



CANDIDATE  
NAME



CLASS



REGISTER  
NUMBER



**PRINCIPLES OF ACCOUNTS**

**7086/01**

Paper 1

**17 August 2021**

**1 hour**

Candidates answer on the Question Paper.  
No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

Write your name, class and register number in the spaces provided on the work you hand in.  
Write in dark blue or black pen.  
You may use an HP pencil for rough working.  
Do not use staples, paper clips, glue, correction fluid or correction tape.

Answer all questions.  
You may use a calculator.

Where layouts are to be completed, you may need all the lines for your answer.  
The businesses mentioned in this question paper are fictitious.

At the end of the examination, fasten all your work securely together.  
The number of marks is given in brackets [ ] at the end of each question or part question.

For Examiner's Use	
1	8
2	11
3	10
4	—

29/30

This document consists of 8 printed pages.

[Turn over

1 Ivan is a sole-proprietor in the business of selling mobile phone accessories. Ivan has no accounting knowledge and decided to seek your advice on some issues relating to the business.

**REQUIRED**

(a) State the role of accounting. *Stewardship*

Accounting ~~to the extent of~~ provides stakeholders with accounting information on the business performance, so that they can make informed decisions regarding the resources and other ~~monetary~~ information involving the management of resources. 2

[2]

(b) As the accountant of the business, advise Ivan on the relevant accounting theory applied in the following scenarios.

	Scenario	Accounting theory applied
(i)	Ivan assumes that the business is expected to remain in operation indefinitely.	Going concern theory
(ii)	Ivan wishes to value the high staff morale in the books of the business but was told to him that it is not possible to do so.	monetary theory
(iii)	An equipment costing \$2 500 that the business purchased a few years ago, has decreased in value, but the original price was recorded.	historical cost theory

[3]

(c) Name one stakeholder who may be interested in the business financial statements and state the decision that they might make using the financial information.

Lenders. They would be interested in the business financial statements to decide if they should loan on credit, depending on the business's ability to repay. <sup>And</sup> how much to loan and ~~if they should even grant~~ <sup>profit,</sup> ~~the loan~~ based on the businesses assets and collaterals. 2

[2]

7

(d) (i) Name one professional ethic that all accountants should adhere to.

objectivity.

[1]

(ii) Explain the importance of being ethical accountants.

Accountants ~~must~~ must be honest and objective. To ensure that they are ~~professional~~ professional ~~is~~ and to provide reliable <sup>and true</sup> information that have not been ~~overruled~~ ~~overruled~~ <sup>overruled</sup> with ~~bias~~ conflict or bias.

[1]

( Accountants need to have integrity and objectivity so that they will not mislead users into making poor decisions. )

[Total: 9]

[Turn over

- 2 Samantha is a furniture dealer and owns Wooden Pieces Trading. The business has the following assets and liabilities as at 1 January 2020.

	\$	
* Cash at bank	- 4 592	Cr
A Trade receivables	18 970	
L Trade payables	25 658	
* Motor vehicles	80 500	
L Bank loan (5 years)	45 000	
A Furniture	8 900	

### REQUIRED

- (a) Explain the difference between assets and liabilities.

Assets are resources owned or controlled by the business that are expected to provide future benefits while liabilities are obligations owed by a business that are expected to be repaid and settled in the ~~future~~ future. 2 [2]

- (b) Using the accounting equation, calculate the owner's equity.

$$\begin{aligned} \text{Assets} &= \text{Liabilities} + \text{Equity} \\ (-4592 + 18970 + 80500 + 8900) &= (25658 + 45000) + \text{Equity} \\ 103,778 &= 70658 + \text{Equity} \\ \text{Equity} &= 103,778 - 70658 \\ &= \$33120 \end{aligned}$$

3 [3]



- (c) State how each of the following transactions affect the accounting elements of Samantha's business. If there is no effect, write 'No effect'. An example has been done for you.

