

Name:ANSWERS	Index Number:	Class:
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**YIO CHU KANG SECONDARY SCHOOL
O-LEVEL PRELIMINARY EXAMINATION 2022
SECONDARY FOUR EXPRESS
SECONDARY FIVE NORMAL (ACADEMIC)**



PRINCIPLES OF ACCOUNTS

Paper 2

7087/02

2 hours

Additional materials: Foolsap Paper (4 sheets)

14 September 2022 (Wednesday)

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 on both sides of the paper.
You may use an HB pencil for rough working.
Do not use staples, 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 fictitious.
Start each question on a separate page.
All calculations must be shown adjacent to the answer.
Where the T account format is used, the account should be balanced.
Where applicable, the balance should be brought down to the next financial year.
Where the columnar format is used, the running balance column should be updated for the first and last entries. Where applicable, the balance should be brought down to the next financial year.
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
60

Setter: Mr Jude Ang

Answer **all** questions.

1

- (a) Prepare the statement of financial performance for the year ended 31 December 2021.

[10]

Smiley
Statement of financial performance for the year ended 31 December 2021

	(\$)	(\$)
Sales Revenue		179870
Less: Sales Returns		(12150)
Net Sales Revenue		167720 ✓
Less: Cost of Sales		(86550)
Gross Profit		81170 ✓
Add: Other Income		
Rental income	6550 ✓	
Commission income	3240 ✓	
Discount Received	2120 ✓	11910
		93080
Less: Other Expenses		
Impairment loss on trade receivables	690 ✓	
Rent expense	9800	
Commission expense	4320	
Interest expense	6000	
Depreciation on MV (10%*90000)	9000 ✓	
Salaries expense	24000 ✓	
Impairment loss on inventory	3000 ✓	
Discount allowed	3130	59940
Profit for the year		33140 ✓

(b) Prepare the statement of financial position as at 31 December 2021.

[10]

Smiley			
Statement of financial position as at 31 December 2021			
<u>Non-Current Assets</u>	(\$)	(\$)	(\$)
	Cost	Accumulated Depreciation	Net Book Value
Machinery	60000	0	60000
Motor Vehicle	100000	19000	81000
			141000 ✓
<u>Current Assets</u>			
Cash at Bank (+50000)		121700 ✓	
Trade Receivables (-1980)	74000 ✓		
Less: Allowance for impairment of trade receivables:	(2220) ✓	71780	
Inventory (-3000)		65800 ✓	259280
Total Assets			400280
<u>Shareholder's Equity</u>			
Issued share capital			200000 ✓
Retained earnings (42590+33140-6000)			69730 ✓
			269730
<u>Non-Current Liabilities</u>			
Long-term Borrowings – bank loan			72000 ✓
<u>Current Liabilities</u>			
Trade Payables		44550	
Dividend payable		6000 ✓	
Current portion of long term borrowing		8000 ✓	58550
Total equity and liabilities			400280

[Total: 20]

- 2 The following is a summary of the income statements for Kyrie's and Bens' business for the year ended 30 June 2021:

	Kyrie (\$)	Ben (\$)
Net sales revenue	80 000	100 000
Cost of sales	55 800	66 500
Gross profit	24 200	33 500
Net expenses	12 150	25 560
Profit for the year	12 048	7 940

Additional information at 30 June 2021:

	Kyrie	Ben
Gross profit margin	?	33.5%
Profit margin	15.06%	?
Average equity	\$60 000	\$60 000
Rate on inventory turnover (times)	8	6
Rate of trade receivables turnover (times)	5	3

REQUIRED

- (a) State **two** differences between liquidity and profitability.

[4]

LIQUIDITY IS THE ABILITY TO PAY IMMEDIATE DEBTS ✓ WHILE
PROFITABILITY IS THE ABILITY TO EARN/MAKE PROFITS ✓.

PROFITABILITY REFERS TO PROFITS EARNED DURING THE YEAR
WHICH IS THE DIFFERENCE BETWEEN INCOME AND EXPENSES. ✓

LIQUIDITY REFERS TO THE AVAILABILITY OF CASH TO THE BUSINESS
AT ANY POINT OF TIME. ✓

- (b)** Calculate, to **two** decimal places, Kyrie's gross profit margin and Ben's profit margin for the year ended 30 June 2021. [4]

$$\begin{aligned} \text{KYRIE GPM: } (GP/T)*100\% \checkmark &= (24200/80000)*100\% \\ &= 30.25\% \checkmark \end{aligned}$$

$$\begin{aligned} \text{BEN PM: } (P/T)*100\% \checkmark &= (7940/100000)*100\% \\ &= 7.94\% \checkmark \end{aligned}$$

- (c)** Calculate, to **two** decimal places, the return on equity for Kyrie and Ben for the year ended 30 June 2021. [2]

$$\begin{aligned} \text{KYRIE ROE: } (P/AVERAGE EQUITY)*100\% &= (12050/60000)*100\% \\ &= 20.01\% \checkmark \end{aligned}$$

$$\begin{aligned} \text{BEN ROE: } (P/AVERAGE EQUITY)*100\% &= (7940/60000)*100\% \\ &= 13.23\% \checkmark \end{aligned}$$

Rob is considering whether to invest in Kyrie's or Ben's business.

