



DAMAI SECONDARY SCHOOL

Preliminary Examination 2022

CANDIDATE NAME

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CLASS

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INDEX NUMBER

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PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

26 August 2022

Secondary 4 Express / 5 Normal (Academic)

2 hours

Setter: Miss Cristy Lin

60 Marks

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 paper, ask the invigilator for a continuation booklet.

Answer **all** questions.

The businesses described in this question paper are entirely fictitious.

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.

All questions in this paper carry equal marks.

- 1 White House Pte Ltd has the following balances extracted from the books of its business on 31 October 2021.

	\$
6-Year Bank loan (repayable every 31 Dec)	60 000
Sales revenue	90 000
Cost of sales	22 000
Sales returns	4 000
General expenses	2 000
Salaries	80 900
Inventory	28 670
Trade receivables	14 000
Trade payables	7 500
Cash at bank	14 000
Rent income	11 000
Allowance for impairment of trade receivables	5 000
Motor vehicles at cost	55 000
Accumulated depreciation – Motor vehicles	11 000
Fixtures and fittings at cost	12 000
Accumulated depreciation – Fixtures and fittings	2 000
Land	140 000
Retained earnings	36 070
Share capital, 150,000 ordinary shares	150 000

Additional information

- Inventory \$7 000 was damaged and only 50% is claimable from the insurance company. This claim will be received by cheque on 12 December 2021. No records were made in the books.
- Depreciation policy:
 - Motor vehicles – 10% per annum using the reducing balance method
 - Fixtures and fittings – 5 years using the straight-line method
- A trade receivable owing \$2 000 went bankrupt but has not been written off yet.
- Following a review of the trade receivables, 5% of the trade receivables were estimated to be uncollectible.
- Rent income \$500 was received in advance, and commission income \$700 for September 2021 was not received yet.
- Salaries \$3 300 were owing, and general expenses \$150 were paid for five months ending 31 December 2021.
- A credit purchase for goods with a list price \$3 000, less 4% trade discount was debited to the inventory account and credited to the sales revenue account.
- 50 000 ordinary shares at \$1.00 each were issued and fully paid up during the year.
- Dividends at \$0.05 per share were declared and will be paid on 4 November 2021.
- Interest on bank loan \$1 800 has not been paid.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 31 October 2021. [10]
- (b) Prepare the statement of financial position as at 31 October 2021. [10]

[Total: 20]

- 2** Lois owns a clothing shop. For the year ended 31 December 2021, she has provided the following information.

	1 January 2021	31 December 2021
	\$	\$
Rent income receivable	1 200	
Rent income received in advance		1 500
Advertising expense payable	400	
Prepaid advertising expense		600
Allowance for impairment of trade receivables	2 000	1 600
Trade receivables	100 000	80 000

Additional information

- 1 During the year, the business received \$19 000 for rent income, and paid \$8 800 in advertising expenses. All transactions were by cheques.
- 2 On 16 March 2021, Michelle Trading confirmed that it was ceasing its business and could only pay Lois 70 cents for every dollar of its outstanding debt of \$3 000. A cheque from Michelle Trading was received on the same day.
- 3 Net credit sales revenue for the year ended 31 December 2021 was \$690 000.
- 4 The rate of trade receivables turnover for the year ended 31 December 2020 was 6.80 times.

REQUIRED

- (a) Prepare the journal entries to account for rental income for the year ended 31 December 2021, including the closing entry. Narrations are not required. [4]
- (b) Calculate the advertising expense incurred for the year ended 31 December 2021. [2]
- (c) Prepare a journal entry for the transaction on 16 March 2021 in the books of Lois. A narration is not required. [2]
- (d) Calculate the rate of trade receivables turnover for the year ended 31 December 2021. Show your answers to two decimal places. [2]
- (e) Evaluate the efficiency of the business' trade receivables management over the two years ended 31 December 2020 and 2021. [5]

[Total:15]

3 Sami Pte Ltd has the following information taken from its books.

Share capital				
Date	Particulars	Debit \$	Credit \$	Balance \$
2021				
Jun 1	Balance b/d			200 000 Cr
Nov 30	Cash at bank		100 000	300 000 Cr

REQUIRED

(a) Interpret the entry on 30 November 2021. [1]

The business has provided the following purchases and sales transactions for the month of April 2022. It uses the First-In-First-Out method to record its inventory.

Purchases (on credit from Cece Trading)

Apr 10	100 units at \$5 000
25	70 units at \$3 500

Sales

Apr 12	130 units for \$12 000
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Inventory as at 1 April 2022 is \$2 000 (30 units).

REQUIRED

(b) Prepare the inventory account for the month of April 2022. [3]

Sami Pte Ltd extracted the following information of its business as at 31 May 2020, 2021 and 2022.

	2020	2021	2022
Trade receivables	25 460	33 000	36 000
Inventory	11 000	32 120	38 900
Cash at bank	89 000	43 500	(10 800)
Rent payable	3 000	4 600	14 000
Trade payables	18 000	27 000	53 000
Profit for the year	14 000	11 980	(12 000)
Current ratio	5.97	?	?
Quick ratio	5.45	?	?

REQUIRED

- (c) Calculate the current ratio for the two years ended 31 May 2021 and 2022. Show your answers to two decimal places. [2]
- (d) Calculate the quick ratio for the two years ended 31 May 2021 and 2022. Show your answers to two decimal places. [2]
- (e) Evaluate the trend in liquidity of the business over the three years ended 31 May 2020, 2021 and 2022. [6]
- (f) Suggest two ways a business can improve its liquidity. [2]

[Total: 16]

- 4 Fei owns a gym. She has just started her business and is looking to purchase five treadmills for her gym. She has provided the following information about the treadmills she is considering.

Brand	Hammer Strength (Based overseas in Australia)	Pro Muscle (Based locally in Singapore)
Price per unit	\$2 000	\$1 500
Delivery	Free	\$100
Warranty	2 years	1 year
Returns	30 days return for an exchange or refund with no additional charges.	14 days return for an exchange only, with additional charge of \$120 per treadmill.
Payment terms	30 days credit period	Only by cash, cheques or bank transfers upon confirmation of order.
Client feedback	New machine so no feedback available.	Positive feedback from 90% of its clients.

REQUIRED

- (a) Recommend whether Fei's gym should buy Hammer Strength or Pro Muscle. Justify your decision with three reasons. [7]

Cash is highly portable and has a high chance of getting stolen.

REQUIRED

- (b) State one internal control a business can implement to safeguard its cash. [1]
- (c) Name one item which can cause a difference between the ending balances of a bank statement and a business cash at bank account at the end of the month. [1]

[Total: 9]

End of paper