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**YIO CHU KANG SECONDARY SCHOOL
O-LEVEL PRELIMINARY EXAMINATION 2022
SECONDARY FOUR EXPRESS
SECONDARY FIVE NORMAL (ACADEMIC)**



PRINCIPLES OF ACCOUNTS

Paper 1

7087/01

1 hour

13 September 2022 (Tuesday)

READ THESE INSTRUCTIONS FIRST

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

Write in dark blue or black pen.

You may use an HB pencil for any rough working.

Do not use staples, paper clips, glue or correction fluid.

The use of an approved calculator is allowed.

Answer **all** questions.

Where layouts are to be completed, you may not need all the lines for your answers.

Where the T account format is used, the account should be balanced.

Where applicable, the balance should be brought down to the next financial year.

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.

The businesses described in this question paper are 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.

For Examiner's Use
<div>40</div>

Setter: Mr Jude Ang

Answer **all** questions.

- 1 Adrian runs a small provision shop and deals mainly with cash transactions.

REQUIRED

- (a) State and explain **two** internal controls of cash that Adrian should have.

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.....[4]

- (b) State **two** reasons why cheques are rejected by banks.

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.....[2]

- (c) Explain why bank reconciliation is done by businesses.

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.....[2]

Adrian realises that the balance in his cash at bank account is 10 500 Cr. He realises that this is not a healthy balance.

- (d) Suggest **two** ways that Adrian can improve the cash at bank balance of his business.

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.....[2]

On 31 December 2020, Adrian did a stocktake and found that \$2 000 worth of goods were either expired or missing.

- (e) Prepare the journal entries to record this loss of inventory. Narrations are required.

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.....[3]

[Total: 13]

- 2 For the year ended 31 March 2021, a new and inexperienced book-keeper of Blur Ltd made four errors when preparing the accounts of the business:

Error

- 1 Cash contribution by the owner of \$500 was not recorded in the books.
- 2 Purchase of inventory worth \$1 250 from Papy Trading was recorded in Tapy Trading's account instead.
- 3 Cheque of \$2 000 received for rent income was wrongly recorded as \$200 in the books.
- 4 A cheque payment of \$1 000 for repairs expense was debited to the Cash at Bank account and credited to the Repairs Expense account.

REQUIRED

- (a) Complete the table below for the errors listed above. An example has been done for you.

Error	Effect on			
	Profit for the year	Assets	Equity	Liabilities
1	<i>No effect</i>	<i>Understated \$500</i>	<i>Understated \$500</i>	<i>No effect</i>
2				
3				
4				

[7]

- (b) State the accounting theory behind the need for verifiable objective evidence before recording any transactions in the books.

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.....[1]

- (c) State **two** examples of verifiable objective evidence and explain their purpose.

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.....[4]

[Total 12]

- 3 The following assets and liabilities were in Kara's business on 31 December 2020.

	\$
Motor vehicles	50 000
Trade receivables	17 800
Trade payables	22 500
Inventory	10 000
Cash at bank	13 250
5 Year bank loan	10 000
Cash in hand	7 750
Prepaid rent expense	1 000

REQUIRED

- (a) Calculate the following:

- (i) Working capital

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[1]

- (ii) Working capital ratio (current ratio) to **two** decimal places.

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[2]

- (iii) Quick ratio (acid test ratio) to **two** decimal places.

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[3]

Kara's working capital ratio (current ratio) on 31 December 2019 was 1.8:1.

REQUIRED

- (b) Give **three** possible reasons for this change in the working capital ratio (current ratio) between 31 December 2019 and 31 December 2020.

1

2

3

[3]

- (c) Suggest **three** actions that Kara could take to improve the liquidity of the business. Give reasons to support your answers.

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.....[6]

[Total: 15]

END OF PAPER

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