



# Marsiling Secondary School

## GCE O-Level Preliminary Examination 2022

Subject: **Principles of Accounts** Level: **Sec 4/5** Stream: **Express/  
Normal  
(Academic)**  
Paper 2 (7087/02)

Date: **31 August 2022** Duration: **2 hours**

Name: \_\_\_\_\_ Index No: \_\_\_\_\_ Class: \_\_\_\_\_

No Additional Materials are required.

### 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 use of an approved calculator is allowed.

The businesses described in this question paper are entirely fictitious.

Start each question on a separate page.

All calculations must be shown adjacent to the answer.

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

FOR EXAMINER'S USE	
<b>TOTAL</b>	<b>60</b>

Setter: Mr Alfred Wee

*This question paper consists of 7 printed pages, including the cover page.*

Answer **all** questions

- 1** The following balances were taken from the books of Jander Limited on 31 July 2022:

	\$
Share capital, 100 000 ordinary shares	100 000
Retained earnings, 1 August 2021	37 000
Cost of sales	175 610
Sales returns	4 100
Sales revenue	350 900
8% Mortgage loan repayable on 20 May 2027	20 000
Interest on mortgage loan	1 300
Inventory	49 500
General expenses	63 800
Wages and salaries	46 000
Repairs and maintenance	8 600
Allowance for impairment of trade receivables	2 200
Trade receivables	29 400
Trade payables	7 700
Fixtures and fittings	58 000
Motor vehicles	160 000
Accumulated depreciation	
Fixtures and fittings	21 500
Motor vehicles	54 600
Bank overdraft	810
Commission received	1 600

## Additional information

- 1 At 31 July 2022:
  - i) Annual wages and salaries amounted to \$48 000.
  - ii) Interest on mortgage loan was still not fully paid.
  - iii) Commission received but not earned was \$250.
- 2 Included in general expenses was an insurance expense of \$15 400 which covers a period of 14 months from 1 August 2021.
- 3 Motor vehicle repairs, \$2 000, had been incorrectly debited to the motor vehicles account.
- 4 Annual depreciation is to be charged as follows:
  - i) Fixtures and fittings, at 10% per annum using the straight-line method.  
The fixtures and fittings has a residual value of \$3 000,
  - ii) Motor vehicles at 20% per annum using the reducing-balance method.

- 5 The allowance for impairment of trade receivables is to be maintained at 5% of the trade receivables.
- 6 A repayment, one-fifth of the 8% mortgage loan, will be due during the year ended 31 July 2023.
- 7 A dividend of 3 cents per share was declared on 16 July 2022. It is to be paid out to shareholders on 31 August 2022.

**REQUIRED**

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

**[Total: 20]**

- 2 The following information is taken from the books of Syafiq's business.

	2020	2021
	\$	\$
Non-current assets	68 000	72 000
Inventory	8 500	12 200
Prepaid insurance	-	5 700
Cash at bank	1 400	-
Bank overdraft	-	3 800
Cash in hand	800	450
Trade receivables	6 800	10 600
Allowance for impairment of trade receivables	1 300	2 450
Trade payables	3 900	4 200
Interest expense payable	900	900

### REQUIRED

- (a) Define working capital. [1]
- (b) Calculate the following ratios, correct to two decimal places, for Syafiq's business for year 2020 and 2021.
- (i) Current ratio
- (ii) Quick ratio [4]
- (c) Why would a bank, which is considering granting a loan to the business, be interested in the ratios in (b)? [2]
- (d) Based on your calculations in (b), and any other information given, would the bank grant the loan to Syafiq's business? Support your answers with reasons. [5]
- (e) Suggest **two** ways that Syafiq could improve the liquidity position of his business. [2]

[Total: 14]

- 3 Javier runs an advertising agency. His business has a financial year end 31 July. The following information has been provided.

	\$
Account balances at 1 August 2021	
Utilities payable	1 364
Commission income receivable	1 500
During the year ended 31 July 2022	
Payments for utilities through direct debit	8 700
Commission received by cheque	16 000

Additional information

- 1 Included in the payments for utilities was the sum of \$568 in respect of August 2022.
- 2 Commission income, \$800, had not been received on 31 July 2022.