	Transaction	Assets	Liabilities	Equity
		\$	\$	\$
Example	Samantha contributed \$50 000 into the business bank account.	+50 000 Cash at bank	No effect	+50 000 Capital
(i)	The business bought a computer worth \$1 200 on credit.	+1200 office equipment ✓	+1200 trade payable ✓	no effect ✓
(ii)	Samantha took \$500 worth of furniture as a house warming gift for her uncle.	-500 inventory ✓	no effect ✓	<del>#500</del> -500 drawings ✓

[6]

[Total: 11]

[Turn over

1 July - 30 June

- 3 Mandy operates Fashion Shoes Trading. The financial year of the business ends on 30 June every year. On 1 July 2020, the capital account showed a balance of \$68 700.

The following transactions relate to the financial year ended 30 June 2021.

Date	Transaction
2020	
Oct 5	Mandy contributed \$20 000 cash into the business and the money was deposited into the business bank account.
Nov 29	Mandy took shoes costing \$350 as a birthday gift for her niece.
2021	
Mar 4	Mandy withdrew \$1 200 cash from the business bank account for her own use.
Jun 30	The business made a profit of \$6 320.

**REQUIRED**

- (a) Use an appropriate accounting theory to explain the transaction relating to 4 March 2021.

Accounting entity theory states that the owner and business are separate entities and all transactions recorded should be in the view point of the business. ~~Transactions related to the owner~~ Personal use of the business resources will be recorded as drawings. Hence, Mandy was to account for the withdrawal of resources for her personal use.

2  
[2]

- (b) Prepare journal entries to record the transfer of profit to the capital account on 30 June 2021. Narration is not required.

Journal

Date	Particulars	Dr	Cr
2021		\$	\$
June 30	Income summary	6320	
	Capital		6320

2  
[2]

4

$$68700 + 20000 - (350 + 1200) + 6320 = 93470$$

7

(c) Prepare the capital account for the year ended 30 June 2021.

Fashion Shoes Trading  
Capital

date	particulars	dr	cr	bal
2020		\$	\$	\$
July 1	bal b/d			68700 cr
Oct 5	Cash at bank		20000	88700 cr
2021				
June 30	Income summary		6320	95020 cr
June 30	Drawings (350 + 1200)	1550		93470 cr
July 1	bal b/d			93470 cr

4  
[4]

(d) State the effect of drawings on equity.

drawings reduce equity.

[1]

(e) State the amount of capital to be represented in the statement of financial position as at 30 June 2020: 2021

\$93470      ~~\$88700~~

[1]

[Total: 10]

6



Celeste is the owner of a newly start-up ice-cream business, i-Scream Trading.

After preparing the trial balance as at 31 December 2020, Celeste discovered the following errors.

1. Repairs of machinery for \$800 was debited to machinery account.
2. A payment received from a credit customer by cheque \$630 was debited to the trade receivable account and credited to the cash at bank account.

**REQUIRED**

(a) Explain why would a trial balance still balance despite having errors.

.....

.....

[2]

(b) Prepare journal entries to correct errors (1) and (2).

Journal			
Date	Particulars	Dr	Cr
		\$	\$

[4]

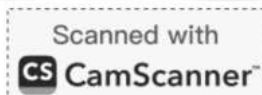
(c) Complete the following table. State whether the profit for the year and equity will be overstated, understated, and the amount involved. If there is no effect, write 'no effect'.

Error	Effect on profit for the year	Effect on equity
(1)		
(2)		

[4]

[Total: 10]

[End of Paper]





CANDIDATE  
NAME



CLASS



REGISTER  
NUMBER



**PRINCIPLES OF ACCOUNTS**

**7086/02**

Paper 2

**19 August 2021**

**2 hour**

Additional Materials: 12-page Answer Booklet

**READ THESE INSTRUCTIONS FIRST**

An answer booklet will be provided with this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.

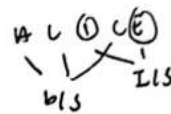
Answer **all** questions.

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

For Examiner's Use	
1	
2	
3	
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This document consists of 7 printed pages.

