Name: ....( ) Class:................

PRESBYTERIAN HIGH SCHOOL

PRINCIPLES OF ACCOUNTS **7087/01**
PAPER 1

23 August 2024 1 hour

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2024 SECONDARY FOUR EXPRESS / FIVE NORMAL
PRELIMINARY EXAMINATION

Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your name, index number and class the spaces at the top of this page.

Write in dark blue or black pen.

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

Do not use staples, paper clips, glue or correction fluid.

The use of an approved calculator is allowed.

DO **NOT** WRITE ON ANY BARCODES.

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.

Setter: Miss Chee Bee Seok

Vetter: Mr Ha Yeong Fook

Answer **all** questions.

1. Janice imports hand-embroidered cushion covers from China to sell at her store. On 12 July 2023, she received the following invoice from Si Yun Pte. Ltd.

	$
2 000 sets of cushion covers	4 500
Freight, insurance and customs	100

In addition, Janice paid for the following:

i) Packing of cushion covers into gift boxes $300
ii) Design of gift box by Art student $100
iii) Promotion pamphlets $150

REQUIRED

(a) Calculate the cost of this batch of inventory. [1]

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Janice provided the following information on her inventory for the month of August 2023.

Date		Quantity (pieces)	Cost ($)	Selling price ($)
August 1	Unsold cushion covers	800	2 400	-
4	Cushion covers bought on credit	1 000	2 770	-
10	Cushion covers bought for cash	2 000	2 500	-
12	Cushion covers sold on credit	800	-	4 500
17	Cushion covers imported	3 000	8 100	-
22	Cushion covers sold for cash	3 000	-	12 000

Janice uses First-in, First-out inventory management.

REQUIRED

(b) Calculate the cost of sales for the month of August 2023. [2]

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pg 58

On 31 August 2023, a fire took place at Janice's store. She discovered that one-third of her inventory was damaged and had to be discarded. The balance of cushion covers had to be repacked at a cost of $200. She was still able to sell them for $6 000.

REQUIRED

(c) Using an accounting theory, explain how inventory should be valued. [2]

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(d) Prepare journal entries to record the impairment loss on inventory on 31 August 2023. Narration is not required. [2]

Journal

Date	Particulars	Dr $	Cr $

Janice made a claim against the insurance company on 1 September 2023. The insurance company agreed to pay Janice $1 000 for the loss in October 2023.

REQUIRED

(e) Prepare journal entries to account for the insurance claim. Narration is not required. [2]

Journal

Date	Particulars	Dr $	Cr $

(f) State how profit for the month of August would be affected by the fire and insurance claim. [1]

....

Janice shared the following information provided by her accountant.

Year-ended	30 June 2022	30 June 2023	30 June 2024
Rate of inventory turnover	10.8 times	9.6 times	8.8 times

REQUIRED

(g) (i) Comment on the above trend of rate of inventory turnover. [2]

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(ii) State one measure Janice can take to improve the rate of inventory turnover. [1]

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[Total: 13]

pg 59

2. The following cash at bank account was extracted from Juliana's books.

Cash at Bank account

2024		Cheque number	Dr ($)	Cr ($)	Balance ($)
Apr 1	Balance b/d				420 Cr
8	Trade payable – Joel	1224		1 000	
11	Sales revenue		2 500		
16	Rent expense	1225		1 800	
20	Trade receivable – Jolin		840		
25	Inventory	1226		640	
28	Trade receivable – Jim		420		
30	Equipment	1227		1 200	

On 2 May 2024, Juliana received the bank statement below.

2024		Withdrawal ($)	Deposits ($)	Balance ($)
Apr 1	Balance b/d			1 000 Cr
2	Cheque 1222	1 420		420 Dr
5	Direct debit: Utilities bills	330		750 Dr
9	Cheque 1224	1 000		1 750 Dr
11	Cash deposited		2 500	750 Cr
20	Direct credit: Commission		200	950 Cr
24	Cheque deposited		840	1 790 Cr
28	Cheque returned	840		950 Cr
28	Bank interest		20	970 Cr
29	Cheque 1226	640		330 Cr

REQUIRED

(a) Update the cash at bank account and bring the balance to May 1, 2024. [5]

Cash at Bank account

Date	Particulars	Dr $	Cr $	Balance $

(b) Prepare a bank reconciliation statement as at 30 April 2024 to reconcile the balances in bank statement and updated cash at bank. [4]

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The bookkeeper calculated the profit for the year to be $13 200 prior to performing bank reconciliation.

REQUIRED

(c) Calculated the profit after performing bank reconciliation. [2]

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Bank reconciliation is a form of internal control to safeguard the asset of a business.

REQUIRED

(d) Explain another purpose of internal control. [1]

....

