



# ST. MARGARET'S SECONDARY SCHOOL

## Preliminary Examinations 2023

CANDIDATE NAME

CLASS

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REGISTER NUMBER

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**PRINCIPLES OF ACCOUNTS**

**7087/02**

Paper 2

**29 August 2023**

Secondary 4 Express / 5 Normal (Academic)

**2 hours**

Additional Materials: Writing papers

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### READ THESE INSTRUCTIONS FIRST

Write your name, class and index number on all the work you hand in.  
Write in dark blue or black pen on both sides of the paper.  
Do not use staples, paper clips, highlighters, glue or correction fluid.  
You may use an approved calculator.

Answer **all** questions.

The businesses described in this question paper are fictitious.

Where the columnar format is used, the running balance column should be updated for the first and last entries. Where applicable, the balance should be brought down to the next financial year.

All calculations must be shown adjacent to the answer.

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.

The total of the marks for this paper is 60.

Answer **all** questions.

- 1 Dream Home is a business selling home accessories. The following balances were extracted from the books on 30 June 2022.

|   | \$      |
|---|---------|
| Share capital, 100 000 ordinary shares        | 200 000 |
| Retained Earnings, 1 July 2021                | 55 900  |
| 5% Bank Loan                                  | 100 000 |
| Motor vehicles                                | 100 000 |
| Accumulated depreciation - Motor vehicles     | 20 000  |
| Premise                                       | 300 000 |
| Cash at bank                                  | 38 200  |
| Discount allowed                              | 2 180   |
| Trade receivables                             | 63 200  |
| Trade payables                                | 51 550  |
| Insurance expense                             | 17 500  |
| Sales revenue                                 | 273 890 |
| Salaries expense                              | 42 800  |
| Sales returns                                 | 23 400  |
| Cost of sales                                 | 110 500 |
| Utilities expense                             | 13 840  |
| Rent income                                   | 33 000  |
| Allowance for impairment of trade receivables | 7 400   |
| Inventory                                     | 27 620  |
| Interest on loan                              | 2 500   |

Additional information:

- 1 Rent income of \$3 000 was earned but not yet collected.
- 2 Insurance expense includes \$7 500 for the three months ending 31 July 2022.
- 3 Utilities expense still outstanding stood at \$800.
- 4 Interest on loan was not fully paid.
- 5 The premise carries a lease of 20 years.
- 6 Motor vehicles are depreciated at 20% per annum using the reducing balance method.
- 7 One of the credit customers who owed \$2500 was declared bankrupt. The debt has yet to be written off.
- 8 The business reviewed its trade receivables and decided that 5% of the outstanding balance may be uncollectible.
- 9 The company declared a dividend of \$0.15 per share. The dividend will be paid on 12 September 2022.

## REQUIRED

- (a) Prepare the statement of financial performance for the year ended 30 June 2022. **[9]**
- (b) Prepare the statement of financial position as at 30 June 2022. **[11]**

**[Total: 20]**

- 2 The following information relates to Happy Games as at 31 July 2020, 2021 and 2022.

|  | 2020    | 2021    | 2022    |
|--|---------|---------|---------|
|  | \$      | \$      | \$      |
| Non-current assets (net book value)    | 188 800 | 200 900 | 220 000 |
| Net trade receivables                  | 31 250  | 44 600  | 50 350  |
| Inventory                              | 48 200  | 54 680  | 63 920  |
| Cash at bank                           | 15 000  | 1 200   | -       |
| Rent income receivable                 | 2 500   |         | -       |
| Long term borrowing                    | -       | -       | 15 000  |
| Current portion of long-term borrowing | -       | -       | 5 000   |
| Commission expense payable             | -       | 3 600   | 4 800   |
| Trade payables                         | 32 100  | 39 780  | 48 960  |
| Bank overdraft                         | -       | -       | 9 800   |
|  |         |         |         |
| Working capital                        | 64850   | 57100   | ?       |
| Current ratio                          | 3.02    | 1.76    | ?       |
| Quick ratio                            | 1.44    | 1.05    | ?       |

### REQUIRED

- (a) Explain what is meant by liquidity of a business. [1]
- (b) State one reason why it is important for Happy Games' business to be liquid. [1]
- (c) Calculate the working capital, current ratio and quick ratio for the year ended 31 July 2022. Show your answers to **two** decimal places. [4]
- (d) Evaluate the liquidity of Happy Games over the three years ended 31 July 2020, 2021, and 2022. Use the given information and your answers in (c). [6]

[Total: 12]

- 3 Perline runs a retail shop selling used handbags. She sublets part of her shop to earn extra income.

