Answer all questions.

1 Wallace runs a business buying and selling kitchenware. His accountant prepares the financial statements of his business on 30 June each year.

Wallace recently withdrew $3 300 from the business bank account for personal use. The accountant recorded the transaction in the books of the business as expenses.

REQUIRED

(a) Explain with an accounting theory how the accountant should record the above transaction. [2]

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The following balances were extracted from the books of Wallace's business on 30 June 2025.

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5-year Bank loan	20 000
Motor vehicle	35 000
Fixtures and fittings	21 400
Inventory	18 500
Trade receivables	6 790
Prepaid expenses	550
Expenses payable	420
Income received in advance	1 200
Trade payables	5 200
Bank overdraft	6 880
Drawings	5 500
Capital at 1 July 2024	22 000
Cash in hand	1 800

REQUIRED

(b) Using the expanded accounting equation, calculate the profit or loss for the year ended 30 June 2025. Show your working clearly. [2]

(c) Explain why a business that is profitable may not have adequate liquidity. [1]

(d) Calculate the current ratio and quick ratio of the business. Round off your answers to two decimal places. Show your workings. [2]

Current ratio:

Quick ratio:

[3]

(e) Comment on the liquidity of the business on 30 June 2025.

(f) State **one** way in which a business can improve its liquidity position. [1]

[Total: 1

2 Vincent buys and sells game consoles. The business records inventory movement using the First-In-First-Out (FIFO) method. The inventory account showed a balance of $4 000 for 200 units of inventory.

The following transactions took place in April 2025.

Date	Inventory Purchased	Payment Mode
Apr 13	250 units at $2 750	By cheque
Apr 17	200 units at $1 800	On credit
Apr 27	300 units at $2 160	On credit

Date	Inventory Sold	Payment Mode
Apr 15	200 units for $10 000	By cheque
Apr 25	450 units at $22 500	On credit

REQUIRED

(a) Explain the FIFO method of recording inventory. [1]

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(b) Calculate the cost of sales for the month of April 2025. [1]

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(c) Calculate the gross profit for the month of April 2025. [1]

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(d) Calculate the ending inventory for the month of April 2025. [1]

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The net realizable value of the inventory for the month was $1 980.

REQUIRED

(e) Explain the rule for valuing inventory. [1]

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(f) State the effect on profit and asset if inventory is not adjusted for April 2025. [2]

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Jimmy is a competitor of Vincent. Below are the inventory management ratios for both businesses for the two years ended 30 June 2024 and 2025.

	Jimmy		Vincent	
	2024	2025	2024	2025
Rate of inventory turnover	6.40 times	8.82 times	5.65 times	6.23 times
Days sales in inventory	57.0 days	41.4 days	64.6 days	58.6 days

REQUIRED

(g) Comment on the rate of inventory turnover and day sales in inventory of the two businesses. [3]

(h) Explain **one** way in which a business can improve its inventory turnover rate. [1

[Total:

3 Jack operates a trading business. He provided the following information from the business cash at bank account and the bank statement for the month of March 2025.

Cash at bank account

Date	Particulars	Debit	Credit	Balance
2025		$	$	$
Mar 1	Balance b/d			2 430 Dr
7	Sales revenue	2 220		4 650 Dr
11	Z Enterprise (cheque 12193)		1 097	3 553 Dr
21	Bella Pte Ltd (cheque 12194)		553	3 000 Dr
25	Trade receivable – Astra Trading	2 126		5 126 Dr
28	Capital	5 000		10 126 Dr
Apr 1	Balance b/d			10 126 Dr

Bank statement

Date	Particulars	Payments	Receipts	Balance
2025		$	$	$
Mar 1	Balance b/d			3 170 Cr
5	Cheque 12192	740		2 430 Cr
8	Cash		2 220	4 650 Cr
17	Bank interest	250		4 400 Cr
26	Cheque deposit		2 126	6 526 Cr
27	Cheque 12194	533		5 993 Cr
28	Returned cheque	2 126		3 867 Cr
29	Direct payment: Rent	1 065		2 802 Cr
30	Bank charges	40		2 762 Cr
31	Dividends		850	3 612 Cr

Additional information:

The accountant made an error in recording the transaction on 21 March.

REQUIRED

(a) Explain **one** type of internal control over cash, other than bank reconciliation. [1]

(b) Prepare the adjusted cash at bank account for March 2025. [4]

(c) Prepare the bank reconciliation statement as at 31 March 2025. [3]

(d) State the effects of the bank reconciliation adjustments on profit for the month ended 31 March 2025. [2]

[Total:

On 1 January 2024, Nathan Delivery Service bought two identical delivery vans costing $125 000 each on credit from Kah Motors. On 30 April 2025, the business sold one of the delivery vans and received a cheque for $80 000. On the same day, the business bought a new delivery van for $103 000 by cheque.

The business depreciates its motor vehicles at a rate of 24% per annum using the reducing balance method. A full year's depreciation is provided in the year of purchase, and no depreciation is provided in the year of sale.

REQUIRED

(a) Calculate the depreciation expense for each of the two years ended 31 December 2024 and 2025. [2]

(b) Calculate the gain or loss on the sale of the delivery van. [2]

(c) Prepare the motor vehicle account for 2024 and 2025. [2]

(d) Name and explain the theory that requires a business to account for depreciation expense. [2]

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End of Paper