[Total: 12]

pg 60

3 Joshua provided the following information on his business performance for the year ended 30 June 2024.

	$
Sales revenue	280 000
Sales returns	4 000
Cost of sales	191 406
Expenses incurred for the year	51 060
Equity on 1 July 2023	100 000
Equity on 30 June 2024	110 300

REQUIRED

(a) Calculate the following, leaving your answers to **two** decimal places

(i) Mark-up on cost [1]

(ii) Profit margin [1]

(iii) Returns on equity [1]

Joshua provided the past two years' profitability ratios.

Year ended	30 June 2022	30 June 2023
Mark-up on cost	48.66%	46.38%
Profit margin	13.88%	13.03%
Returns on equity	30.54%	31.06%

REQUIRED

(b) Comment on the profitability trend of Joshua's business. [5]

(d) Suggest one way Joshua can improve the returns on equity. [1]

[Total: 9]

Pg 61

4. Josephine included her credit sales revenue as her income even though the customers have yet to pay for the goods delivered.

REQUIRED

(a) Using an accounting theory, explain if Josephine has correctly reported her sales revenue. [2]

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....

Besides selling inventory, Josephine earns a 10% commission based on sales of potted plants belonging to Jeremy. She provided the following information relating to the commission income for the year ended 30 June 2024.

2023	
July 1	Commission earned but not received, $500.
Dec 28	Jeremy paid Josephine commission of $1 800 via bank transfer.
2024	
Jun 12	Jeremy paid Josephine commission of $1 440 via bank transfer.
Jun 30	The sales of potted plants for the year ended 30 June 2024 was $30 000.

REQUIRED

(b) Prepare journal entries to record the above and close the commission income for the year ended 30 June 2024. Narrations are not required. [4]

Journal

Date	Particulars	Dr $	Cr $
2023			
Jul 1	Commission income	500	
	Commission income receivable		500
Dec 28	Cash at bank	1800	
	Commission income		1800
2024			
Jan 12	Cash at bank	1440	
	Commission income		1440
Jun 30	Commission income		
	Income Summary.		

[Total: 6]

END OF PAPER

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Name: ....( ) Class:.................

PRESBYTERIAN HIGH SCHOOL

PRINCIPLES OF ACCOUNTS **7087/01**
PAPER 1

16 August 2024 Friday 1 hour

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2024 SECONDARY FOUR EXPRESS / FIVE NORMAL
PRELIMINARY EXAMINATION

ANSWER SCHEME

Setter: Miss Chee Bee Seok

Vetter: Mr Ha Yeong Fook

This document consists of **9** printed pages.

Answer **all** questions.

1. Janice imports hand-embroidered cushion covers from China to sell at her store. On 12 July 2023, she received the following invoice from Si Yun Pte. Ltd.

	$
2 000 sets of cushion covers	4 500
Freight, insurance and customs	100

In addition, Janice paid for the following:

i)	Packing of cushion covers into gift boxes	$300
ii)	Design of gift box by Art student	$100
iii)	Promotion pamphlets	$150

REQUIRED

(a) Calculate the cost of this batch of inventory. [1]

Cost of cushion covers	4 500
Freight, insurance and customs	100
Packing cost	300
Design of gift box	100
Total cost of inventory	**$5 000 [1]**

Janice provided the following information on her inventory for the month of August 2023.

Date		Quantity (pieces)	Cost ($)	Selling price ($)
August 1	Unsold cushion covers	800	2 400	-
4	Cushion covers bought on credit	1 000	2 770	-
10	Cushion covers bought for cash	2 000	2 500	-
12	Cushion covers sold on credit	800	-	4 500
17	Cushion covers imported	3 000	8 100	-
22	Cushion covers sold for cash	3 000	-	12 000

Janice uses First-in, First-out inventory management.

REQUIRED

(b) Calculate the cost of sales for the month of August 2023. [2]

Date	Cost of sales ($)
Aug 12	2 400
Aug 22	2 770
	2 500
Total cost of sales	**$7 670** [1]

Working 1m

129 63

On 31 August 2023, a fire took place at Janice's store. The salvaged cushion covers had to be repacked at a cost of $200. She was still able to sell them for $6 200.

REQUIRED

(c) Using an accounting theory, explain how inventory should be valued. [2]

Based on <u>prudence theory</u> [1], inventory should be valued at lower of cost and net realizable value, to prevent overstatement of assets and profit [1].

(d) Prepare journal entries to record the impairment loss on inventory on 31 August 2023. Narration is not required. [2]

Net realizable value = Selling price less cost of repacking
= $6200 – 200
= $6000
Impairment loss on inventory = Cost less Net realizable value
= 8100 – 6000
=$2100

Journal

Date	Particulars	Dr $	Cr $
2023			
Aug 31	Impairment loss on inventory	2 100	
	Inventory		2 100

Double entry [1m]; amount [1m]

Janice made a claim against the insurance company on 1 September 2023. The insurance company agreed to pay Janice $1 000 for the loss in October 2023.

