



CHIJ ST. THERESA'S CONVENT
PRELIMINARY EXAMINATION 2023
SECONDARY 4 EXPRESS / 5 NORMAL ACADEMIC

PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

25 August 2023

2 hours

Additional Materials: Writing paper (4 sheets)

READ THESE INSTRUCTIONS FIRST

Write your name, class and index number clearly on the writing papers.

Write in dark blue or black ink.

Write your answers on the writing papers. Use both sides of the paper.

Please leave two blank lines in between your answers to each question.

Write the number of the question you are responding to in the first margin.

All work must be handed in.

Do not use paper clips, glue or correction fluid.

The use of an approved calculator is allowed.

Answer all questions.

The number of marks is given in brackets [] at the end of each question or part question.

Section A

Answer **all** questions.

- 1 The following balances were extracted from Heidi Pte Ltd on 31 July 2023.

	Debit	Credit
	\$	\$
Issued share capital, 25 000 shares		50 000
Retained earnings, 1 August 2022		24 020
Bank loan		20 000
Motor vehicles	55 300	
Fixtures and fittings	4 800	
Accumulated depreciation:		
Motor vehicles		11 060
Fixtures and fittings		960
Sales revenue		125 100
Sales returns	535	
Cost of sales	52 480	
Inventory	6 900	
Trade receivables	17 100	
Trade payables		5 980
Salaries	28 980	
Rental expense	4 550	
General expenses	10 890	
Commission income		280
Allowance for impairment of trade receivables		470
Discount allowed	830	
Discount received		540
Cash at bank	56 045	
	<u>238 410</u>	<u>238 410</u>

The following information is available.

- 1 As at 31 July 2023,
 - (i) Salaries of \$900 for the month of July 2023 were still outstanding.
 - (ii) Rental expense included \$1200 which has been paid for three months' rental ending 30 September 2023.
 - (iii) Commission income receivable was \$180.
- 2 \$4000 of the bank loan is due on 31 January 2024.
- 3 A debt of \$350 owed by a customer was found to be irrecoverable. The company decided to write this amount off.

- 4 A review of the trade receivables listing showed that 4% of the trade receivables may be irrecoverable.
- 5 Depreciation policy:
(i) Motor vehicles are to be depreciated at 20% per annum on the net book value.
(ii) Fixtures and fittings are to be depreciated equally over ten years, without providing for any scrap value.
- 6 Part of the inventory, bought at \$1400, has a net realisable value of only \$1160 on 31 July 2023.
- 7 A dividend at \$0.05 per ordinary share was declared on 22 July 2023, payable on 22 October 2023.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 31 July 2023. [8]
- (b) Prepare the statement of financial position as at 31 July 2023. [12]

[Total: 20]

- 2 Gayathri's financial year ends on 30 June. The following information is available:

	2021 \$	2022 \$	2023 \$
<u>Current assets</u>			
Inventory	14 100	24 500	47 400
Trade receivables	8 200	11 120	19 900
Prepayments	-	450	4 380
Cash at bank	7 800	7 300	-
Total current assets	<u>30 100</u>	<u>43 370</u>	<u>71 680</u>
<u>Current liabilities</u>			
Trade payables	3 700	5 290	8 170
Other payables	-	300	950
Bank overdraft	-	-	16 500
Total current liabilities	<u>3 700</u>	<u>5 590</u>	<u>25 620</u>

REQUIRED

- (a) Explain the importance of being liquid. [2]
- (b) Calculate, for 30 June 2023, and correct your answers to **one** decimal place,
- (i) Current ratio [2]
- (ii) Quick ratio [2]

The following information relates to 30 June.

	2021	2022
Current ratio	8.1	7.8
Quick ratio	4.3	3.3

REQUIRED

- (c) Taking into account the above information and your answers to part (b), comment on the changes that have taken place in Gayathri's liquidity position over the three years. [7]
- (d) Suggest **two** ways for Gayathri to improve her business' liquidity. [2]

[Total: 15]

- 3** Kate is a trader. On 1 April 2022, her capital account had a balance of \$48 000. The following transactions took place in her business for the year ended 31 March 2023:

2022

- Jun 24 Kate took out some goods costing \$570 from the business for personal use.
 Aug 13 Kate contributed \$10 000 to the business bank account.
 Dec 25 Kate contributed her personal car worth \$42 400 to the business for delivery purposes.

2023

- Mar 16 Kate paid for her personal insurance costing \$2510 from her business bank account.
 Mar 31 Profit for the financial year was \$27 300.

