

Calculator Model:
(if applicable)



Paya Lebar Methodist Girls' School (Secondary)
Preliminary Examination 2022
Secondary 4 Express / 5 Normal (Academic)

Name: _____ ()

Class: _____

Centre
Number

S

Index
Number

PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

25 August 2022

Additional Materials: Writing paper (4 sheets)

2 hours

READ THESE INSTRUCTIONS FIRST

Write your name, index number and class on all the work you hand in.

Write in dark blue or black pen.

You may use an HB pencil for any diagrams or graphs.

Do not use paper clips, glue or correction fluid.

The use of an approved calculator is allowed.

Answer **all** questions.

The businesses described in this question paper are entirely fictitious.

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

At the end of the examination, submit your answers and the question booklet separately.

Answer **all** questions.

- 1 The following balances were extracted from the books of Tiffani Pte Limited on 31 August 2021.

	\$
Motor vehicles at cost	63 000
Equipment at cost	204 000
Accumulated depreciation:	
Motor vehicles	22 680
Equipment	73 600
Sales revenue	340 370
Cost of sales	182 400
Sales returns	3 920
Wages and salaries	86 910
Equipment repairs	18 810
Advertisement	19 810
Selling expenses	10 990
Commission received	1 960
Trade receivables	41 400
Trade payables	25 200
Cash at bank (credit balance)	1 220
Allowance for impairment of trade receivables	2 870
Inventory	70 000
10% bank loan repayable 2025	30 000
Interest paid on 10% bank loan	1 380
Share capital	180 000
Retained earnings at 1 September 2020	24 720

Additional information

- 1 Share capital consists of 150 000 ordinary shares.
- 2 Advertisement relates to a fourteen-month period ending on 31 October 2021.
- 3 A sales invoice, \$5600, had been completely omitted from the books of account.
- 4 The allowance for impairment of trade receivables is to be maintained at 4% of trade receivables.
- 5 Equipment repairs of \$8000 had been incorrectly debited to the equipment account.
- 6 Motor vehicles are to be depreciated at 20% per annum using reducing-balance method.
- 7 Equipment is depreciated at 10% per annum using the straight-line method.
- 8 Interest on the bank loan for the year was not fully paid up.
- 9 The company declared a dividend of \$0.03 per share. The dividend will be paid on 1 October 2021.

REQUIRED

(a) Prepare the statement of financial performance for the year ended 31 August 2021. [9]

(b) Prepare the statement of financial position as at 31 August 2021. [11]

[Total: 20]

- 2 Tyra runs a bakery business. She has provided the following information at 31 March 2020, 2021 and 2022.

	2020 \$	2021 \$	2022 \$
Current assets			
Inventory	21 350	29,870	41,200
Trade receivables	15 300	20,295	30,095
Prepaid expenses	–	2,500	8,975
Cash at bank	6 500	1,300	–
Cash in hand	1 100	845	500
	<u>44 250</u>	<u>54,810</u>	<u>80,770</u>
Current liabilities			
Trade payables	16 300	19 215	19 990
Income received in advance	3 950	5 980	3 815
Cash at bank	–	–	5 000
Current portion of long-term borrowings	–	–	30 000
	<u>20 250</u>	<u>25 195</u>	<u>58 805</u>
Current ratio	2.19	2.18	?
Quick ratio	1.13	0.89	?

REQUIRED

- (a) Explain what is meant by the liquidity of a business. [1]
- (b) State **one** reason why liquidity is important to a business. [1]
- (c) Calculate, to **two** decimal places, the following for the year ended 31 March 2022:
- (i) current ratio [1]
- (ii) quick ratio. [1]
- (d) Evaluate the trend in liquidity of the business over the three years ended 31 March 2020, 2021 and 2022. Use the given information and your answer to (c). [6]
- (e) Advise Tyra on **two** measures she may take to improve her liquidity position. [2]

The business profit has remained the same over the three years ended 31 March 2020, 2021 and 2022.