**REQUIRED**

- (a) Calculate the amount for utilities expense to be included in the statement of financial performance of the business for the year ended 31 July 2022. [3]
- (b) Prepare journal entries to account for commission income for the year ended 31 July 2022 including the closing entry. Narrations are not required. [4]
- (c) Name and explain the accounting theory being applied when calculating the amounts for utilities expense and commission income. [2]
- (d) State **two** types of transactions or items when bank statement is used as the source document in accounting. [2]
- (e) State **two** measures of internal control a business may use to safeguard its cash resource. [2]

**[Total: 13]**

4 Benson runs a trading business. He has provided the following information.

- 1 All sales are made on credit.
- 2 The business's terms of trade with customers are for payment in full within 30 days.
- 3 No discount is offered for early settlement.
- 4 The business's trade receivables collection period is 35 days on average.

Jerry is a prospective new customer. The following information has been made available about Jerry's business.

- 1 Jerry operates his business overseas in a developing country where there is fluctuating economic growth as the economy is still growing.
- 2 Jerry started his business selling electrical items a year ago. Based on reviews by industrial experts, his business is very promising and that its sales revenue is expected to triple in the second year of its business operations.
- 3 The electrical items that Jerry's business are selling are becoming a need in the country although for some, such electrical items are still luxury items.
- 4 Jerry's business pays its suppliers on average within 40 days.
- 5 Jerry can provide details of three of his current suppliers who are willing to give a reference as to his reliability and payment history.
- 6 There is no negative news about Jerry being in debt or not paying his suppliers.

#### **REQUIRED**

- (a) Recommend whether or not Benson should agree to make sales on credit to Jerry. Justify your decision with **three** reasons.

[7]

The following transactions took place during the financial year ended 30 June 2022 between Benson's business and one of its existing credit customer, Kelly.

2022

- Feb 9 Goods at list price \$6 000 less 10% trade discount were sold to Kelly on credit.
- 12 Kelly returned defective goods costing \$1 000 to Benson's business. These were previously bought on Feb 9.
- 27 Kelly paid \$4 000 by cheque for full settlement of amount owing on this date.
- Mar 3 The bank returned Kelly's cheque due to insufficient funds.

On 30 June 2022, Kelly declared bankrupt. Benson's business only managed to recover \$0.30 for every dollar of Kelly's outstanding balance by cheque. Benson's business decided to write off the remaining balance as bad debt.

### REQUIRED

- (b) Calculate the balance on Kelly's account that was still outstanding before Kelly's bankrupt. [2]
- (c) Prepare the journal entry to record the cash recovered and write off the remaining balance at 30 June 2022. A narration is not required. [3]
- (d) Explain the purpose of giving a trade discount to customers. [1]

**[Total: 13]**

**END OF PAPER**





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**Suggested Answers and Marking Scheme:**

**1 (a)**

**Jander Limited**

**Statement of financial performance for the year ended 30 July 2022**

	\$	\$	
Sales revenue		350 900	
Less: Sales returns		4 100	
Net sales revenue		346 800	1
Less: Cost of sales		175 610	
Gross Profit		171 190	1 OF
Other income:			
Commission income (1 600 – 250)		1 350	1
		172 540	
Less: Other expenses			
Interest expense (8% x 20 000)	1 600		1
General expenses (63 800 – 2 200)	61 600		1
Repairs and maintenance (8 600 + 2 000)	10 600		1
Wages and salaries expense (46 000 + 2 000)	48 000		1
Depreciation:			
-Fixtures and fittings ( (58 000-3 000) x10% )	5 500		1
-Motor vehicles ( 20% x [ (160 000 – 2 000) - 54 600 ] )	20 680		1
Reversal of impairment loss on trade receivables (1 470 – 2 200 = -730)	(730)		1
		(147 250)	
Profit for the year		25 290	

**Sub-section titles/Presentation format:** deduct 0.5m or 1m for poor presentation

**[10]**

1 (b)

