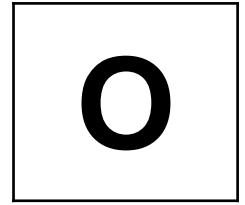




SWISS COTTAGE SECONDARY SCHOOL
SECONDARY FOUR AND FIVE
PRELIMINARY EXAMINATION



Name: _____ () Class: _____

PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

Tuesday 30 August 2022

Additional Materials: Answer paper (6 sheets)

2 hours

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.
You may use an HB pencil for rough working.
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 fictitious.
Start each question on a separate page.
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.

This document consists of **8** printed pages.

Setter: Mrs Fan-Fong Sook Theng
Vetter: Ms Karen Ang

[Turn over

Home of Thoughtful Leaders: Serve with Honour, Lead with Humility

Answer **all** questions.

- 1** The following balances were taken from the books Sappy Pte Ltd, a clothes retailer, on 30 June 2022.

	\$
Motor vehicles	150 000
Premises	240 000
Accumulated depreciation – Motor vehicles	15 000
Accumulated depreciation – Premises	94 500
Sales revenue	652 900
Sales return	21 470
Cost of sales	290 450
Discount received	12 300
Discount allowed	19 430
Rent income	18 000
Salaries expense	29 000
Insurance expense	12 900
Utilities expense	10 340
5% Loan from Swiss Bank	50 000
Cash at bank	50 470
Trade receivables	92 940
Allowance for impairment of trade receivables	5 230
Inventory	75 900
Trade payables	24 190
Retained earnings	20 780
Share capital, 100 000 ordinary shares	100 000

Additional information

1. From 1 July 2021, the company began to sublet part of the office space at \$2 500 per month. The monthly rent was increased by \$500 from 1 January 2022 onwards.
2. Interest on loan is still owing.
3. A quarter of the loan is repayable on 1 January 2023.
4. \$50 000 worth of goods was destroyed in a warehouse fire and this is not recorded in the books. The insurance company will compensate \$25 000 for the damaged inventory. Payment will be made on 31 December 2022.
5. One of the credit customers who owed \$1 500 was declared bankrupt. The debt has yet to be written off.
6. A review of the trade receivables showed that 5% of the trade receivables are likely to become uncollectible.
7. Motor vehicles are to be depreciated at 10% per annum using reducing balanced method. Premises are to be depreciated at 20% per annum using straight line method.
8. A dividend of \$0.05 per share was declared on 30 June 2022. The dividend will be paid on 31 July 2022.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 30 June 2022. [8]
- (b) Prepare the statement of financial position as at 30 June 2022. [12]

[Total: 20]

- 2** The following information is extracted from the statement of financial performance of Tim Trading for the year ended 31 December 2021.

Net sales revenue	\$150 000
Average inventory	\$5 800
Total operating expenses	\$45 000
Gross Profit Margin	40%
Return on equity	8%

REQUIRED

- (a)** Calculate the following for the year ended 31 December 2021. Show **all** workings. Round off your answers to 1 decimal place.

- | | | |
|-------|----------------------------|-----|
| (i) | Cost of sales | [1] |
| (ii) | Profit margin | [2] |
| (iii) | Rate of inventory turnover | [1] |

Tim Trading also supplied the following information from his business for the year ended 31 December 2020.

Net sales revenue	\$145 000
Cost of sales	\$100 050
Total operating expenses	\$25 000
Gross Profit Margin	31.0%
Profit Margin	13.8%

REQUIRED

- (b)** Write four comments on the profitability of Tim Trading over the two years ended 31 December 2020 and 2021. [4]
- (c)** Explain how providing trade discounts to his customers would help Tim's business to improve its profitability. [2]

Tam Pte Ltd, a competitor in the same industry provided the following information for the business for the year ended 31 December 2021.

Gross Profit Margin	45%
Profit Margin	12.1%
Rate of inventory turnover	22 times
Return on equity	10%

REQUIRED

- (d) Compare and comment on the difference in the rate of inventory turnover between Tim Trading and Tam Pte Ltd. [2]
- (e) What is **one** consequence of having a low rate of inventory turnover? [1]
- (f) Choco Lover Enterprise is considering investing in either Tim Trading or Tam Pte Ltd. Suggest which business Choco Lover Enterprise should invest in.
Support your answer with **one** reason. [2]

[Total: 15]

- 3** The following balances were taken from the books of Andy Services at the start of the financial year on 1 January 2021.