- (d) Advise Rob whose business he should invest in and justify your decision using any ratio and data available. [8]

INVEST IN KYRIE'S BUSINESS ✓ BECAUSE IT HAS BETTER PROFITABILITY. ✓

KYRIE HAS A BETTER RATE OF INVENTORY TURNOVER OF 8 AS COMPARED TO BEN'S 6. ✓

THIS MEANS THAT ON AVERAGE, KYRIE IS REPLENISHING HIS STOCKS MORE FREQUENTLY IN A YEAR THAN BEN. THIS COULD PROBABLY BE DUE TO BETTER SALES OF INVENTORY FOR KYRIE. ✓

KYRIE HAS A HIGHER PROFIT MARGIN OF 15.06% COMPARED TO BEN'S OF 7.94%. ✓

THIS MEANS FOR EVERY DOLLAR OF TURNOVER, KYRIE IS ABLE TO EARN \$0.1506 PROFIT TO BEN'S \$0.0794. ✓

KYRIE HAS A HIGHER RETURN ON EQUITY OF 20.01% COMPARED TO BEN'S OF 13.23%. ✓

THIS MEANS THAT FOR EVERY DOLLAR INVESTED BY ROB, KYRIE IS ABLE TO HELP HIM EARN RETURNS OF \$0.2001 COMPARED TO BEN'S \$0.1323. ✓

[Total: 18]

3

- (a) Prepare the journal entries to record interest expense for the year ended 31 December 2020. Narrations are required.

[6]

Date	Particulars	Dr (\$)	Cr (\$)
2020	INTEREST EXPENSE (100000*2%*0.5)	1000✓	
DEC 31	INTEREST EXPENSE PAYABLE		1000✓
	(INTEREST EXPENSE OWING AT THE END OF THE YEAR) ✓		
	INCOME SUMMARY	1000✓	
	INTEREST EXPENSE		1000✓
	(INTEREST EXPENSE INCURRED FOR THE YEAR) ✓		

- (b) Prepare an extract of the statement of financial performance for the year ended 31 December 2020, showing only the expense section.

[2]

BONDI FLIP FLOPS			
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DEC 2020 (EXT)			
			(\$)
LESS: EXPENSE			
INTEREST EXPENSE ✓			1000✓

- (c) Prepare an extract of the statement of financial position as at 31 December 2020, showing only the liabilities section.

[5]

BONDI FLIP FLOPS STATEMENT OF FINANCIAL POSITION AS AT 31 DEC 2020 (EXT)			
NON CURRENT LIABILITIES			
LONG TERM BORROWING – LOAN FROM BANK			80000 ✓
CURRENT LIABILITIES			
CURRENT PORTION OF LONG TERM BORROWING ✓			20000 ✓
INTEREST EXPENSE PAYABLE ✓			1000 ✓

- (d) Explain, using a suitable accounting theory, why expenses such as interest expense is recorded.

[2]

MATCHING CONCEPT ✓. EXPENSES INCURRED FOR THE YEAR NEED TO BE MATCHED AGAINST THE INCOME EARNED FOR THE SAME PERIOD IN ORDER TO OBTAIN AN ACCURATE REFLECTION OF PROFIT FOR THE PERIOD. ✓

[Total:15]

4 REQUIRED

Using the information above, advise Anthony which option would be better for him. Support your advice with an explanation. [7]

I WOULD ADVISE ANTHONY TO RENT A LARGER PREMISE. ✓

IT IS CHEAPER TO RENT AS COMPARED TO PURCHASING. ✓

FOR A 99 YEAR PERIOD THE COST OF RENTING IS \$9 504 000 WHICH IS LESSER THAN THE UPFRONT COST OF \$1 000 000 WHICH IS REQUIRED IF HE WERE TO PURCHASE THE PREMISE. THE AMOUNT OF MONEY SAVED COULD BE USED TO PAY OTHER EXPENSES OR TO BUY MORE INVENTORY TO SELL. ✓

THERE ARE NO ADDITIONAL COSTS FOR RENTING. ✓

ALL ADDITIONAL COSTS SUCH AS DEPRECIATION AND MAINTENANCE ARE BORNE BY THE LANDLORD IF HE WERE TO RENT. THESE COSTS WOULD RESULT IN ADDITIONAL EXPENSES AND LESSER PROFIT IF HE WERE TO PURCHASE THE PREMISE. ✓

DUE TO THE 5 YEAR LOCK IN PERIOD, ANTHONY WOULD BE ABLE TO PAY A FIXED RENTAL AMOUNT REGARDLESS OF WHETHER THE RENTAL RATES IN THE COUNTRY RISES ✓. AS COMPARED TO A FLOATING RENTAL RATE, HE WOULD BE ABLE TO REDUCE HIS RENTAL EXPENSE FOR 5 YEARS BEFORE RENEGOTIATING FOR A BETTER RATE. ✓

[Total: 7]

END OF PAPER