REQUIRED

- (a) State and explain the accounting theory which is applied when accounting for drawings. [2]
 (b) Define drawings. State the effect of drawings on the profit for the year and the equity of a business. [3]
 (c) Prepare the drawings account for the year ended 31 March 2023, including the closing entry. [3]
 (d) Prepare the capital account for the year ended 31 March 2023. [5]

[Total: 13]

- 4 Lydia owns a business providing printing services. She has four printing machines in her business.

REQUIRED

- (a) Define depreciation. [1]
- (b) State **two** causes of depreciation. [2]
- (c) Explain the need to charge depreciation on the printing machines using a suitable accounting theory. [2]

Lydia's business requires one more printing machine as she expects higher sales in the coming years. She is deciding between buying or renting the machine. The details of each option are listed in the table below:

	Buy	Rent
Financial charges	<ul style="list-style-type: none"> Downpayment: \$2000 Monthly instalment (including interest): \$200 for 3 years 	<ul style="list-style-type: none"> No downpayment is required Rental charges: \$400 per month
Other costs	<ul style="list-style-type: none"> Need to pay for yearly servicing and maintenance of about \$150 Need to pay for repairs, whenever needed 	<ul style="list-style-type: none"> Free servicing and maintenance No need to pay for repairs, unless it is due to negligent use (failure to take proper care)
Condition	Brand new	Has been rented to other customers for the past one year but the condition is still good
Additional information	<ul style="list-style-type: none"> Useful life is estimated to be 5 years Scrap value is \$500 	Minimum rental period is 6 months. Lydia has to pay a penalty of \$1000 if she chooses to end the contract prematurely.

REQUIRED

- (d) Advise Lydia if she should buy or rent the printing machine. [7]

[Total: 12]

END OF PAPER 2

**CHIJ ST. THERESA'S CONVENT
SECONDARY FOUR EXPRESS / FIVE NORMAL ACADEMIC
2023 PRELIMINARY EXAMINATION
PRINCIPLES OF ACCOUNTS PAPER 2
MARK SCHEME**

1(a)

Heidi Pte Ltd

Statement of Financial Performance for the year ended 31 July 2023

Sales revenue	125,100	
Less: Sales returns	(535)	
Net sales revenue		124,565
Less: Cost of sales		(52,480)
Gross profit		72,085 [1]
Other income		
Commission income (280 + 180)	460	[1]
Discount received	540	
		1,000
Less: Other expenses		
Discount allowed	830	
Salaries (28 980 + 900)	29,880	[1]
Rental expense (4550 – 800)	3,750	[1]
General expenses	10,890	
Impairment loss on trade receivables [670 – (470 – 350)]	550	[1]
Depreciation on motor vehicles [20% x (55 300 – 11 060)]	8,848	[1]
Depreciation on fixtures and fittings (4800 / 10)	480	[1]
Impairment loss on inventory (1400 – 1160)	240	[1]
		55,468
Profit for the year		17,617

(b)

Heidi Pte Ltd
Statement of Financial Position as at 31 July 2023

<u>Assets</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	
<u>Non-current assets</u>				
Motor vehicles (11060 + 8848)	55,300	(19,908)	35,392	[1]
Fixtures and fittings (960 + 480)	4,800	(1,440)	3,360	[1]
			38,752	
<u>Current assets</u>				
Trade receivables (17100 – 350)	16,750			[1]
Less: Allowance for impairment of trade receivables (4% x 16,750)	(670)	16,080		[1]
Inventory (6900 – 240)		6,660		[1]
Cash at bank		56,045		
Prepaid rental expense		800		[1]
Commission income receivable		180		[1]
			79,765	
Total assets			118,517	
<u>Equity and liabilities</u>				
<u>Shareholders' equity</u>				
Issued share capital, 25 000 ordinary shares		50,000		
Retained earnings (24020 + 17617 – 1250) [1]		40,387		
			90,387	
<u>Non-current liabilities</u>				
Long-term borrowings (20000 - 4000)			16,000	[1]
<u>Current liabilities</u>				
Trade payables		5,980		
Current portion of long-term borrowings		4,000		[1]
Salaries payable		900		[1]
Dividends payable		1,250		[1]
			12,130	
Total equity and liabilities			118,517	

2(a)

- Cash is required for the daily operations of a business, for example, to buy inventory and pay for operating expenses.
- If a business does not have cash to pay its credit suppliers when the debt is due, the credit suppliers will not be willing to continue selling goods on credit to them. If this carries on, the business may run out of goods.
- If the business does not have cash to pay for its operating expenses, such as rental expense, utilities, salaries, it may be forced to shut down its operations.