[Turn over



1 Jean Ann started Creative Media, a service business that provides web design services. The following balances were extracted from the business as at 31 December 2020. no trading  
friction

	\$
✓ CA Cash at bank	22 540
✓ E Drawings	26 000
✓ E Capital, 1 January 2020	127 161
✓ NCL Long-term bank loan	75 000
✓ NC A Property, at cost	140 000
✓ NCA Motor vehicles, at cost	52 000
✓ NCA Accumulated depreciation of property	21 000
✓ NCA Accumulated depreciation of motor vehicles	9 880
✓ I Interest income	120
✓ I Design service fee revenue	244 972
✓ E Motor vehicles expense	9 850
✓ E Insurance expense - 300	11 750
✓ E Accounting and legal expense	49 500
✓ E Salaries expense + 8235	136 765
✓ E Interest expense	3 500
✓ E Utilities expense	8 918
✓ CA Trade receivables - 1460	77 400
✓ CL Trade payables	60 090

60 000 LTB  
15,000 CPLTB

Additional information:

- 1 Insurance amounting to \$880 was paid for the month of January 2021. dr prepaid insurance  
cr insurance exp
- 2 Commission income of \$1 800 was earned but not collected. dr inc receivable 1800  
cr commission income 1800
- 3 Salaries outstanding amounted to \$8 235. dr salaries exp 8235  
cr salaries exp payable 8235
- 4 Melvin, a credit customer, who owed the business \$1 460, declared bankrupt.
- 5 A review of the trade receivables on 31 December 2020 showed that 5% of the balance may not be collectible. dr APIL TR 1460  
cr trade rec 1460
- 6 The depreciation policy is as follows: dr 1460 TR 5330  
cr APIL TR 5330

~~77 400~~ - 1460 + 5330 = 3870

Property 5% per annum using straight-line method  
 Motor vehicles 10% per annum using reducing-balance method

$140\ 000 \times 0.05 = 7000$

$0.10 \times (52000 - 9880) = 4212$

dr deprec exp 7000  
 cr acc deprec 7000  
 dr motor vehicle exp 4212  
 cr acc deprec 4212

7 20% of the long-term bank loan is repayable on 31 March 2021.

**REQUIRED**

(a) Prepare the statement of financial performance for the year ended 31 December 2020. [10]

(b) Prepare the statement of financial position as at 31 December 2020. [10]

[Total: 20]

~~CA Prepaid insurance 800~~

~~CA Commission income receivable 1800~~

~~I Commission income 1800~~

~~CL Salaries exp payable 8235~~

~~CA API L&IR~~

~~E L&IR~~

[Turn over

By MV  
or 5/1/21  
1P

- 2 GNJ Trading is a sole-proprietorship. The business buys and sells puppets. The business buys puppets from Puppetry Arts, a local supplier and the following transactions occurred in the month of March 2021.

2021	Transaction
Mar 1	Balance \$4 000 owed by GNJ Trading to Puppetry Arts.
8	Bought goods at list price of \$3 200 from Puppetry Arts, less 10% trade discount.
15	GNJ Trading paid the amount owing on 1 March 2021 by cheque, less 5% cash discount.

**REQUIRED**

- (a) State **one** difference between a trade discount and a cash discount. [2]
- (b) Prepare the trade payable account for Puppetry Arts in the books of GNJ Trading. Close the account at the end of the month and **bring down** the balance. [4]

The following shows the cash in hand account in the books of GNJ Trading.

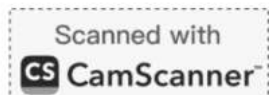
Cash in hand account †

Date	Particulars	Dr	Cr	Balance
2021		\$	\$	\$
Mar 1	Balance b/d			7 800 Dr
4	Cash at bank	1 200		9 000 Dr
10	Inventory		2 500	6 500 Dr
17	Drawings		500	6 000 Dr
23	Trade receivable – Peter Pan	1 450		7 450 Dr
29	Sales revenue	3 600		11 050 Dr
Apr 1	Balance b/d			11 050 Dr

**REQUIRED**

- (c) State **one** way in which GNJ Trading can do to safeguard its cash. [1]
- (d) Interpret the following transactions in the cash in hand account.
- (i) 4 March 2021 [2]
- (ii) 17 March 2021 [2]
- (iii) 23 March 2021 [2]

[Total: 13]



H U A z  
 600 - 5000 - 3000 ~~10400~~ = 3000  
 V A

3 On 1 January 2020, Citrus Fruit has the following balances.

	\$
Trade receivables	20 000
Allowance for impairment of trade receivables	600

The following occurred in the financial year ended 31 December 2020.

Date	Transactions
2020	
Jan 5	Jack Fruit declared bankrupt and the outstanding amount of \$5 000 owed to the business was written off.
Jul 16	Liho Trading owed the business \$6 500. Liho Trading decided to close off its business. A cheque of \$3 500 was received from Liho Trading and the remaining amount was written off.