REQUIRED

(e) Prepare journal entries to account for the insurance claim. Narration is not required. [2]

Journal

Date	Particulars	Dr $	Cr $
2023			
Sep 1	Insurance claim receivable [1]	1 000	
	Impairment loss on inventory [1]		1 000

(f) State how profit for the month of August would be affected by the fire and insurance claim. [1]

Profit will be reduced by $1 100 [1]

Janice shared the following information provided by her accountant.

Year-ended	30 June 2022	30 June 2023	30 June 2024
Rate of inventory turnover	10.8 times	9.6 times	8.8 times

REQUIRED

(g) (i) Comment on the above trend of rate of inventory turnover. [2]

Any two comments [1m each]:
1. The rate of inventory turnover had worsened over the three years.
2. Janice's inventory replenishment had slowed down.
3. The inventory took a longer time to be sold [from 33.8 days to 41.48 days]

ii) State one measure Janice can take to improve the rate of inventory turnover. [1]

Any one [1m]
1. Janice may hold less inventory on hand.
2. Janice may want to increase sales of inventory through marketing strategies e.g. giving trade discount to encourage buying

[Total: 13]

Pg 64

2. The following cash at bank account was extracted from Juliana's books.

Cash at Bank account

2024		Cheque number	Dr ($)	Cr ($)	Balance ($)
Apr 1	Balance b/d				420 Cr
8	Trade payable – Joel	1224		1 000	
11	Sales revenue		$\boxed{2\,500}$		
16	Rent expense	1225		1 800	
20	Trade receivable – Jolin		$\boxed{840}$		
25	Inventory	1226		640	
28	Trade receivable – Jim		420		
30	Equipment	1227		1 200	1 300 Cr

On 2 May 2024, Juliana received the bank statement below.

2024		Withdrawal ($)	Deposits ($)	Balance ($)
Apr 1	Balance b/d			1 000 Cr
2	Cheque 1222	~~1 420~~		420 Dr
5	Direct debit: Utilities bills	330		750 Dr
9	Cheque 1224	1 000		1 750 Dr
11	Cash deposited		$\boxed{2\,500}$	750 Cr
20	Direct credit: Commission		200	950 Cr
24	Cheque deposited		$\boxed{840}$	1 790 Cr
28	Cheque returned	840		950 Cr
28	Bank interest		20	970 Cr
29	Cheque 1226	640		330 Cr

REQUIRED

(a) Update the cash at bank account and bring the balance to May 1, 2024. [4]

Cash at Bank account

Date	Particulars	Dr $	Cr $	Balance $
2024 Apr 30	Balance b/d [1]			1 300 Cr
30	Utilities		330	1 630 Cr
30	Commission [1]	200		1 430 Cr
30	Jolin (dishonoured cheque) [1]		840	2 270 Cr
30	Bank interest [1]	20		2 250 Cr
2024 May 1	Balance b/d			2 250 Cr

(b) Prepare a bank reconciliation statement as at 30 April 2024 to reconcile the balances in bank statement and updated cash at bank. [5]

Bank Reconciliation Statement as at 30 April 2024

	$	$
Balance per bank statement [1]		330
Add: Deposit in transit		
Trade receivable – Jim [1]		420
		750
Less: Cheques not yet presented		
Rent expense (Cheque 1225) [1]	1 800	
Equipment (Cheque 1227) [1]	1 200	
		3 000
Balance per updated cash at bank (overdraft) [1]		2 250

The bookkeeper calculated the profit for the year to be $13 200 prior to performing bank reconciliation.

REQUIRED

(c) Calculated the profit after performing bank reconciliation. [2]

Revised profit = profit before bank reconciliation – utilities + commission + bank interest

= 13 200 – 330 +200 + 20 [1]

= $13 090 [1]

Bank reconciliation is a form of internal control to safeguard the asset of a business.

REQUIRED

(d) Explain another purpose of internal control. [1]

Any one of the following, 1m

1. To adhere to laws and regulations
2. Ensure accuracy in recording

[Total: 12]

Pg 65

3 Joshua provided the following information on his business performance for the year ended 30 June 2024.

	$
Sales revenue	280 000
Sales returns	4 000
Cost of sales	191 406
Expenses incurred for the year	51 060
Equity on 1 July 2023	100 000
Equity on 30 June 2024	110 300

REQUIRED

(a) Calculate the following, leaving your answer to **two** decimal places

[1]

(i) Mark-up on cost

= [Gross Profit / Cost of sales] X 100

= [(280000-4000) – 191 406] / 191 406 X 100

= [84 594 / 191 406] X 100

= 44.20%

(ii) Profit margin

= [Profit / Net Sales Revenue] X 100 [1]

= [(84 594 – 51 0600) / 276 000] X 100

= 33 534 / 276 000 X 100

= 12.15%

[1]

(iii) Returns on equity

= [Profit / Average Equity] X 100

= 33 534 / [(100 000+110300)/2] X 100

= 31.89%

Joshua provided the past two years' profitability ratios.

