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# St. Gabriel's Secondary School

## 2022 'O' Preliminary Examination

**Subject** : Principles of Accounts  
**Paper** : 7087/01  
**Level/Stream** : Sec 4 Express / 5 Normal Academic  
**Duration** : 1 hour  
**Date** : 19 August 2022  
**Setters** : Mr Tuang Fook Yong / Mdm Ruby Cheah

### READ THESE INSTRUCTIONS FIRST

Write your name, class and register number on all the work you hand in.

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.

Question	1	2	3	4	Total
Attained					
Maximum	11	10	7	12	40

[Turn over

This question paper consists of **10** printed pages including this cover page.

Answer **all** questions.

- 1** Straford owns a tuition centre, ACEs. It has been the business policy that all receipts and payments of the centre are made by cheques.

Straford decided to expand his business by operating another branch in Bukit Timah. As such, the business took a bank loan, to be repaid equally over 20 years, of \$240 000 from SG Bank on 1 August 2020.

Additional information

- 1 ACEs' financial year ends on 31 December each year.
- 2 Partial repayment of the loan and interest due is on 31 July each year.
- 3 Interest rate is at 4% per annum payable on the outstanding amount of the loan on 31 July every year.

### REQUIRED

- (a)** Calculate the amount (showing all working) of loan interest to be included in the statement of financial performance of the business for the year ended 31 December 2021.

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[3]

- (b)** Prepare an extract statement of financial position for ACEs as at 31 December 2021. Show **only** the liabilities section.

### Extract Statement of financial position as at 31 December 2021

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**[Turn over**

[3]

The following information have also been provided by ACEs.

	\$
Account balance as at 1 January 2021	
Tuition fees received in advance	2 800
During the year ended 31 December 2021	
Tuition fees received	9 200

Additional information

Tuition fees revenue, \$1 800, had not been received on 31 December 2021.

### REQUIRED

- (c) Calculate the amount (showing all working) of tuition fees revenue to be included in the statement of financial performance of the business for the year ended 31 December 2021.

[2]

- (d) State the accounting theory which is being applied when calculating the amount for loan interest and tuition fees revenue for the year ended 31 December 2021.

[1]

- (e) State **two** types of item paid or received directly through the bank for which a bank statement may be used as proof.

[2]

**[Total: 11]**

**[Turn over]**

- 2** Ethan is a trader who buys and sells on credit. He sells his goods at a gross profit margin of 50%.

The following credit transactions took place during the month of August 2022.

August 1 Sold goods to Cedric for \$20 000.

16 Sold goods to Calen for \$8 600. Cost of the goods was \$4 300. In addition, due to the small quantity order, Ethan charged Calen \$400 for delivery fee.

## REQUIRED

- (a)** Prepare the following accounts for the month of August 2022. Show, where appropriate, the transfer to the income summary account.

- (i) Cost of sales account

### Cost of sales account

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[3]

- (ii) Sales revenue account

## Sales revenue account

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[3]

- (b)** On 3 September 2022, \$25 000 worth of inventory was found to be defective. \$15 000 of repair work was spent on restoring the inventory to its original state. These inventory were estimated to be sold for \$20 000.

- (i)** Calculate the impairment loss on inventory, showing relevant working.

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[2]

- (ii)** Name and explain the accounting theory that is applied to the valuation of inventory for the above situation in **(b)**.

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[2]

**[Total: 10]****[Turn over]**

- 3 The following is an extract of TM Trading statement of financial performance for the year ended 30 June 2022. This was prepared by an inexperienced bookkeeper of TM Trading.

TM Trading	
Statement of financial performance for the year ended 30 June 2022 (extract)	
	\$
Gross profit	60 000
Add Discount	4 600
Less Expenses	
Computers	8 500
Rent expense	10 000
General expenses	15 000
Profit for the year	<u>31 100</u>

The following errors were discovered on 30 June 2022.

- 1 Computers costing \$8 500 were purchased for office use and were recorded as an expense in June 2022.
- 2 \$4 500 included in the general expense was for payment of annual insurance.

### REQUIRED

- (a) Briefly explain **error 1**.

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[1]

- (b) State the effect of correcting **error 2** on profit for the year ended 30 June 2022.

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[1]

- (c) State **one** feature of a capital expenditure.

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[1]

- (d)** An amount of \$4 600 has been posted as discount in TM Trading's statement of financial performance on 30 June 2022.

**(i)** State the type of discount.

[1]

**(ii)** State a reason for this discount.

[1]

- (e)** 'A balanced trial balance shows that there is arithmetic accuracy in the double entry recordings of accounts.'

State whether you agree or disagree with the above statement. Explain your answer.

[2]

**[Total: 7]**

**[Turn over]**

- 4 MD Trading and BUK Trading are competitors selling computers and computer accessories.

MD Trading provided the following information for the financial year ended 30 June 2022.

	\$
Sales revenue	110 000
Sales returns	3 800
Gross profit	41 700
Total operating expenses	32 600
Drawings	18 000
Capital, 1 July 2021	80 000

### REQUIRED

- (a) Calculate the following for the year ended 30 June 2022. Show your answers to **two** decimal places.

- (i) Profit margin

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[2]

- (ii) Return on equity

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[2]



Reynold, a potential investor, managed to get the following information on MD Trading and BUK Trading for the year ended 30 June 2022.