APIC 3000  
 COB 3500  
 TR 6500

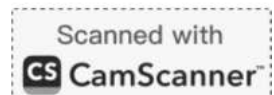
The trade receivables balance as at 31 December 2020 was \$60 000. The business maintains an allowance for impairment of trade receivables at 5% of trade receivables balance at the end of every financial year.

**REQUIRED**

- (a) Prepare journal entries to record the transactions on 5 January 2020 and 16 July 2020. Narrations are **not** required. [5]
- (b) Prepare journal entries to record the adjustment of allowance for impairment of trade receivables on 31 December 2020. A narration is **not** required. [2]
- (c) Explain, using a suitable accounting theory, why it is necessary for Citrus Fruit to account for allowance on impairment of trade receivables. [2]

*Providence*

[Turn over



Citrus Fruit has two existing customers and these two customers have approached the business to negotiate for a longer repayment period, from its current credit term of 30 days to 45 days. As the economy is not doing well due to the current COVID-19 pandemic, many businesses are not doing well, especially the dine-in eateries. Hence, Citrus Fruits can only extend a longer repayment period to only one customer.

	Bio Juice	Tropical Café
Nature of business	<ul style="list-style-type: none"> <li>Sells fruit juices</li> </ul>	<ul style="list-style-type: none"> <li>Sells fruit cakes, pastry and fruit juices</li> </ul>
Number of days Citrus Fruits takes to collect its debt from the customer	<ul style="list-style-type: none"> <li>Collection days: 15 days ✓</li> </ul>	<ul style="list-style-type: none"> <li>Collection days: 35 days</li> </ul>
Number of times trade receivable has late payment	<ul style="list-style-type: none"> <li>3 times ✓</li> </ul>	<ul style="list-style-type: none"> <li>5 times</li> </ul>
Average trade receivables balance	<ul style="list-style-type: none"> <li>\$13 000</li> </ul>	<ul style="list-style-type: none"> <li>\$10 000 ✓</li> </ul>
Reputation of business	<ul style="list-style-type: none"> <li>Popular among teenagers and young adults ✓</li> <li>Has been in the business for 8 years</li> </ul>	<ul style="list-style-type: none"> <li>Has many positive customer reviews among café goers ✓</li> <li>Has been in the business for 3 years</li> </ul>
Location of stores	Has many outlets in different neighbourhood areas	Physical store at Toa Payoh Hub and an online ✓ store that provides delivery
Industry outlook	Many customers patronise the business because people are now more health conscious and drinking fruit juices is now in trend.	

#### REQUIRED

- (d) Using the information above, advise Citrus Fruit which customer it should give a longer repayment period to. Explain your answer.

Done

[5]

4 points

[Total: 14]

4 Mr Kokonut is a beverage business and provides delivery of its beverages to online customers.

Due to the COVID-19 stay-home measures in the month of October 2019, there was an increase in demand for home deliveries. Hence, the business decided to purchase one additional motorbike to help with the increase in orders.

The following information relates to the purchase of the motorbike.

**REQUIRED**

- (a) State whether each of the following items is a capital expenditure or a revenue expenditure.
  - (i) Cost of motorbike amounting to \$45 000. [1]
  - (ii) Annual motor insurance of \$800. [1]
  - (iii) Certificate of Entitlement (COE) for the motorbike worth \$6 500. [1]
- (b) State **one** difference between a capital expenditure and a revenue expenditure. [2]

The financial year of the business starts on every 1 July. On 1 July 2019, Mr Kokonut provided the following information.

	\$
Machinery	28 000
Accumulated depreciation of machinery	5 600

On 1 April 2020, the business purchased another machinery costing \$22 000 paying by cheque.

The business depreciates its machinery at 20% per annum using the reducing-balance method. A full year's depreciation is charged in the year of purchase.

