

Name: _____()

Class: _____



**WOODLANDS SECONDARY SCHOOL
PRELIMINARY EXAMINATION 2022**

NORMAL ACADEMIC

Level: Sec 4 Normal Academic

Marks: 60

Subject: Principles of Accounts

Day: Thursday

Paper: 7086/02

Date: 11 August 2022

Duration: 2 hours

Time: 10 00 – 12 00

Additional Materials: Answer Booklet

READ THESE INSTRUCTIONS FIRST

Answer **all** questions on the answer booklet provided.

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.

DO NOT TURN THE PAGE UNTIL YOU ARE TOLD TO DO SO.

This document consists of 7 printed pages and 1 blank page.

Answer **all** questions.

- 1 Christine operates San Bookshop which buys and sells books. The following balances were extracted on 31 May 2022.

| | \$ |
|---|---------|
| Office equipment at cost | 60 000 |
| Motor vehicles at cost | 120 000 |
| Accumulated depreciation of office equipment | 24 000 |
| Accumulated depreciation of motor vehicles | 18 000 |
| Sales revenue | 131 370 |
| Sales returns | 6 500 |
| Cash at bank | 4 780 |
| Trade payables | 18 300 |
| Discount received | 170 |
| Allowance for impairment of trade receivables | 780 |
| Interest expense | 2 500 |
| Wages and salaries expenses | 12 500 |
| Drawings | 1 600 |
| Bank loan repayable in 2027 | 30 000 |
| Cost of sales | 46 280 |
| Inventory | 7 620 |
| Rent income | 14 840 |
| Trade receivables | 13 600 |
| Discount allowed | 80 |
| Capital, 1 June 2021 | 38 000 |

Additional information as at 31 May 2022:

- 1 Rent income, \$2 400, has been received in advance.
- 2 Salaries and wages, \$5 800, was prepaid.

- 3 Interest expense of \$500 is still owing.
- 4 A review of trade receivables on 31 May 2022 showed that 5% of the trade receivables were estimated to be uncollectible.
- 5 Christine found \$350 worth of books damaged at the end of the year.
- 6 Depreciation is to be charged on the office equipment at 20% per annum using the straight-line method.
- 7 Depreciation is to be charged on the motor vehicle at 15% per annum using the reducing balance method.
- 8 A deposit of \$7 000 into the business bank account by Christine was not recorded yet.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 31 May 2022. [10]
- (b) Prepare the statement of financial position as at 31 May 2022. [10]

[Total: 20]

- 2** Alexandria started the business with \$10 000 of capital contribution on 1 April 2019.
On 20 September 2019, she contributed \$15 000 of inventory to the business.
On 13 November 2019, she withdrew \$3 000 for her own personal expenses.
On 31 March 2020, the business made a profit of \$55 100.

REQUIRED

- (a) State and explain the accounting theory for the transaction that occurred on 13 November 2019. [2]
- (b) Prepare journal entries to record the following transactions. Narrations are **not** required.
- (i) Contribution of \$15 000 of inventory on 20 September 2019 [2]
 - (ii) Transfer of drawings to capital account on 31 March 2020 [2]
- (c) Prepare the capital account for the year ended 31 March 2020. [6]
- (d) Define equity. [1]

[Total: 13]

- 3 James buys and sells wooden furniture. He bought a motor vehicle costing \$13 600 on credit.

REQUIRED

- (a) Explain the meaning **each** of the following terms:

- (i) Capital expenditure [2]
 (ii) Revenue expenditure [2]

During the year ended 31 October 2018, James' business incurred expenditure in respect of the motor vehicle.

REQUIRED

- (b) Copy the following table onto your answer booklet.

| | Capital expenditure | Revenue expenditure |
|--|---------------------|---------------------|
| Petrol | | |
| Road tax | | |
| Delivery charges of motor vehicle from Germany | | |
| Annual motor vehicle repairs and maintenance | | |

Complete the above table by classifying the expenditure by placing a tick () in the appropriate column.

[4]

- (c) Explain materiality theory.

[2]

Purchase of yearly insurance of \$790 for the motor vehicle was wrongly classified as a capital expenditure.

REQUIRED

- (d) State the effect of this on the following:

- (i) Profit for the year [1]
 (ii) Non-current asset [1]

James has decided to depreciate the motor vehicle using the reducing-balance method.

He was advised by the accountant not to change the depreciation method for the following accounting years ahead.

REQUIRED

- (e) Explain with a relevant accounting theory why James cannot change the depreciation method. [2]
[Total: 14]

4 Taqi buys and sells sunglasses.

On 1 September 2020, there was a balance of \$1 280 in the allowance for impairment of trade receivables account.

On 19 November 2020, Hidayah, a credit customer, announced closure of her business and that she would not be able to repay her \$370 debt. This amount was written off by Taqi.

On 31 August 2021, the trade receivables amounted to \$32 000.