Year ended	30 June 2022	30 June 2023	30 June 2024
Mark-up on cost	48.66%	46.38%	44.20%
Gross profit margin	32.73%	31.68%	30.65%
Profit margin	13.88%	13.03%	12.15%
Returns on equity	30.54%	31.06%	31.89%

REQUIRED

(b) Comment on the profitability trend of Joshua's business. [5]

Any 5 points, 1m each

1. The mark-up on cost has worsened over the three years from 48.66% to 44.20%. Each dollar investment in inventory is bringing in less gross profit. **Or** Business was earning less from each dollar of inventory. In 2022, every dollar of inventory earned the business 48.66 cents gross profit but in 2024, it has reduced to just 44.20 cents.
2. The lower mark-up on cost over the years might be due to higher cost of inventory which was not fully transferred to the customers or Joshua has lowered his selling price of inventory.
3. The profit margin has worsened over the three years from 13.88% to 12.15%. Each dollar of net sales revenue brings in less profit. **OR** each dollar of net sales revenue earned the business 13.88 cents profit in 2022 but it has decreased to just 12.15 cents profit in 2024.
4. The lower profit margin was due to the lower mark-up on cost.
5. The returns on equity, however, showed an improving trend, increasing from 30.54% to 31.89%. Each dollar investment has brought in more returns in 2024 compared to the last two years.
6. The mark-up on cost showed a downward trend.
7. The profit margin showed a downward trend.

(c) Suggest one way Joshua can improve the returns on equity. [1]

Any 1, 1m

1. Joshua can increase profit for the year by increasing gross profit through better gross profit margin or cutting its expenses.
2. Joshua can consider generating other income e.g. rental from subletting his premises or invest excess funds to earn interest or dividends.
3. Joshua can reduce his equity balance by reducing his capital if it doesn't affect business operation.

[Total: 9]

pg 66

4. Josephine included her credit sales revenue as her income even though the customers have yet to pay for the goods delivered.

REQUIRED

a) Using an accounting theory, explain if Josephine has correctly reported her sales revenue. [2]

Based on revenue recognition theory [1], revenue is recognized upon delivery of goods or provision of services. In this case, Josephine can record the revenue since the goods are delivered [1].

Besides selling inventory, Josephine earns a 10% commission based on sales of potted plants belonging to Jeremy. She provided the following information relating to the commission income for the year ended 30 June 2024.

2023	
July 1	Commission earned but not received, $500.
Dec 28	Jeremy paid Josephine commission of $1 800 via bank transfer.
2024	
Jun 12	Jeremy paid Josephine commission of $1 440 via bank transfer.
Jun 30	The sales of potted plants for the year ended 30 June 2024 was $30 000.

REQUIRED

(b) Prepare journal entries to record the above and close the commission income for the year ended 30 June 2024. Narrations are not required. [4]

Journal

Date	Particulars		Dr $	Cr $
2023				
Jul 1	Commission income	1m	500	
	Commission income receivable			500
Dec 28	Cash at bank		1 800	
	Commission income			1 800
2024		1m		
Jun 12	Cash at bank		1 440	
	Commission income			1 440
Jun 30	Commission income receivable	1m	260	
	Commission income			260
Jun 30	Commission income [10% X 30 000]	1m	3 000	
	Income summary			3 000

[Total: 6]

END OF PAPER

Pg 67

The following balances were extracted from the books of Jessica Pte. Ltd.

	$
Land and building at cost	280 000
Office equipment at cost	80 000
Motor vehicles at cost	90 400
Accumulated depreciation	
- Land and building	35 000
- Office equipment	12 000
- Motor vehicles	14 600
Sale of non-current assets	280
Sales revenue	526 900
Cost of sales	378 400
Wages and salaries	39 500
Utilities expense	10 400
Insurance expense	4 200
Motor vehicle repairs	3 840
Rent received	2 000
Inventory	26 980
Trade payables	18 500
Trade receivables	25 300
Allowance for impairment of trade receivables	1 000
Cash at bank	4 660
Dividends	5 000
Retained earnings on 1 June 2023	18 400
Share capital, 300 000 ordinary shares	320 000

Additional information

1. Insurance expense of $200 was prepaid while utilities expense outstanding was $220.
2. The business rented out its shop premises at $4 800 per annum from 1 January 2024. Rental for the month of June 2024 was outstanding.
3. The bookkeeper had wrongly Included payment made to credit supplier, $400, in motor vehicle repairs.
4. A trade debtor who owed $300 declared bankruptcy. It was decided to write off the debt as irrecoverable.
5. The company continued to apply 5% as allowance for impairment of trade receivables.
6. The inventory on hand had net realizable value of $24 000.
7. The directors declared another dividends of $0.10 per share, to be paid in September 2024.
8. Depreciation policies of the company are as follows:

   (i) Land, $180 000, is not depreciable. Building is depreciated at 2% per annum;

   (ii) Office equipment, at 40% per annum, on net book value;

   (iii) Motor vehicles at 12.5% per annum on cost.