	MD Trading	BUK Trading
Gross profit margin	39.27%	37.16%
Mark up on cost	64.65%	59.13%
Profit margin	?	10.02%
Return on equity	?	14.56%

## REQUIRED

- (b)** Comment on the profitability of MD Trading and BUK Trading for the year ended 30 June 2022.

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[6]

Reynold intends to invest in a business, and he is considering between MD Trading and BUK Trading.

## REQUIRED

- (c)** With reference to the information and your answer above, advise Reynold, with reason(s), on which business he should invest in.

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[2]

**[Total: 12]**

**End of Paper**

**Q1**

**(a) 3 marks**

Interest

$$\begin{aligned} &= [(4\% \times 240000)/12 \times 7 \text{ months}] \checkmark\checkmark + \\ &\quad \{[4\% \times (240000-12000)]/12 \times 5 \text{ months}\} \checkmark\checkmark \\ &= 5600 + 3800 \checkmark \\ &= \$9400 \checkmark \end{aligned}$$

(b) 3 marks

Extract Statement of financial position as at 31 December 2021

**Non-current liability**

\$

Long term borrowing (240000-12000-12000)✓

✓216 000

**Current liabilities**

Current portion of long term borrowing✓

✓12 000

Interest payable ✓

OF✓3 800

(c) 2 marks

Tuition fee revenue

= +2800✓ + 9200✓ +1800✓

= \$13 800✓

(d) 1 mark

Accrual basis of accounting

(e) Any reasonable answers, Max 2 marks

- Interest on deposit
- Interest on loan
- Standing order/Direct debit
- Direct credit/Credit transfer
- Dishonoured cheque

Q2

(ai) 3 marks

**Cost of sales account**

		Dr	Cr	Balance
		\$	\$	\$
2022				
Aug 1	Inventory	✓10 000		10 000 Dr
	(20000/50%)✓			

**[Turn over**

16	Inventory	✓4 300	14 300 Dr
31	Income summary✓	✓14 300	-
	<b>Date correct✓</b>		

**(aii) 3 marks**

**Sales revenue account**

	Dr	Cr	Balance
2022	\$	\$	\$
Aug 1 Trade receivable Cedric✓		✓20 000	20 000 Cr
16 Trade receivable Calen✓		✓8 600	28 600 Cr
31 Income summary✓	✓28 600		-

**(bi) 2 marks**

Cost = \$25000

NRV = \$35000-15000 = \$20000

Impairment loss on inventory

= \$25000✓ – (35000-15000) ✓✓ = \$5000✓

**(bii) 2 marks**

Prudence Theory ✓✓

According to the prudence theory, the lower of cost or net realisable value of the inventory must be recorded as impairment loss on inventory✓. This is to ensure that profit for the year and inventory will not be overstated. ✓

**Q3**

**(a) 1 mark**

An error of \$8500 was recorded in the wrong account of a different accounting element. Office equipment (Asset) of \$8500 was wrongly recorded as an expense.

**[Turn over**

**(b) 1 mark**  
No effect

**(c) Any reasonable answer Max 1 mark**

- Cost that provides benefits to a business for more than one accounting period.
- Cost that put the non-current assets into working conditions
- To be included as non-current asset
- To be included in the statement of financial position

**(di) 1 mark**  
Cash discount

**(dii) Any reasonable answer Max 1 mark**  
To encourage **credit customers** to pay early/promptly

**(e) 2 marks**  
Disagree ✓ (decision made)  
- Not an absolute proof of accuracy

#### Q4

**(ai) 2 marks**  
Profit margin  
= PFTY/NSR x 100  
= (41700 – 32600)✓/(110000-3800) ✓ x 100  
= 9100/106200 x 100✓  
= 8.57%✓

**(aii) 2 marks**  
Average equity  
= [80000+(80000+9100-18000✓)]/2  
= (80000+71100)/2  
=\$75550✓

Return on equity  
= PFTY/(average equity) x 100  
= 9100/75550 x 100✓OF  
= 12.05%✓OF

**(b) Gross profit margin & Mark up (3 marks)**  
- BUK Trading gross profit Margin of 37.16% is lower than that of MD Trading 39.27% by 2.11%.

**[Turn over**

- This means that for every \$100 of net sales revenue earned by BUK Trading, its gross profit is actually \$2.11 lower than that of MD Trading. This shows that BUK Trading is earning lower gross profit than MD Trading.
- This is also reflected in the mark up on cost, where BUK trading mark-up is 59.13%, which is 5.52% lower than that of MD Trading 64.65%.
- This could be because BUK trading selling price is lower than that of MD Trading or it could be the cost of inventory bought is higher than that of MD Trading.

**Profit margin (2 marks)**

- BUK Trading profit margin is 10.02%, which is 1.45% higher than that of MD Trading 8.57%.
- This means that for every \$100 of net sales revenue earned, BUK Trading makes a profit of \$8.57 higher than MD Trading.
- This could be due to BUK trading able to manage their expenses more efficiently than that of MD Trading, thus higher profit.

**Conclusion (1 mark)**

Though both MD Trading and BUK Trading have the ability to make profit from its operations. However, BUK Trading is more profitable than MD Trading for the year ended 30 June 2022.

**(c) 2 marks**

- The return on equity of BUK Trading of 14.56% is 2.51% higher than that of MD Trading of 12.05%.
- This means that for every \$100 of capital invested in BUK Trading, the returns/profit earned from investment is \$2.51 more than that of MD Trading.
- Thus Reynold should invest in BUK Trading which gives him a higher return for the capital invested.

**[Turn over**