	\$
Motor vehicles	80 000
Accumulated depreciation	10 450

On 1 July 2021, Andy Services sold one of its motor vehicles which cost \$20 000 for \$15 000 by cheque. The motor vehicle was bought on 1 January 2019.

On 1 November 2021, the owner contributed his personal motor vehicle for business use, worth \$12 000.

Andy Services provides depreciation at a rate of 20% per annum on net book value. A full year's depreciation is provided in the year of purchase and no depreciation is provided in the year of sale.

REQUIRED

- (a) Explain, using an appropriate accounting theory, why a business records depreciation of non-current assets. [2]
- (b) Calculate the gain or loss on the sale of motor vehicles for the year ended 31 December 2021. [2]
- (c) Calculate the depreciation expense for the year ended 31 December 2021. [2]
- (d) Prepare the motor vehicles account for the year ended 31 December 2021. [4]
- (e) State **one** difference between capital expenditure and revenue expenditure. [2]

[Total: 12]

- 4 James just started J&J Consultancy. The business needs to print high volume of reports and is looking to buy a high efficiency printer which can print, copy, scan and fax.

James needs to decide whether he should buy or rent the printer. If he were to buy the printer, he owns the printer and will be able to sell it off when the printer is no longer suitable for his business usage. If he were to rent the printer, he can rent another one when the annual rental agreement ends.

	Buy Printer	Rent Printer
Cost	\$2 500	\$100 deposit (refundable after contract is up)
Other cost	<ul style="list-style-type: none"> • Cost of an ink cartridge is at \$150. One ink cartridge can print around 2 500 pages • Cost of colour toner is at \$185. • Servicing cost of \$120 per session 	<ul style="list-style-type: none"> • Monthly rental at \$150 for a minimum rental of a year.
Warranty	3 years	Not applicable
Condition	New	May have been rented out for the past 12 months.
Printer features	<ul style="list-style-type: none"> • Printer resolution of 1 200 x 2 400 dpi* • Copy and scan resolution of 600 x 600 dpi • Print speed at 28 pages per minute • Printing via cable connection or Wi-Fi • Scanned copies can be directly send to email 	<ul style="list-style-type: none"> • Printer resolution of 1 200 x 2 400 dpi • Copy and scan resolution of 1 200 x 2 400 dpi • Print speed at 40 pages per minute • Printing via cable connection or Wi-Fi • Need to use USB storage device to save scanned copies
Other information	<ul style="list-style-type: none"> • 6 times free servicing within 3 years of warranty whichever comes first • Free installation • Free bundle: 10 Reams of A4-size Paper at \$4 per ream and 1 free colour toner costing \$185. 	<p>Terms and conditions of rental:</p> <ul style="list-style-type: none"> • \$200 penalty if the printer is returned before end of contract. • Deposit will not be refunded if the printer is damaged by user and/or printer returned before end of contract. • Contract is renewed annually. Terms and conditions may change accordingly. • Rental cost will include servicing and replacement of ink cartridge and toner.

* Print resolution is measured in dots per inch (or "DPI") which means the number of dots of ink per inch that a printer deposits on a piece of paper.

REQUIRED

- (a) If you are James, will you rent or buy the printer? Justify your decision with **three** reasons. [7]

James's business receives and issues various documents during its operations.

REQUIRED

- (b) For each of the transaction below, identify the source document used to record the information.
- (i) Bought two laptops for business use, worth \$2 000 each from Computer World on credit. [1]
 - (ii) Returned a defective laptop back to Computer World. [1]
 - (iii) Received a cheque of \$1 500 for consultancy service rendered to Craftman Ltd. [1]
 - (iv) Computer World has undercharged James for the laptop purchased by \$500. [1]
- (c) State and explain the accounting theory applied when a business records transactions based on information from source documents. [2]

[Total: 13]

End of Paper