**Jander Limited**  
**Statement of financial position as at 31 July 2022**

	\$	\$	\$	
ASSETS	Cost	Accumu deprn	Net book value	
<u>Non-current assets</u>				
Fixtures and fittings	58 000	27 000	31 000	
Motor vehicles	158 000	75 280	82 720	1
			113 720	1 OF
<u>Current assets</u>				
Trade receivables		29 400		
Less: Allowance for impairment of trade receivables		1 470		1
Net trade receivables		27 930		
Inventory		49 500		
Prepaid general expenses (prepaid insurance expense)		2 200		1
			79 630	
<b>Total assets</b>			<b>193 350</b>	
<b>EQUITY AND LIABILITIES</b>				
<u>Shareholders' equity</u>				
Share capital, 100 000 ordinary shares		100 000		
Retained earnings (37 000 + 25 290 – 3 000)		59 290		1 OF
Total equity			159 290	
<u>Non-current liabilities</u>				
Long-term borrowings (4/5 x 20 000)			16 000	0.5
<u>Current liabilities</u>				
Trade payables		7 700		
Bank overdraft		810		1
Wages and salaries expense payable		2 000		0.5
Commission income received in advance		250		1
Interest expense payable		300		0.5
Current portion of long-term borrowings (1/5)		4 000		0.5
Dividend payable		3 000		1
			18 060	
<b>Total equity and liabilities</b>			<b>193 350</b>	

**Sub-section titles/Presentation format:** deduct 0.5m or 1m for poor presentation

[10]

[Total: 20]

- 2 (a) Working capital = current assets – current liabilities. OR  
Working capital is the excess of current assets over current liabilities of a business. [1]
- (b) (i) Current ratio = Current assets / Current liabilities  
 2020: Current assets = 8 500+1 400+800+6 800-1 300 = 16 200  
 Current liabilities = 3 900+900 = 4 800  
 Current ratio = 16 200 / 4 800 = 3.38 (1)  
 2021: Current assets = 12 200+5 700+450+10 600-2 450 = 26 500  
 Current liabilities = 3 800+4 200+900 = 8 900  
 Current ratio = 26 500 / 8 900 = 2.98 (1) [2]
- (ii) Quick Ratio = (Current assets – Inventory – Prepayments) / Current liabilities  
 2020: Current assets – inventory – prepayments = 16 200-8 500 = 7 700  
 Current liabilities = 4 800  
 Quick ratio = 7 700 / 4 800 = 1.60 (1)  
 2021: Current assets – inventory – prepayment = 26 500-12 200-5 700 = 8 600  
 Current liabilities = 8 900  
 Quick ratio = 8 600 / 8 900 = 0.97 (1) [2]
- (c) Why would a bank, which is considering granting a loan to the business, be interested in the ratios in (b)? [2]
- Ability to service the regular interest payments. (1)
  - Ability to repay loan. (1)
- (d) Based on your calculations in (b), and any other information given, would the bank grant the loan to the business? Support your answers with reasons. [5]
- **Evidence**
    - The current ratio has worsened from 3.88 in 2020 to 2.98 in 2021. (1)
    - The current ratio has worsened even though it is above the ideal ratio of 2. (0.5)
    - The quick ratio has worsened from 1.60 in 2020 to 0.97 in 2021. (1)
    - The quick ratio is below the ideal ratio of 1. (0.5) Hence, it is likely to face liquidity problems, not enough short term funds. Too much fund is tied to inventory.
    - The balance in the cash at bank has also decreased from \$1 400 to an overdraft of \$3 800. (1)

(At least 2 pieces of evidence to be given, at 1-3 max 3max)
  - **Decision and Reasons**  
 Decision: The bank **would not** grant a loan to Syafiq's business as there is a **worsening** liquidity position as:
    - Syafiq may have difficulties in repay of interest and loan.
    - Syafiq will have difficulty in paying current debts and daily operational expenses.
    - Syafiq will lose credit worthiness. His business may be at risk of solvency or bankruptcy.