End of Insert

Name: ....( ) Class:................

PRESBYTERIAN HIGH SCHOOL

PRINCIPLES OF ACCOUNTS **7087/02**
PAPER 2

14 August 2024 Wednesday 2 hours

2024 SECONDARY FOUR EXPRESS / FIVE NORMAL
PRELIMINARY EXAMINATION

Candidates answer on the Question Paper.

Additional Materials: Insert

READ THESE INSTRUCTIONS FIRST

Write your name, index number and class in the spaces at the top of this page.

Write in dark blue or black pen.

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

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 entirely fictitious.

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

Setter: Miss Chee Bee Seok

Vetter: Mr Ha Yeong Fook

Answer **all** questions.

1. **Refer to the Insert for data for Question 1.**

REQUIRED

(a) Prepare the statement of financial performance for the year ended 30 June 2024. [9]

Jessica Pte. Ltd.
Statement of Financial Performance for the year ended 30 June 2024

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Pg 70

(b) Prepare the statement of financial position as at 30 June 2024.

Jessica Pte. Ltd.
Statement of Financial Position as at 30 June 2024 [11]

Pg 71

2 Jonathan and Javier had applied to a bank for a loan of $20 000. The following were the information extracted from the financial statements of both businesses by the bank as at 30 April 2024.

	Jonathan	Javier
Net book value of non-current assets	$200 000	$120 000
Current assets:		
Inventory	$48 000	$24 000
Net trade receivables	$28 500	$18 500
Cash at bank	--	$ 2 100
Prepaid expenses	$ 1 800	$ 1 200
Current liabilities:		
Trade payables	$22 500	$16 200
Bank overdraft	$ 2 400	--
Expenses payable		$ 3 200
Current portion of long-term borrowings	$10 000	--

REQUIRED

(a) Calculate the current ratio of the two businesses as at 30 April 2024. Show your answers to **two** decimal places.

Jonathan:

[1]

Javier:

[1]

pg 72

(b) Use the given information and your answers to part (a), suggest who should be granted the loan. Explain your answer.

[5]

On 1 May 2024, Javier paid trade creditor, $780, by cheque, to settle debt of $800 in full.

REQUIRED

(c) State how Javier's working capital would be affected by the above transaction.

[1]

The bank offered a 6% loan of $30 000 to another loan applicant, Jovan. The following were the terms of the loan.

1. The money would be banked into Jovan's bank account on 1 May 2024.
2. Jovan would repay the loan in three equal annual instalments on 30 April. The first repayment would be on 30 April 2025.
3. The interest on loan would be payable annually on 30 April.

REQUIRED

(d) Given that Jovan's financial year ends on 31 December, complete the following table to show the non-current liabilities and current liabilities for the two years ended 31 December 2024 and 2025.

Year end	31 December 2024	31 December 2025
Non-Current Liabilities:		
Long-term borrowings		
Current Liabilities:		
Current portion of long-term borrowings		
Interest payable		

[6]

Pg 73

3 Before the financial statements are prepared, a trial balance is usually drafted.

REQUIRED

(a) Explain why errors can occur even when trial balance is balanced.

....

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.... [2]

The following trial balance was prepared on 30 June 2024.

Trial Balance as at 30 June 2024

	Debit $	Credit $
Capital		32 800
Drawings	4 720	
Rent expense	4 800	
Motor vehicles	18 500	
Accumulated depreciation of motor vehicles		3 800
Repairs to motor vehicles	2 100	
Inventory	14 200	
Trade payables		10 600
Trade receivables	12 800	
Cash at bank		720
Sales revenue		35 400
Sales returns	800	
Cost of sales	17 400	
Office expenses	8 000	
	83 320	83 320

The following errors were discovered during an audit.

1. The bookkeeper had included repairs to owner's personal car, $600, in the repairs to motor vehicles account.
2. A credit note issued to credit customer, $180, has been debited to trade receivable account and credited to sales revenue.
3. Payment of rent, $1 880, had been recorded as $1 800.

REQUIRED

(b) Update the trial balance upon corrections of errors.