She provided the following information for the year ended 31 July 2023.

At 1 August 2022

|                             |       |
|-----------------------------|-------|
|                             | \$    |
| Prepaid promotional expense | 7 500 |
| Rent income receivable      | 2 000 |

The business had the following transactions.

|        |  |        |
|--------|--|--------|
| Date   |  | \$     |
| 2023   |  |        |
| Mar 31 | Received rental income by cheque       | 26 000 |
| May 3  | Paid for promotional expense by cheque | 6 800  |

Additional information

- 1 Rent income of \$2 000 received was meant for the month of August 2023.
- 2 Promotional expense of \$1 100 has yet to be paid as at 31 July 2023.

## REQUIRED

- (a) Explain what is meant by income received in advance. [2]
- (b) State the **amount** and **account** for the closing entry where the total rental income earned for the year ended 31 July 2023 should be transferred to. [2]
- (c) Prepare the journal entries to record the transaction on 31 March 2023. A narration is **not** required. [2]
- (d) Prepare the journal entries to adjust for rent income and promotional expense as

at 31 July 2023. A narration is **not** required.  
**[4]**

**[Total: 10]**

- 4 Mr Lloyd operates a furniture retail business, whose financial year ends on 31 July.

The following account appears in Mr Lloyd's ledger.

Allowance for impairment of trade receivables account

| Date   | Particulars                          | Debit<br>\$ | Credit<br>\$ | Balance<br>\$ |
|--------|--------------------------------------|-------------|--------------|---------------|
| 2022   |                                      |             |              |               |
| Aug 1  | Balance b/d                          |             |              | 32 000 Cr     |
| 2023   |                                      |             |              |               |
| Mar 23 | Trade receivable – May Supplies      | 3 000       |              | 29 000 Cr     |
| Jul 31 | Impairment loss on trade receivables | 1 500       |              | 27 500 Cr     |
|        |                                      |             |              |               |
| Aug 1  | Balance b/d                          |             |              | 27 500 Cr     |

The total trade receivables amounted to \$550 000 on 31 July 2023.

**REQUIRED**

- (a) Explain what is meant by trade receivables. **[1]**

- (b) Interpret the entries in the allowance for impairment of trade receivables account on:

(i) 23 March 2023  
**[1]**

(ii) 31 July 2023  
**[2]**

- (c) Calculate the rate of the allowance for impairment of trade receivables as a

percentage.

**[1]**

- (d) Prepare the journal entry to record the write off of the debt owed by May Supplies on 23 March 2023. A narration is **not** required.  
**[2]**
- (e) Prepare the journal entry to adjust the balance for allowance for impairment of trade receivables for the year ended 31 July 2023. A narration is **not** required.  
**[2]**
- (f) Using an appropriate accounting theory, explain why it is necessary for a business to account for impairment loss on trade receivables.  
**[2]**

Mr Lloyd is a distributor of furniture made in Singapore and he only sells on credit to his customers. His credit policy to its customers is shown below.

- 1 The credit period is 25 days.
- 2 The credit limit is \$15 000.

Two existing customers of Mr Lloyd have approached Mr Lloyd to negotiate for a longer credit period of 30 days. Due to the challenging economic conditions, Mr Lloyd intends to extend a longer credit period to only one business.

The details of the two customers are shown below.

|                                      | MF Pte Ltd  | B&W Brothers  |
|--------------------------------------|---|---|
| Nature of business                   | Has 5 outlets in Singapore  | <ul style="list-style-type: none"> <li>• Has 3 outlets in Singapore</li> <li>• It is planning to open outlets in neighboring countries in the following year</li> </ul> |
| Average trade receivable balance     | \$11 500  | \$18 300  |
| Annual sales revenue for 2022        | \$245 000   | \$310 000   |
| Repayment history over the past year | <ul style="list-style-type: none"> <li>• Average collection period of 28 days</li> <li>• 2 occurrences of late payment</li> </ul> | <ul style="list-style-type: none"> <li>• Average collection period of 34 days</li> <li>• 5 occurrences of late payment</li> </ul>                                       |

Reputation of business

- Popular among senior citizens due to discounts provided
- Popular with customers as it provides installment payment services
- Has been in business for 12 years
- One-third of B&W Brother's sales revenue were generated from online sales
- Has received positive reviews on social media platforms
- Increasing orders from neighboring countries
- Has been in business for 5 years

#### Additional information

- 1 There is an increasing trend of orders for furniture via online platforms.
- 2 There is an increasing demand for Singapore made furniture from the neighboring countries.