REQUIRED

- (f) Suggest why the liquidity of the business has changed even though profit has remained the same over the three years. [2]

[Total: 14]

- 3 Vienna has a business whose financial year ends on 31 May.

Her business makes an average annual profit of over \$500 000.

She has decided that her business should treat purchases of equipment costing less than \$450 as revenue expenditure.

REQUIRED

- (a) State the meaning of:

(i) capital expenditure [1]

(ii) revenue expenditure. [1]

- (b) Name and explain the accounting theory applied by Vienna when recording the purchase of equipment of low value as revenue expenditure. [2]

Vienna's business has recently purchased new equipment from overseas and trained staff to operate it.

REQUIRED

- (c) Copy the following table on to your answer paper and insert a tick (✓) to show which items are capital expenditure and which are revenue expenditure.

		Capital expenditure	Revenue expenditure
1	Staff training		
2	Utilities to run the equipment		

[2]

The following ledger has been prepared at 31 May 2022.

		Sale of equipment		
Date	Particulars	Debit	Credit	Balance
2022		\$	\$	\$
March 28	Equipment	13 200		13 200 Dr
March 28	Accumulated depreciation of equipment		7 920	5 280 Dr
March 28	Other receivable – Alishah Equip		5 500	220 Cr
May 31	Income summary	220		–

REQUIRED

- (d) Interpret **each** of the entries in the sale of equipment account. [4]

[Total: 10]

- 4 Joanne owns a business which buys and sells beauty products. The business uses the FIFO method to calculate the cost of sales and to value ending inventory.

On 1 June 2022, the business had a balance of \$90 000 in its inventory account.

The following information is available for the month of June 2022.

- Jun 3 Sold goods costing \$60 000 to Annette for cash, \$80 800.
13 Purchased goods on credit from Jocelyn, \$45 000.
16 Purchased goods by cheque, \$83 500.
29 Sold goods costing \$79 100 to Creda on credit for \$121 350.

REQUIRED

- (a) Explain what is meant by the FIFO method of inventory valuation. [2]
- (b) Prepare following ledger accounts for the month of June 2022:
- (i) inventory account [4]
- (ii) sales revenue account. [2]
- (c) State how ending inventory must be valued in the financial statements. [1]

As the weather in Singapore is getting hotter, there is an increase in the demand for sunscreen. Applying sunscreen is important as it protects the skin from the sun's damaging UV radiation, which can cause skin cancer. Hence, Joanne's business wants to order sunscreen from Korea to sell and is choosing between two products.

Through the market research, it was discovered that the consumers prefer sunscreen with the following features:

- Great for outdoor activities which keeps skin hydrated with a non-sticky finish
- Last long on the skin even with perspiration
- Unscented or mild scent

The details of the two products are shown below.

	Bonabella Sun Lotion	IWLT Sun Cushion
Estimated gross profit margin	35%	30%
Availability	Delivery in 1 month	Immediate delivery
Nature of product	<ul style="list-style-type: none"> • Protects against UV rays (SPF* 30) • Great for all skin types, especially sensitive and delicate skin • Safe for kids and pregnant ladies • Ensure all-day moisturising effect on skin without stickiness • Fragrance-free • Prone to wearing off easily • Expires on 24 February 2023 	<ul style="list-style-type: none"> • Protects against UV rays (SPF* 50) • Suitable for all skin types but recommended for normal to dry skin • A little sticky when applied too much • Last for the whole day and does not get removed easily with water • Expires on 31 July 2023
Consumers' preference	Bonabella appeals to a wide range of consumers.	IWLT is a well-established and popular brand in Korea.

* SPF stands for Sun Protection Factor. A rating of 30 means you are protected from around 96.7% of UV rays. The higher the SPF, the greater the amount of protection against the sun.

REQUIRED

- (d) Advise Joanne which product her business should choose. Justify your decision with **three** reasons.

[7]

[Total: 16]

End of Paper

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