Trial Balance as at 30 June 2024

	Debit $	Credit $
Capital		
Drawings		
Rent expense		
Motor vehicles		
Accumulated depreciation of motor vehicles		
Repairs to motor vehicles		
Inventory		
Trade payables		
Trade receivables		
Cash at bank		
Sales revenue		
Sales returns		
Cost of sales		
Office expenses		

[6]

(c) Using an accounting theory, explain why repairs to owner's personal car should not be included in the repairs to motor vehicles account.

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.... [2]

Pg 74

It was found that included in office expenses was a purchase of a hole puncher, $20, which could last for at least eight years.

REQUIRED

(d) Using an accounting theory, explain why the hole puncher was treated as office expense.

....

....

.... [2]

(e) State the double entries to close drawings account on 30 June 2024.

Debit: ____________________________________

Credit: ____________________________________ [1]

4 Juliet depreciates her office equipment at 25% per annum, using reducing balance method.

On 1 April 2023, her books showed the following balances.

Office equipment	$25 800
Accumulated depreciation of office equipment	$ 6 400

On 1 November 2023, Juliet bought a new computer, $4 800, on credit from Jackie Office Supplies.

REQUIRED

(a) Prepare the office equipment account for the year ended 31 March 2024.

Office Equipment account

Date	Particulars	Dr $	Cr $	Balance $

[3]

(b) Calculate the depreciation of office equipment for the year ended 31 March 2024.

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.... [1]

Juliet wanted to change the depreciation method to straight-line method as it is easier.

REQUIRED

(c) Using an accounting theory, explain if Juliet can do so. [2]

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....

pg 75

Juliet is planning to replace her photocopier which has been breaking down very often. She has a choice of either purchasing a brand new copier or rent a two-year old photocopier from her supplier. The following were notes made by Juliet for comparing the two options.

Buy a new photocopier	Rent a two-year old photocopier
Cost: \$10 000 excluding delivery charge of \$100 and installation of \$200. Downpayment of 20%; the balance to be paid within 30 days.	Rental per month: \$300 Free delivery and installation 2 months' rental to be paid upon signing one year contract.
Warranty of 1 year	May change model if contract is renewed.
Maintenance cost of \$400 per year; a minimum of 2-year maintenance contract is required.	Free maintenance and if photocopier needs longer repair time, a replacement copier will be provided.
Copier is of latest model and available for installation one month later.	Copier is ready for installation upon signing of contract.

REQUIRED

(d) Suggest if Juliet should buy or rent the photocopier. Justify your suggestions with three reasons. [7]

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END OF PAPER

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Name: ....(   )   Class:................

PRESBYTERIAN HIGH SCHOOL

PRINCIPLES OF ACCOUNTS **7087/02**
PAPER 2

23 August 2024 2 hours

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2024 SECONDARY FOUR EXPRESS / FIVE NORMAL
PRELIMINARY EXAMINATION

ANSWER SCHEME

Setter: Miss Chee Bee Seok

Vetter: Mr Ha Yeong Fook

This document consists of 9 printed pages and 1 blank page.

Answer **all** questions.

1. **Refer to the Insert for data for Question 1.**

REQUIRED

(a) Prepare the statement of financial performance for the year ended 30 June 2024.

Jessica Pte. Ltd.
Statement of Financial Performance for the year ended 30 June 2024

	$	$
Sales revenue		526900
Less: Cost of sales		378400
Gross Profit [1]		148500
Add: Other income		
Gain on sale of non-current assets [1]	280	
Rent received (2000 +400) [1]	2400	
		2680
Less: Other expenses		
Wages and salaries	39500	
Utilities expenses (10400+220)	10620	
Insurance expense (4200 - 200)	4000	
Motor vehicle repairs (3840-400) [1]	3440	
Impairment loss on trade receivables [5% X (25300-300] - (1000-300)] [1]	550	
Impairment loss on inventory (26980-24000) [1]	2980	
Depreciation of building [2% X100 000] [1]	2000	
Depreciation of office equipment [40%X68000] [1]	27200	
Depreciation of motor vehicles [12.5%X90400] [1]	11300	
		101590
Profit for the year		49590

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(b) Prepare the statement of financial position as at 30 June 2024.

Jessica Pte. Ltd.
Statement of Financial Position as at 30 June 2024

ASSETS	$	$	$
Non-current assets	Cost	Accumulated Depreciation	Net Book Value
Land and Building (AD:35000+2000)	280000	37000	243000
Office equipment (AD:12 000+27200)	80000	39200	40800
Motor vehicles (AD:14600+11300)	90400	25900	64500
Total non-current assets [1]	450400	102100	348300
Current assets			
Inventory		24000	[1]
Trade receivables (25300-300) [1]	25000		
Less: Allowance for impairment of trade receivables (5%)	1250	[1]	
Net trade receivables		23750	
Cash at bank		4660	
Prepaid insurance expenses		200	[1]
Rent income receivable		400	[1]
Total current assets			53010
TOTAL ASSETS			401310
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital, 300 000 ordinary shares		320000	[1]
Retained earnings [18400+49590-5000-0.10X300000)		32990	[1/OF]
Total shareholders' equity			352990
Current Liabilities			
Trade payables [18500-400]		18100	[1]
Utilities expense payable		220	[1]
Dividends payable		30000	[1]
Total current liabilities			48320
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES			401310

2 Jonathan and Javier had applied to a bank for a loan of $20 000. The following were the information extracted from the financial statements of both businesses by the bank as at 30 April 2024.

