

NAME

CLASS

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ST. PATRICK'S SCHOOL
PRELIMINARY EXAMINATION 2022

SUBJECT : Principles of Accounts
Paper 2 (7087/02)

DATE : 12 AUGUST 2022

LEVEL : Secondary 4 Express
Secondary 5 Normal (A)

DURATION : 2 hours

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 approved calculators is allowed.

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

The total for this paper is 60 marks.

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

Answer **all** questions.

- 1 The following balances were extracted from the books of Shane Gabriel Limited on 31 December 2021.

	\$
Issued share capital (100 000 ordinary shares)	150 000
Retained earnings	10 530
Sales revenue	129 920
Sales returns	9 500
Inventory	22 980
Commission income	1 250
Trade payables	13 740
Trade receivables	20 410
Cost of sales	31 480
Salaries expenses	22 960
Interest expenses	1 100
Cash at bank	25 720
Rental expenses	30 500
Fixtures and fittings, at cost	60 200
Motor vehicles, at cost	120 000
Accumulated depreciation:	
Fixtures and fittings	2 910
Motor vehicles	16 500
8% bank loan (repayable 30 September 2024)	20 000

Additional information:

- 1 At 31 December 2021
 - (i) Salaries expenses payable amounted to \$2 040.
 - (ii) Rental expenses \$5 700 was paid for the three months ended 31 January 2022.
 - (iii) Interest on the bank loan was not fully paid up.
 - (iv) Commission earned for the year ended 31 December 2021 amounted to \$1 600.

- 2 Depreciation is to be provided as follows:
- (i) Fixtures and fittings at 10% per annum using the straight-line method.
 - (ii) Motor vehicles at 20% per annum using the reducing balance method.
- 3 A credit customer was declared bankrupt and his debt of \$410 is to be written off.
- 4 A review of trade receivables showed that 4% debts may be uncollectible.
- 5 The following transactions which happened during the year were not recorded:
- (i) Additional 50 000 ordinary shares at \$1.60 each were paid and issued on 1 July 2021.
 - (ii) A dividend of \$0.05 cents for each ordinary share was declared on 28 December 2021. Payment will be made on 12 February 2022.
- 6 A repayment of \$5 000 is to be made on the 8% bank loan on 31 March 2022.

REQUIRED

- (a) Prepare the Statement of Financial Performance of Shane Gabriel for the year ended 31 December 2021. [9]
- (b) Prepare the Statement of Financial Position of Shane Gabriel as at 31 December 2021. [11]

[Total:20]

2 Lowell sells hearing aids.

On 1 January 2021 his business had a balance of \$2 450 in its allowance for impairment of trade receivables account.

On 4 July 2021 the business of Brandon, a credit customer, ceased operations and Lowell's business received 10% of the amount owed of \$1 800 and wrote off the remaining balance.

On 31 December 2021, the trade receivables amounted to \$39 500.

Lowell's business makes an allowance for impairment of trade receivables based on of 5% of the trade receivables at the end of each financial year.

REQUIRED

- (a)** State the journal entries for (i) cash sales and (ii) credit sales. [2]
- (b)** Prepare journal entries to record the following transactions. Narrations are not needed.
- (i) Write off the debt owed by Brandon's business on 4 July 2021.
- (ii) Adjustment for allowance of trade receivables for the year ended 31 December 2021. [4]
- (c)** Prepare an extract of the Statement of Financial Performance for the year ended 31 December 2021. [2]
- (d)** Explain the following terms:
- (i) allowance for impairment of trade receivables [1]
- (ii) impairment loss on trade receivables. [1]
- (e)** State **two** factors that Lowell must consider when assessing the credit worthiness of credit customers. [2]

[Total: 12]

- 3 The following information is extracted from books of Ralph Traders for the financial years ended 31 December 2020 and 2021.

	2020	2021
	\$	\$
Fixtures and fittings	12 000	20 000
Inventory	3 800	8 600
Prepaid expenses	4 500	7 300
Trade receivables	5 550	11 620
Cash in hand	1 600	900
Cash at bank	13 600	-
Bank overdraft	-	6 200
5 year Bank loan	20 000	16 000
Current portion of long-term borrowings	-	4 000
Trade payables	4 400	10 800
Working capital ratio	6.60	?
Quick ratio	4.72	?

REQUIRED

- (a) Define liquidity. [1]
- (b) Calculate the following for the year ended 31 December 2021. Present your answers to 2 decimal places.
- (i) Current ratio
- (ii) Quick ratio [2]
- (c) Comment on the changes in liquidity between the years ended 31 December 2020 and 2021. Use your answers to part (a) as well as the other information provided in the question. [6]

Ralph Trading had the following inventory management ratios for the years ended 31 December 2019, 2020 and 2021.

	2019	2020	2021
Rate of inventory turnover	9.62 times	7.73 times	6.18 times
Days sales in inventory	32.45 days	44.78 days	58.89 days

- (d) What do these ratios tell you about Ralph Trading's efficiency in inventory management. [2]
- (e) Suggest **two** ways to improve Ralph Trading's efficiency in inventory management. [2]

[Total:13]

- 4 Martin Small is considering adding one more brand of instant coffee sachets. He has shortlisted two brands, Brew Coffee and New Town.

	Brew Coffee	New Town
Cost price	<ul style="list-style-type: none"> • \$6 per packet of 15 sachets • 20% discount is given for orders above 500 packets for one variety or a mixture of different varieties 	<ul style="list-style-type: none"> • \$5 per packet of 10 sachets • 25% discount is given for orders above 800 packets for one variety or a mixture of different varieties
Nature of product	<ul style="list-style-type: none"> • Available in 2 varieties – cappuccino, black coffee (kopi-o) • Has an expiry period of 1 year as preservatives are used to maintain its shelf life. 	<ul style="list-style-type: none"> • Available in 4 varieties – mocha coffee, coffee latte, coffee expresso, coffee americano • Has an expiry period of 4 months as no preservatives are used.
Consumers' Preference	<ul style="list-style-type: none"> • Few positive reviews from customers 	<ul style="list-style-type: none"> • Several positive reviews especially from younger customers
Credit Terms	<ul style="list-style-type: none"> • Cash Discount: 8%/10 days • All outstanding balance must be settled within 30 days 	<ul style="list-style-type: none"> • Cash Discount: 10%/5 days • All outstanding balance must be settled within 14 days

- (a) Advise Martin Small on the brand of coffee he should choose. Justify your decision with **three** reasons.

[7]

The following information was extracted from the business of David Gerald, a competitor of Martin Small. David Gerald uses the reducing balance method to depreciate its motor vehicles. Below is one of David Gerald's account.

Accumulated Depreciation on Motor Vehicles					
Date	Particulars	Dr	Cr	Balance	
2021		\$	\$	\$	
Jul 1	Balance b/d			16 400	Cr
2022					
Mar 31	Sale of non-current asset	6 400			
Jun 30	Depreciation on motor vehicles		3 600	13 600	Cr
2022					
Jul 1	Balance b/d			13 600	Cr

- (b) Interpret the entries on the following dates in the above account
- (i) 1 July 2021
 - (ii) 31 March 2022
 - (iii) 30 June 2022 [3]
- (c) State **one** reason why depreciation is charged on non-current assets. Support your answer with an appropriate theory. [2]
- (d) Explain the suitability of the reducing balance method to depreciate motor vehicles. [2]
- (e) David Gerald wants to change the rate and the method of depreciation for the next financial year. With the aid of an appropriate theory, advise the business of David Gerald. [1]

[Total: 15]

End of Paper

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