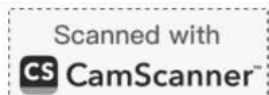
The financial year of the business ends on every 30 June.   
*Handwritten notes:* July 2019 - June 2021 ~~28 000 - 5600 x 0.2 = 4480~~  
 $(22100 \times 0.2) \times \frac{3}{12} = 1100$

**REQUIRED**

- (c) State **two** causes of depreciation. [2]  
*Handwritten notes:* legal limits, physical wear and tear  
 $(22000 \times 0.2) \times \frac{7}{12} = 3300$  900  
 $(22000 - 4400) \times 0.2 \times \frac{3}{12} = 880$
- (d) Prepare the journal entries to record the depreciation of machinery for the **two** years ended 30 June 2020 and 30 June 2021. [4]
- (e) State the **effects** on profit for the year and non-current assets, if the depreciation of machinery for the year ended 30 June 2020 was not adjusted. [2]

[Total: 13]

[END OF PAPER]





Question Part

1	(a)	creative media	2020
		Statement of Financial performance for the year ended 31 December	
		Add: Income	\$ \$
		Interest income ✓	120
		Design service fee revenue	244 972
		Commission income ✓	1800
			246 892
		less: expense	
		Motor vehicles expense ✓	9 850
		Insurance expense (11750 - 800)	10950 108700
		Accounting and legal expense ✓	49 500
		Salaries expense (136 765 + 82 335) ✓	145 000
		Interest expense	3 500
		Utilities expense	8 918
		Impairment loss on trade receivable (5330)	5257
		Property depreciation expense ✓	7 000
		Motor vehicle depreciation expense ✓	4 212
			<del>233 419</del>
			244 260 244 07
		Profit for the year	<u>2632</u> <u>2785</u>
			(7)

Question Part

		creative media		
		Statement of financial position as at 31 december 2020		
ASSETS		£	£	£
<del>Current</del> Non-current assets		Cost	Acc. dep.	NBV
	Motor vehicle	52000	14092	37908
	property	140000	28000	112000
	<b>total non-current assets</b>	<b>192000</b>	<b>42092</b>	<b>149908</b>
Current asset				
	Cash at bank		22540	
	trade receivable & (77400 - 1466)		<del>77400</del> 75940	
	less: Allowance for impairment loss <sup>on trade receivable</sup>		(8870) X 3797	
	net trade receivable		12070	
	prepaid insurance		800	
	commission income receivable		1800	
	<b>total current assets</b>		<b>97210</b>	
	<b>total assets</b>		<b>247118</b>	
Equity and liabilities				
	<del>Capital</del> Equity			
	capital (127161 - 26000 + 2632)		103946	
			103793	
			<del>103793</del>	
liabilities				
Current liabilities				
	<del>current</del> portion of long term borrowing		15000	
	trade payable		<del>60090</del>	
	Salaries expense payable		8235	
	<b>total current liabilities</b>		<b>83325</b>	
Non-current liabilities				
	long term borrowings		60000	
	<b>total current liabilities</b>		<b>60000</b>	
	<b>total liabilities</b>		<b>143325</b>	
	<b>total equity and liabilities</b>		<b>247118</b>	

NO space to cancel sorry!

9



Question Part

3	(a)	Journal		
		date	particulars	Dr CV
		2020		\$ \$
		Jan 5	Allowance for impairment <sup>of</sup> <del>loss</del> <sup>receivables</sup> of trade receivables	5000 ✓
			Trade receivable - Jack fruit	5000 ✓
		July 16	Allowance for impairment <sup>of</sup> <del>loss</del> <sup>trade receivable</sup> of trade receivable	3000 ✓
			Cash at bank	3500 ✓
			trade receivable - Lino trading	6500 ✓
	(b)	Journal		
		date	particulars	Dr CV
		2020		\$ \$
		Dec 31	Impairment loss on trade receivable	10400 ✓
			allowance for impairment <sup>of</sup> <del>loss</del> <sup>Trade receivable</sup> of Trade receivable	10400 ✓
	(c)	Prudence theory states that profit and assets should not be overstated. Accounting for allowance for impairment ensures that the asset trade receivable is not overstated.		
	(d)	<p>Citrus fruit should extend a longer repayment for Bio Juice. Bio Juice is able to repay <sup>(its debt to)</sup> citrus fruit in a smaller amount of days as compared to tropical cafe. Bio Juice also has a history of less late payments than tropical cafe, <del>and the balance</del>. The reputation of Bio Juice is more well known and has been in the industry for more years as compared to tropical cafe. This shows that Bio Juice is sustainable, preventing citrus fruits from incurring a loss from uncollectable trade receivable. Bio Juice also has more physical stores as compared to tropical cafe and is more reputable in society as people grow more conscious of health. While tropical cafe may be slower in repaying debts, it is in citrus fruits best interest to accommodate to the more sustainable business. With the economy dropping, businesses may shut down and tropical cafe is <sup>why</sup> more likely to close rather than Bio Juice. To prevent a loss in income, citrus fruit should extend Bio Juice's repayment period, and not tropical cafe.</p>		