(Must clearly **the decision (1m)** and with **2 reasons** at 1-2m, **max 2m**)
- (e) Any 2 good ways to improve liquidity position: [2]
- ✓ Additional capital contributed by owner
  - ✓ Borrow long term loan
  - ✓ Sell away excess non-current assets
  - ✓ Increase sales revenue especially cash sales

[Total: 14]

- 3 (a) To calculate the utilities expense incurred: [3]  
 = Previous year expense payable + this year's payment – prepaid expense for next year  
 = - 1 364 + 8 700 – 568 1-2m max  
 = \$ 6 768 [A1]

(b) [4]

Journal			
2021		Debit \$	Credit \$
Aug 1	Commission income Commission income receivable	1 500	1 500 (1)
2022 Jul 31	Cash at bank Commission income	16 000	16 000 (1)
Jul 31	Commission income receivable Commission income	800	800 (1)
Jul 31	Commission Income Income summary	15 300	15 300 (1)

[4]

- (c) **Accrual basis of accounting theory.** It states that income is recognised when it is earned regardless of whether it has been received or not. Similarly, expenses are recognised when they are incurred or used up regardless of whether they have been paid or not. [2]

(Note: **Matching theory** is acceptable)

- (d) State **two** types of transaction or item when bank statement is used as the source document in accounting. [2]

Any 2 types:

- Bank charges
- Dishonoured cheques
- Direct credits
- Direct debits
- Interest received through the bank
- Interest charged by the bank

- (e) State **two** measures of internal control a business may use to safeguard its cash resource. [2]

Any 2 measures:

- Segregation of duties
- Custody of cash
- Authorisation
- Bank reconciliation

**[Total: 13]**

**4 (a)** Benson should agree to make sales on credit to Jerry.(1)

- Jerry's business is very promising and his sales revenue is expected to triple in second year of its operations.(1) This indicates that his business may grow and should be able to make payment to Benson.(1)
- Jerry can provide references from current suppliers, 3 of them.(1) This means that it may be possible to have evidence of his payment history, reliability and reputation from third parties.(1)
- There is no negative news about Jerry being in debt or not paying his suppliers.(1) This may mean that Jerry should be able to make payments to Benson.(1)
- The electrical items sold by Jerry are becoming a need in the country. This means that there will be more customers willing to buy these items in time to come.

OR

Benson should not agree to makes sales on credit to Jerry.(1)

- Jerry's business operates overseas in a developing country where there is fluctuating economic growth.(1) This may mean possible delays in receiving payment from Jerry compared to local customer. There are likely to more risks due to currency exchange and possible language problems in debt collection process. Hence selling to Jerry on credit may not be recommended.(1)
- Jerry takes longer to pay his suppliers (40 days) than both Benson's standard terms (30 days) and his average trade receivables collection period (35 days).(1) This may mean a higher risk of a delay in receiving payment from Jerry.(1)
- As electrical items are still a luxury item for some of the people in the country where Jerry operates, Jerry may not be able to sell his goods to these customers who deem these goods are luxury goods.(1) This may mean lower sales revenue and there is higher risk that Jerry not earned enough to pay promptly.(1)
- Jerry can provide references from 3 of its current suppliers. However, these suppliers may not been in business with Jerry for a long period, and Jerry may have chosen those suppliers who he pays promptly. Hence, the references may not be biased and unreliable. (1)

[7]

(Accept any other valid sets of reason, evidence and development)

[Any 3 valid reasons (sets of evidence & development) @ 2m = 6m max;  
plus 1m for Decision, Max 7m]**(b)** Outstanding balance before Kelly was declared bankrupt:

$$\begin{aligned}
 &= (\$6\,000 \times 90\%) - (\$1\,000 \times 90\%) \quad \text{M1} - 4\,000 + 4\,000 \\
 &= \$5\,400 - \$900 \\
 &= \$4\,500 \quad \text{A1}
 \end{aligned}$$

[2]

**(c)** Journal

Date	Particulars	Debit	Credit
2022		\$	\$
Jun 30	Cash at bank (30%)	1 350	
	Allowance for impairment of trade receivables (70%)	3 150	
	Kelly, trade receivable		4 500

1

1

1

[3]

**(d)** A trade discount is given to encourage customers to buy goods in bulk &/or for customer patronage &/or for customer loyalty.

[1]

[Total: 13]

**END OF PAPER**