	Jonathan	Javier
Net book value of non-current assets	$200 000	$120 000
Current assets:		
Inventory	$48 000	$24 000
Net trade receivables	$28 500	$18 500
Cash at bank	--	$ 2 100
Prepaid expenses	$ 1 800	$ 1 200
Current liabilities:		
Trade payables	$22 500	$16 200
Bank overdraft	$ 2 400	--
Expenses payable		$ 3 200
Current portion of long-term borrowings	$10 000	--

REQUIRED

(a) Calculate the current ratio of the two businesses as at 30 April 2024. Show your answers to **two** decimal places.

Jonathan:
Current Assets ÷ Current Liabilities = [48000+28500+1800]/ [22500+2400+10000]
= 2.24 [1]

[1]

Javier:
[24000+18500+2100+1200] / [16200+3200] = 2.36 [1]

[1]

(b) Use the given information and your answers to part (a), suggest who the bank should grant the loan to. Explain your answer.

Working: Quick ratio of Jonathan = 0.82
Quick ratio of Javier = 1.06

The bank should grant loan to Javier. Although Javier has less non-current assets, both his current ratio and quick ratio are better than Jonathan. [1]
Both Jonathan and Javier has current ratio above the generally acceptable norm of 2.00 [1]
However, Jonathan's current assets are largely inventory [1], taking up about 61% of the current assets. This led to his weak quick ratio of less than 1.00.
Javier, on the other hand, managed his current assets better and thus has quick ratio above the acceptable norm of 1.00 [1]
Jonathan's has a loan which was due for repayment. He also has a bank overdraft, further indicating his weaker cash management. [1]

[5]

On 1 May 2024, Javier paid trade creditor, $780, by cheque, to settle debt of $800 in full.

REQUIRED

(c) State how Javier's working capital would be affected by the above transaction.

Javier's working capital will increase by $20. [1] [1]

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The bank offered a 6% loan of $30 000 to another loan applicant, Jovan. The following were the terms of the loan.

1. The money would be banked into Jovan's bank account on 1 May 2024.
2. Jovan would repay the loan in three equal annual instalments on 30 April, beginning 30 April 2025.
3. The interest on loan would be payable annually on 30 April.

REQUIRED

(d) Given that Jovan's financial year ends on 31 December, complete the following table to show the non-current liabilities and current liabilities for the two years ended 31 December 2024 and 2025.

Year end	31 December 2024	31 December 2025
Non-Current Liabilities:		
Long-term borrowings	$20 000 [1]	$10 000 [1]
Current Liabilities:		
Current portion of long-term borrowings	$10 000 [1]	$10 000 [1]
Interest payable	6%X30 000 X 8/12 = $1 200 [1]	6% X 20 000 X 8/12 = $800 [1]

[6]

3 Before the financial statements are prepared, a trial balance is usually drafted.

REQUIRED

(a) Explain why errors can occur even when trial balance is balanced.

As long as there is a debit and a credit entry of the same amount made for a transaction,[1] trial balance will balance even if amount is wrong or account is wrong or there is reversed entries. A complete omission of entry will also allow trial balance to balance. [1]

[2]

The following trial balance was prepared on 30 June 2024.

Trial Balance as at 30 June 2024

	Debit $	Credit $
Capital		32 800
Drawings	4 720	
Rent expense	4 800	
Motor vehicles	18 500	
Accumulated depreciation of motor vehicles		3 800
Repairs to motor vehicles	2 100	
Inventory	14 200	
Trade payables		10 600
Trade receivables	12 800	
Cash at bank		720
Sales revenue		35 400
Sales returns	800	
Cost of sales	17 400	
Office expenses	8 000	
	83 320	83 320

The following errors were discovered during an audit.

1. The bookkeeper had included repairs to owner's personal car, $600, in the repairs to motor vehicles account.
2. A credit note issued to credit customer, $180, has been debited to trade receivable account and credited to sales revenue.
3. Payment of rent, $1 880, had been recorded as $1 800.

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REQUIRED

(b) Update the trial balance upon corrections of errors.