1

2

1

E1

4

12

Question Part

4	(a)																																	
	(i)	capital expenditure																																
	(ii)	revenue expenditure																																
	(iii)	capital expenditure																																
	(b)	Capital expenditure <sup>are</sup> <del>is</del> the expenses incurred to bring the non-current asset up to ready to use condition, revenue expenditure are the costs incurred to maintain <sup>and</sup> <del>or</del> repair the non-current asset.																																
	(c)	legal limits and physical wear and tear.																																
		<table border="0" style="width: 100%;"> <tr> <td style="width: 50%; text-align: center;"><del>2020</del> 2019 2020</td> <td style="width: 50%; text-align: center;">2020 2021</td> </tr> <tr> <td>① <math>(28000 - 5600) \times 20\% = 4480</math></td> <td>① <math>22000 \times 20\% \times \frac{9}{12} = 3300</math></td> </tr> <tr> <td>② <math>22000 \times 20\% \times \frac{3}{12} = 1100</math></td> <td>② <math>(22000 - 4400) \times 20\% \times \frac{3}{12} = 880</math></td> </tr> <tr> <td style="text-align: center;">Total - 5580</td> <td>③ <math>(28000 - 10080) \times 20\% = 3584</math></td> </tr> <tr> <td></td> <td style="text-align: center;">Total - 7764</td> </tr> </table>	<del>2020</del> 2019 2020	2020 2021	① $(28000 - 5600) \times 20\% = 4480$	① $22000 \times 20\% \times \frac{9}{12} = 3300$	② $22000 \times 20\% \times \frac{3}{12} = 1100$	② $(22000 - 4400) \times 20\% \times \frac{3}{12} = 880$	Total - 5580	③ $(28000 - 10080) \times 20\% = 3584$		Total - 7764																						
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		<table border="0" style="width: 100%;"> <tr> <td style="width: 20%;">date</td> <td style="width: 40%;">particulars</td> <td style="width: 10%;">Dr</td> <td style="width: 10%;">Cr</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> </tr> <tr> <td>2020</td> <td></td> <td></td> <td></td> </tr> <tr> <td>June 30</td> <td>machinery depreciation expense</td> <td style="text-align: center;">5580</td> <td style="text-align: center;">8880</td> </tr> <tr> <td></td> <td>Accumulated depreciation of <sup>machinery</sup> <del>it</del></td> <td></td> <td style="text-align: center;">5580 8880</td> </tr> <tr> <td>2021</td> <td></td> <td></td> <td></td> </tr> <tr> <td>June 30</td> <td>machinery depreciation expense</td> <td style="text-align: center;">7764</td> <td style="text-align: center;">7104</td> </tr> <tr> <td></td> <td>Accumulated depreciation of <sup>machinery</sup> <del>it</del></td> <td></td> <td style="text-align: center;">7764 7104</td> </tr> </table>	date	particulars	Dr	Cr			\$	\$	2020				June 30	machinery depreciation expense	5580	8880		Accumulated depreciation of <sup>machinery</sup> <del>it</del>		5580 8880	2021				June 30	machinery depreciation expense	7764	7104		Accumulated depreciation of <sup>machinery</sup> <del>it</del>		7764 7104
date	particulars	Dr	Cr																															
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2020																																		
June 30	machinery depreciation expense	5580	8880																															
	Accumulated depreciation of <sup>machinery</sup> <del>it</del>		5580 8880																															
2021																																		
June 30	machinery depreciation expense	7764	7104																															
	Accumulated depreciation of <sup>machinery</sup> <del>it</del>		7764 7104																															
	(e)	<p>profit <sup>will be</sup> overstated by \$5580.</p> <p>non-current asset will be overstated by \$5580.</p>																																

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