#### **REQUIRED**

- (g) Advise Mr Lloyd which customer he should grant a longer credit period to. Justify your decision with **three** reasons.

[7]

[Total: 18]

### **End Of Paper**

#### **Marking Scheme**

#### **2023 4E5N Prelim Paper 2**

#### **Question 1(a)**

#### **Dream Home**

#### **Statement of financial performance for the year ended 30 June 2022**

|                     |           |
|---------------------|-----------|
| Sales revenue       | 273890    |
| Less: sales returns | (23400)   |
| Net sales revenue   | 250490    |
| Less: cost of sales | (110500)  |
| Gross profit        | 139990[1] |

#### **Add: Other Income**

|                          |          |
|--------------------------|----------|
| Rent income (33000+3000) | 36000[1] |
|                          | 175990   |

#### **Less: Other expenses**

|   |          |
|---|----------|
| Discount allowed                        | 2180     |
| Salaries expense                        | 42800    |
| Utilities expense (13840+800)           | 14640[1] |
| Interest on loan (5% x 100000)          | 5000[1]  |
| Insurance expense (17500-2500)          | 15000[1] |
| Depreciation                            |          |
| - motor vehicles [20% x (100000-20000)] | 16000[1] |
| - premises (300000/20)                  | 15000[1] |

|                                      |            |                 |
|--------------------------------------|------------|-----------------|
| Impairment loss on trade receivables | (1865) [1] |                 |
| [7400-5%x(63200-2500)]               |            | (108755)        |
| Profit for the year                  |            | <u>67235[1]</u> |

## 1(b)

Dream Home  
Statement of financial position as at ended 30 June 2022

|  | <u>Cost</u>    | <u>Accumulated<br/>depreciation</u> | <u>Net Book<br/>value</u> |
|--|----------------|-------------------------------------|---------------------------|
|  | \$             | \$                                  | \$                        |
| <b><u>Assets</u></b>                               |                |                                     |                           |
| <u>Non-current assets</u>                          |                |                                     |                           |
| Motor Vehicle                                      | 100000         | 36000                               | 64000[1]                  |
| Premises   | <u>300000</u>  | <u>15000</u>                        | <u>285000[1]</u>          |
| Total non-current assets                           |                |                                     | 349000                    |
| <u>Current assets</u>                              |                |                                     |                           |
| Inventory  |                | 27620                               |                           |
| Trade receivables (\$63200-\$2500)                 | 60700[1]       |                                     |                           |
| Less allowance for impairment of Trade receivables | <u>3035[1]</u> | 57665                               |                           |
| Cash at bank                                       |                | 38200                               |                           |
| Rent income receivable                             |                | 3000[1]                             |                           |
| Prepaid insurance expense                          |                | 2500[1]                             |                           |
| Total current assets                               |                |                                     | <u>128985</u>             |
| Total Assets                                       |                |                                     | <u>477985</u>             |



**Equity and Liabilities****Shareholders' Equity**

|   |               |        |
|---|---------------|--------|
| Share capital, 100 000 ordinary shares                  | 200000        |        |
| Retained earnings [\$55900+\$67235-(\$0.15x100000) [1]] | <u>108135</u> | 308135 |

**Non-current liabilities**

|                     |  |        |
|---------------------|--|--------|
| Long-term Borrowing |  | 100000 |
|---------------------|--|--------|

**Current liabilities**

|                                   |                 |               |
|-----------------------------------|-----------------|---------------|
| Trade payables                    | 51550           |               |
| Interest expense payable          | 2500[1]         |               |
| Utilities expenses payable        | 800[1]          |               |
| Dividends payable (\$0.15*200000) | <u>15000[1]</u> | 69850         |
| Total equity and liabilities      |                 | <u>477985</u> |

**1m if both total assets = total equity + liabilities**

**Question 2**

2(a) Liquidity measures the ability of a business to meet its short-term financial obligations when they fall due. [1]