Taqi's business makes an allowance for impairment of trade receivables based on 3% of its trade receivables at the end of each financial year.

REQUIRED

- (a) Explain why a business may decide to make an allowance for impairment of trade receivables. [2]
- (b) Prepare journal entries to record the following transactions. Narrations are not required:
- (i) Write off the debt owed by Hidayah [2]
 - (ii) Adjustment of allowance for impairment of trade receivables for the financial year ended 31 August 2020 [2]
- (c) Prepare an extract of the statement of financial performance for the year ended 31 August 2020, showing the impairment loss on trade receivables. [2]

Taqi issues invoices of 30-day credit terms to all his customers. Currently, he is considering granting 35-day credit repayment period to an existing customer. He has to choose between his customers, Devi and Sunny. Details of Devi and Sunny are as follows:

| | Devi | Sunny |
|--------------------------------------|--|---|
| Annual sales revenue | \$20 000 | \$13 000 |
| Average trade receivables balance | \$1 800 | \$1 000 |
| Repayment history over the past year | Repaid late 4 times. | Repaid late 2 times. |
| Reputation of business | <ul style="list-style-type: none"> ● Has been in the business for 3 years ● Online reviews rave about the customer service provided by Devi. ● Popular with small to medium enterprises with overseas presence. | <ul style="list-style-type: none"> ● Has been in the business for 7 years ● Outstanding testimonials are given by clients on the prompt delivery of products. ● Popular with small and local businesses. |
| Industry outlook | Sales from overseas market is relatively stable but sales from local enterprises are much affected due to Covid restrictions. | Small and local businesses are struggling but are able to pull through with reliefs and grants from the government. |

REQUIRED

(d) If you are Taqi, which customer would you grant a 35-day credit repayment period? Explain your answer with **two** reasons. [5]

[Total: 13]

END OF PAPER

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Answer Scheme

1(a) 10 Marks

| San Bookshop | | | |
|--|---------|----------|------|
| Statement of Financial Performance for the year ended 31 May 2022 | | | |
| | \$ | \$ | |
| Sales revenue | 131 370 | | |
| Less: Sales returns | (6 500) | | |
| Net sales revenue | | 124 870 | [1] |
| Less: Cost of sales | | (46 280) | |
| Gross profit | | 78 590 | [1] |
| Other income | | | |
| Discount received | 170 | | |
| Rent income (14 840 – 2 400) | 12 440 | 12 610 | [1] |
| | | 91 200 | |
| Less: Other expenses | | | |
| Wages and salaries expenses (12500 - 5800) | 6 700 | | [1] |
| Discount allowed | 80 | | |
| Interest expense (2500 + 500) | 3 000 | | [1] |
| Reversal of impairment loss on trade receivables [(5% x 13600) – 780 + 0] | (100) | | [1] |
| Impairment loss on inventory | 350 | | [1] |
| Depreciation of office equipment (20% x 60000) | 12 000 | | [1] |
| Depreciation of motor vehicle (15% x (120 000 – 18 000)) | 15 300 | (37 330) | [1] |
| Profit for the year | | 53 870 | [OF] |

1(b) 10 Marks

| San Bookshop | | | | |
|--|---------|--------------|----------|-----|
| Statement of Financial Position as at 31 May 2022 | | | | |
| | \$ | \$ | \$ | |
| Assets | Cost | Accumulated | Net Book | |
| Non-current assets | | Depreciation | Value | |
| Office equipment | 60 000 | 36 000 | 24 000 | [1] |
| Motor vehicle | 120 000 | 33 300 | 86 700 | [1] |
| | | | 110 700 | |
| Current assets | | | | |
| Trade receivables | 13 600 | | | |
| Less: Allowance for impairment of Trade Receivables (5% x 13600) | (680) | 12 920 | | [1] |
| Cash at bank (4780 + 7000) | | 11 780 | | [1] |
| Inventory (7620 – 350) | | 7 270 | | [1] |
| Prepaid salaries and wages expense | | 5 800 | 37 770 | [1] |
| Total Assets | | | 148 470 | |
| Equity and Liabilities | | | | |
| Owner's Equity | | | | |
| Capital [(38 000+ 7000) – 1600 + 53 870] | | | 97 270 | [2] |
| Non-current liabilities | | | | |
| Long term borrowings | | | 30 000 | |
| Current liabilities | | | | |
| Interest expense payable | | 500 | | [1] |
| Rent income received in advance | | 2 400 | | [1] |
| Trade payables | | 18 300 | 21 200 | |
| Total equity and liabilities | | | 148 470 | |

2

(a) Accounting entity theory. [1] The activities of the business are separate from the actions of the owner. / The business and owner are two separate entities. All transactions are recorded from the point of view of the business. [1] As such, the contributions and the withdrawals by the owner are recorded by the business.