Trial Balance as at 30 June 2024

	Debit $	Credit $
Capital		32 800
Drawings [4720 + 600]	5 320 [1]	
Rent expense [4800 +80]	4 880	
Motor vehicles	18 500	
Accumulated depreciation of motor vehicles		3 800
Repairs to motor vehicles [2100 – 600]	1 500 [1]	
Inventory	14 200	
Trade payables		10 600
Trade receivables [12 800 – 360]	12 440 [1]	
Cash at bank [720 + 80]		800 [1]
Sales revenue [35 400 -180]		35 220 [1]
Sales returns [800 + 180]	980 [1]	
Cost of sales	17 400	
Office expenses	8 000	
	83 220	83 220

[6]

(c) Using an accounting theory, explain why it is wrong to include repairs to owner's personal car should not be recorded in the repairs to motor vehicles account.

Accounting entity theory requires owner and business to be treated as two distinct entities [1]. When owner uses business resources for personal use, it must be treated as drawings and not as business expenses. [1]

[2]

It was found that included in office expense was a purchase of a hole puncher, $20, which could last for at least eight years.

REQUIRED

(d) Using an accounting theory, explain why the hole puncher was treated as office expense.

Based on materiality theory, an expenditure of immaterial sum and does not affect decision making can be recorded as a revenue expenditure [1] even if the item can benefit many years. The hole puncher is of immaterial value and treated as normal office expense [1]

[2]

(e) State the double entries to close drawings account on 30 June 2024.

Debit: Capital account

Credit: Drawings account

[1m for both entries] [1]

4 Juliet depreciates her office equipment at 25% per annum, using reducing balance method.

On 1 April 2023, her books showed the following balances.

Office equipment	$25 800
Accumulated depreciation of office equipment	$ 6 400

On 1 November 2023, Juliet bought a new computer, $4 800, on credit from Jackie Office Supplies.

REQUIRED

(a) Prepare the office equipment account for the year ended 31 March 2024.

Office Equipment account

Date	Particulars	Dr $	Cr $	Balance $
2023 Apr 1	Balance b/d [1]			25 800 dr
Nov 1	Trade payable, Jackie Office Supplies[1]	4 800		30 600 dr
2024 Apr 1	Balance b/d [1]			30 600 dr

[3]

(b) Calculate the depreciation of office equipment for the year ended 31 March 2024.

Old equipment : 25% X [25800 – 6400] = $4 850
New equipment : 25% X 4 800 X 5/12 = $500
Total depreciation of office equipment for year ended 31 March 2024 = $5 350 [1]

[1]

Juliet wanted to change the depreciation method to straight-line method as it is easier.

REQUIRED

(c) Using an accounting theory, explain if Juliet can do so. [2]

Based on consistency theory[1], Juliet should use the same depreciation method over time so that comparison would be more meaningful. [1]

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Juliet is planning to replace her photocopier which has been breaking down very often. She has a choice of either purchasing a brand new copier or rent a two-year old photocopier from her supplier. The following were notes made by Juliet for comparing the two options.

Buy a new photocopier	Rent a two-year old photocopier
Cost: $10 000 excluding delivery charge of $100 and installation of $200. Downpayment of 20%; the balance to be paid within 30 days.	Rental per month: $300 Free delivery and installation 2 months' rental to be paid upon signing one year contract.
Warranty of 1 year	May change model if contract is renewed.
Maintenance cost of $400 per year; a minimum of 2-year maintenance contract is required.	Free maintenance and if photocopier needs longer repair time, a replacement copier will be provided.
Copier is of latest model and available for installation one month later.	Copier is ready for installation upon signing of contract.

REQUIRED

(d) Suggest if Juliet should buy or rent the photocopier. Justify your suggestions with three reasons.

Option 1: Juliet should buy the photocopier.

Reason 1: A new photocopier is less likely to break down often and thus will allow greater efficiency in business operation.

Reason 2: Owning the equipment allows Juliet to make modifications to the equipment to meet the needs of the business. She can also decide to sell the equipment if she finds it not suitable; unlike renting which will end up with her bearing with the equipment until the contract ends.

Reason 3: Cheaper to buy the photocopier if it is used over 3 years or more. The initial cost of $10 000+$100 + $200 may last for 3 years. This means it cost Juliet $3 433 + maintenance of $400 per year. In one year, the cost of using the photocopier is $3 833. Compared to renting which will cost $1600X12= $19 200.

Option 2: Juliet should rent the photocopier

Reason 1: The upfront cash payment for rental of photocopier is lower. This will help Juliet to manage her cash flow better and she can use the money for her other daily operations.

Reason 2: As Juliet does not own the asset, she can request for another model when she renews her rental contract. With technological improvement, there may be a better photocopier she could use next year instead of being stuck with the copier she bought. This allows her to change copier to meet new needs in the future.

Reason 3: Copier is already available and she can use the machine once the contract is signed and the copier installed. She does not need to wait for a month to get to use the copier for her business.

Decision [1] but must have reasons.

Reasons with correct development – 2m each

END OF ANSWER SCHEME

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