2(b) Happy Games needs cash to meet its daily operating expenses. [1]

|  | <b>2020</b>  | <b>2021</b>   | <b>2022</b>   |
|--|--------------|---------------|---------------|
|  | <b>\$</b>    | <b>\$</b>     | <b>\$</b>     |
| Non-current assets (net book value)    | 188 800      | 200 900       | 220 000       |
| Net trade receivables                  | 31 250       | 44 600        | 50 350        |
| Inventory                              | 48 200       | 54 680        | 63 920        |
| Cash at bank                           | 15 000       | 1 200         | -             |
| Rent income receivable                 | 2 500        |               | -             |
| <b>CA</b>                              | <b>96950</b> | <b>100480</b> | <b>114270</b> |
| Long term borrowing                    | -            | -             | 15 000        |
| Current portion of long-term borrowing | -            | -             | 5 000         |
| Commission expense payable             | -            | 3 600         | 4 800         |
| Trade payables                         | 32 100       | 39 780        | 48 960        |

|                 |              |              |              |
|-----------------|--------------|--------------|--------------|
| Bank overdraft  | -            | -            | 9 800        |
| <b>CL</b>       | <b>32100</b> | <b>43480</b> | <b>68560</b> |
| Working capital | 64850        | 57100        | <b>50710</b> |
| Current ratio   | 3.02         | 1.76         | <b>1.67</b>  |
| Quick ratio     | 1.44         | 1.05         | <b>0.73</b>  |

2(c) Working capital = CA - CL  
= \$114 270 – \$68 560  
= \$45 710 **[1]**

Working capital ratio = CA / CL  
= \$114 270 / \$68 560  
= 1.67 (2 d.p) **[1]**

Quick ratio = (CA - Inventory - Prepayment) / CL  
= ( \$114 270 – \$63920) **[1]** / \$68 560 **[1]**  
= 0.73 (2 d.p)

2(d) Analysis of Working Capital

The working capital has worsened from \$64850 to \$57100 to \$45710 from 2020 to 2021 to 2022 respectively **[1]**.

[Must include at least 2 reasons well explained]

Analysis of Current ratio

- The current ratio has worsened and deteriorated from 3.02 in 2020 to 1.76 in 2021 to 1.67 in 2022. **[1]**

**OR**

- This means that for every \$1 of short-term debts, the Happy Games has \$3.02, \$1.76 and \$1.67 of current assets to cover its short-term debts in 2020, 2021 and 2022 respectively. **[1]**

Analysis of Quick ratio

- The quick ratio has worsened and deteriorated from 1.44 in 2020 to 1.05 in 2021 to 0.73 in 2022. **[1]**

**OR**

- This means that for every \$1 of short-term debts, the company has \$1.44 and \$1.05 and \$0.73 of quick assets to cover its short-term debts in 2020, 2021 and 2022 respectively. **[1]**

Reasons for the decline**Reason #1: Increasing inventory**

- This is because the amount of inventory as a proportion of current assets has increased over the three years. The increasing inventory of the business from \$48 200 to \$54 680 in 2021 to \$63 920 in 2022, which suggests that the company is overstocking or have difficulties in selling its goods which worsens the liquidity of the business [1]

**Reason #2: Decrease in cash at bank due to net trade receivables**

- The increase of net trade receivables from \$31 250 in 2020 to \$44 600 in 2021 to \$50 350 in 2022 suggests that the business has difficulties in collecting payment from its credit customer which leads to decreasing cash at bank amount. [1]
- **OR**
- Also, the decrease in cash at bank of \$15 000 in 2020 to a bank overdraft of \$9 800 in 2022 , probably due to purchase of non-current assets or inventory. [1]

**Reason #3: Increase in trade payables**

- The increase of trade payables from \$32 100 in 2020 to \$39 780 in 2021 to \$48 960 in 2022 also suggests that the business may have insufficient funds to pay its credit suppliers. [1]

Conclusion

Overall the liquidity ratio of the business is on a declining and worsening trend. [1]

**Question 3**

- 3(a) Income received in advance refers to the business receiving rent income in the current financial year[1] for which services will only be provided in the next financial year.[1]

3(b)

|          |                    |
|----------|--------------------|
| Account: | Income summary [1] |
| Amount:  | \$22 000 [1]       |

Workings:

Rent income for the year ended 31 July 2023

= -\$2000 + \$26000 - \$2000

= \$22000

3(c)

Journal

| Date   |              | Debit (\$) | Credit (\$) |
|--------|--------------|------------|-------------|
| 2023   |              |            |             |
| Mar 31 | Cash at bank | 26 000 [1] |             |
|        | Rent income  |            | 26 000 [1]  |

3(d)

| Journal |                                 |            |             |
|---------|---------------------------------|------------|-------------|
| Date    |                                 | Debit (\$) | Credit (\$) |
| 2023    |                                 |            |             |
| Jul 31  | Rent income                     | 2 000 [1]  |             |
|         | Rent income received in advance |            | 2 000 [1]   |
|         |                                 |            |             |
| Jul 31  | Promotional expense             | 1 100 [1]  |             |
|         | Promotional expense payables    |            | 1 100 [1]   |

4 (a) Trade receivables refers to the amount owed by customers for goods sold on credit previously. [1]

(b) (i) On 23 March 2023 the business wrote off a debt of \$3,000 owing by May Supplies as irrecoverable. [1]

(ii) On 31 July 2023 the business reviewed its trade receivables [1] and decreased [1] the allowance for impairment of trade from \$29 000 to \$27 500.