(b)

| Journal | | | |
|---------|-------------|------------|------------|
| Date | Particulars | DR | CR |
| 2019 | | \$ | \$ |
| Sep 20 | Inventory | 15 000 [1] | |
| | Capital | | 15 000 [1] |
| | | | |
| 2020 | | | |
| Mar 31 | Capital | 3 000 [1] | |
| | Drawings | | 3 000 [1] |
| | | | |

(c) **6 Marks**

| Capital | | | | |
|---------|----------------|-------|--------|---------------|
| Date | Particulars | DR | CR | BAL |
| 2019 | | \$ | \$ | \$ |
| Apr 1 | Bal b/d | | | 10 000 CR [1] |
| Sep 20 | Inventory | | 15 000 | 25 000 CR [1] |
| 2020 | | | | |
| Mar 31 | Drawings | 3 000 | | 22 000 CR [1] |
| Mar 31 | Income summary | | 55 100 | 77 100 CR [1] |
| Apr 1 | Bal b/d | | | 77 100 CR [1] |

[1] Correct dates

(d) Equity is defined as the net claim on the assets of the business by the owner. [1]

3(a) (i) Capital expenditure refers to the cost to buy and bring the non-current asset to their intended use or costs used to enhance non-current assets. [1] These benefits last for more than a year. [1]

(a) (ii) Revenue expenditure refers to the costs to operate, repair and maintain the non-current assets in working conditions. [1] These benefits are used up within a year. [1]

(b)

| | Capital expenditure | Revenue expenditure |
|--|---------------------|---------------------|
| Petrol | | [1] |
| Road tax | | [1] |
| Delivery charges of motor vehicle from Germany | [1] | |
| Annual motor vehicle repairs and maintenance | | [1] |

(c) Materiality theory states that relevant information should be reported in the financial statements \ if it is likely to make a difference to the decision-making process. [2/0]

(d)(i) The profit for the year would be overstated by \$790. [1]

(ii) The non-current asset would be overstated by \$790. [1]

(e) According to consistency theory, [1] once an accounting method is chosen, this method should be applied to all future accounting periods to enable meaningful comparison. [1]

4 (a) According to prudence theory, [1] trade receivables should not be overstated as there are likely debts to be uncollectible. [1]

(b)

| Journal | | | |
|---------|---|---------|---------|
| Date | Particulars | DR | CR |
| 2020 | | \$ | \$ |
| Nov 19 | Allowance for impairment of trade receivables | 370 [1] | |
| | Trade receivables - Hidayah | | 370 [1] |
| | | | |
| 2020 | | | |
| Aug 31 | Impairment loss on trade receivables (960 – 1280 + 370) | 50 [1] | |
| | Allowance for impairment of trade receivables | | 50 [1] |
| | | | |

(c)

| San Bookshop | | | |
|---|----|----|-----|
| Statement of Financial Performance for the year ended 31 May 2022 | | | |
| | \$ | \$ | |
| Less: Other expenses [1] | | | |
| Impairment loss on trade receivables | | 50 | [1] |

(d)

| | |
|----------|---|
| Decision | Taqi should grant Devi the 35-day credit repayment period. |
| B1 | Devi has \$7 000 higher annual sales revenue than Sunny. |
| D1 | This shows that Taqi can earn better annual sales revenue by continuing to have a good relationship with Devi. |
| B2 | Devi has both local and overseas presence unlike Sunny who only has local presence. |
| D2 | Devi's outreach for customers globally will create a greater demand for Taqi's sunglasses and will lead to prospective sales and higher sales revenue generation. |
| B3 | Devi sells to medium enterprises unlike Sunny who sells to small businesses only. |
| D3 | Devi's outreach to medium enterprises will create a greater target market for Taqi's sunglasses and will lead to prospective sales and higher sales revenue generation. |
| B4 | Devi is raved to provide better customer service than Sunny. |
| D4 | Taqi will have a better and reliable stream of revenue from Devi given her quality customer service provided to her customers and quality reviews. |

OR

| | |
|----------|---|
| Decision | Taqi should grant Sunny the 35-day credit repayment period. [1] |
| B1 | Sunny is 4 years more experienced in this industry than Devi [1] |
| D1 | Sunny's reputation and expertise in the industry will ensure a reliable and steady reserves for repayment of amount owing to Taqi. [1] |
| B2 | Sunny's average trade receivables balance is \$800 lower than Devi's balances. |
| D3 | Sunny is able to pay off their trade receivables more quickly than Devi, allowing Taqi to have more funds at any one time to use for their business operations. |
| B3 | Sunny has a better record of late repayment which is 2 times less than Devi |
| D3 | Sunny's better records will encourage better and more prompt payment to facilitate smooth operation flow in Taqi's business. |
| B4 | Sunny is raved to provide more prompt delivery of products than Devi. |
| D4 | Taqi will have a better and reliable stream of revenue from Sunny given prompt services provided to her customers and quality reviews. |