u>		
<u>Trial Balance as at 30 June 2022</u>		
	Debit	Credit
	\$	\$
Fixtures and fittings	89 800	
Office equipment	56 570	
Commission income		14 300
Advertising expense	4 910	
Salary expense	16 000	
Rent expense	30 300	
Inventory	25 400	
Trade receivable	36 300	
Sales revenue		97 400
Sales returns	5 200	
Cost of sales	37 700	
Cash at bank		2 600
Trade payable		5 720
Discount		490
Bank loan		120 000
Capital		67 770
Drawings	6 100	
	308 280	308 280

Additional information:

- 1) Rent expense relates to a fifteen-month period ending on 30 September 2022.
 - 2) Salary expense of \$2 600 was outstanding.
 - 3) \$900 commission income was meant for July 2022.
 - 4) Advertising expense, \$300, have been paid in advance.
 - 5) Owner paid \$200 for her gym membership using business bank account.
 - 6) \$10,000 of the bank loan was due to be repaid on 31 October 2022.
 - 7) Net realisable value of inventory is \$23 000 as at 30 June 2022
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- (a) Prepare the statement of Financial Performance for the year ended 30 June 2022.
 - (b) Prepare the statement of Financial Position as at 30 June 2022.

[20m]