(c) Rate =  $\$27500 / \$550\,000 \times 100\%$   
= 5% [1]

(d)

| Journal |   |          |    |
|---------|---|----------|----|
| Date    | Particulars                                   | Dr       | Cr |
| 2023    |   | \$       | \$ |
| 23 Mar  | Allowance for impairment of trade receivables | 3 000[1] |    |
|         |   |          |    |
|         |   |          |    |

Trade receivables – May Supplies

3 000 [1]

(e)

| Journal |   |           |           |
|---------|---|-----------|-----------|
| Date    | Particulars                                   | Dr        | Cr        |
| 2023    |   | \$        | \$        |
| 31 Jul  | Allowance for impairment of trade receivables | 1 500 [1] |           |
|         | Impairment loss on trade receivables          |           | 1 500 [1] |
|         |   |           |           |

- (f) Matching theory [1] states that expenses incurred (impairment loss on trade receivables) must be matched against income earned in the same financial period to determine the profit for the period. Therefore the business has to record any change in allowance as an impairment loss on trade receivables in the same financial period as credit sales was earned.[1]

4(g)

|                                 |   |
|---------------------------------|---|
| Decision                        | Mr Lloyd should grant a longer credit period to MF Pte Ltd. [1]   |
| Basic Statement + Development 1 | <p>BTW has a lower average trade receivables balance of \$11,500 compared to B&amp;W Brother's \$18,300. The balance is also lower than Mr Lloyd's credit limit of \$15 000. [B1]</p> <p>This means that Mr Lloyd will be able to have better cash flow as it means lesser funds tied up in trade receivables. [D1]</p> |
| Basic Statement + Development 2 | MF Pte Ltd was only late in repaying 2 times and the repayment history is shorter within 28 days, 6 days earlier than B&W Brother's of 34 days. [B2]  |

|                                 |  |
|---------------------------------|--|
|                                 | This shows that MF Pte Ltd clears its outstanding amount faster than B&W Brothers. This will help Mr Lloyd's business in receiving the money earlier to pay for other expenses etc. <b>[D2]</b>  |
| Basic Statement + Development 3 | <p>MF PteLtd has 5 outlets in Singapore and has been in business for 18 years, as compared to B&amp;W Brothers, with only 3 outlets and only in business for 5 years. <b>[B3]</b></p> <p>Thus Mr Lloyd will have more assurance of being able to collect its payments from MF Pte Ltd as the business is more stable with a longer history so it is less likely to cease operations or default payments. <b>[D3]</b></p> |
| Conclusion                      | Hence Mr Lloyd should grant a longer credit period to MF Pte Ltd.  |

**OR**

|                                 |  |
|---------------------------------|--|
| Decision                        | Mr Lloyd should grant a longer credit period to B&W Brothers. <b>[1]</b>   |
| Basic Statement + Development 1 | <p>B&amp;W Brothers has a higher annual sales revenue of \$310 000 compared to MF Pte Ltd's \$245000 <b>[B1]</b>.</p> <p>This shows that Mr Lloyd will earn more by continuing to have a good relationship with B&amp;W Brothers if it extends the credit repayment period to B&amp;W Brothers. <b>[D1]</b></p>                        |
| Basic Statement + Development 2 | <p>B&amp;W Brothers has a strong presence on online platform which MF Pte Ltd does not have. <b>[B2]</b></p> <p>With the increasing trend of online purchases and the fact that B&amp;W Brothers has generated positive reviews, B&amp;W Brothers' sales revenue should increase and hence will likely to buy more from Mr Lloyd's</p> |

|                                    |  |
|------------------------------------|--|
|                                    | business, thus increasing Mr Lloyd's sales revenue too. <b>[D2]</b>  |
| Basic Statement +<br>Development 3 | <p>MF Pte Ltd sells locally only whereas B&amp;W Brothers has intention to open outlets in the neighboring countries soon. <b>[B3]</b></p> <p>Since there is a great demand from neighboring countries for Singapore made furniture, this will definitely help to increase B&amp;W Brother's sales revenue even further. This will also help to increase Mr Lloyd's sales revenue if he continues his good relationship with B&amp;W Brothers. <b>[D3]</b></p> |
| Conclusion                         | Hence Mr Lloyd should grant a longer credit period to B&W Brothers.  |