Any two, [1] each

(b)(i)

$$\begin{aligned}
 &\text{Current ratio} \\
 &= \text{Current assets} / \text{Current liabilities} \\
 &= 71\,680 / 25\,620 \quad [1] \\
 &= 2.8 \quad [1]
 \end{aligned}$$

(ii)

$$\begin{aligned}
 &\text{Quick ratio} \\
 &= \text{Quick assets} / \text{Current liabilities} \\
 &= 19\,900 / 25\,620 \quad [1] \\
 &= 0.8 \quad [1]
 \end{aligned}$$

(c)

- Current ratio has worsened each year from 8.1 in 2021 to 7.8 in 2022 to 2.8 in 2023.
- Current ratio is above the general benchmark of 2 for all three years.
- Current ratio indicates healthy liquidity level even in 2023, as Gayathri has sufficient current assets to pay off her current liabilities in all three years.
- Quick ratio has worsened each year from 4.3 in 2021 to 3.3 in 2022 to 0.8 in 2023.
- Quick ratio was above the general benchmark of 1 in 2021 and 2022 but below the general benchmark in 2023.
- This indicates that Gayathri does not have sufficient quick assets to pay off her current liabilities in 2023.
- Inventory holdings have worsened since inventory has increased each year from \$14 100 in 2021 to \$24 500 in 2022 to \$47 400 in 2023.
- Funds are tied up in inventory which is not easily converted to cash.
- Bank balance has worsened each year from \$7800 in 2021 to \$7300 in 2022 to an overdraft of \$16 500 in 2023.
- With a negative bank balance, Gayathri is probably unable to pay her day-to-day expenses.
- Trade payables position has worsened since they have increased from \$3700 in 2021 to \$5290 in 2022 to \$8170 in 2023. This is probably due to Gayathri buying a lot of inventory in 2023.
- Overall, Gayathri's liquidity is in a worsening/declining trend.

Any seven, [1] each

(d)

- Gayathri can slow down the buying of inventory. She can wait until she has sold off most of her current inventory before buying again.
- She can contribute her personal cash into the business bank account and pay off the trade payables.
- She can take a long-term bank loan.
- She can sell or rent out any excess non-current assets.

Any two, [1] each**3(a) Accounting entity theory [1]**

□

The business is a separate entity from its owner; all transactions are recorded from the point of view of the business. **[1]**

OR

Only business transactions affecting the business are recorded in the books of the business; personal transactions of the owner are not recorded. **[1]**

(b) Amount of assets taken out from the business by the owner **for personal use. [1]**

Drawings has no effect on the profit for the year. **[1]**

Drawings will decrease the equity. **[1]**

(c)

Drawings

		<u>Debit</u>	<u>Credit</u>	<u>Balance</u>
2022		\$	\$	\$
Jun 24	Inventory	570 [1]		570 Dr
2023				
Mar 16	Cash at bank	2 510 [1]		3 080 Dr
31	Capital		3 080 [1] OF	-

(d)

Capital

		<u>Debit</u>	<u>Credit</u>	<u>Balance</u>
2022		\$	\$	\$
Apr 1	Balance b/d			48 000 Cr [1]
Aug 13	Cash at bank		10 000 [1]	58 000 Cr
Dec 25	Motor vehicles		42 400 [1]	100 400 Cr
2023				
Mar 31	Income summary		27 300 [1]	127 700 Cr
31	Drawings	3 080 [1] OF		124 620 Cr
Apr 1	Balance b/d			124 620 Cr

4(a) Depreciation is the allocation of cost of a non-current asset over its estimated useful life.

(b)

- Wear and tear
- Obsolescence
- Legal limits
- Usage

Any two, [1] each

(c) A portion of the original cost of the non-current assets has to be recorded as depreciation expense to be matched against the income earned in the same financial period to arrive at the profit for the period. **[1]** This is according to Matching Theory. **[1]**

OR

The total depreciation to date is reported as accumulated depreciation and deducted from the original cost of the non-currents to arrive at the net book value. This ensures that the assets are not overstated. **[1]** This is according to Prudence Theory. **[1]**

(d) Lydia should buy the machine. **[1]**

$2000 + 36(200) + 5(150) - 500 = 9450$
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The machine has a useful life of 5 years. This means that Lydia needs to incur only a total of \$9450 to use the machine for 5 years. **[1]** If she is to rent a machine for the same period of time, she will need to pay a total of \$24 000. **[1]** Hence, Lydia will be able to save about \$14 550 during the 5 years by buying the machine.

Lydia will get to use a completely new machine instead of a rented machine which has been used by other customers. **[1]** It is less likely for a brand new machine to break down or cause problems. **[1]**

If Lydia is to rent the machine, she has to rent it for at least 6 months. **[1]** Anytime during this period, if Lydia changes her mind, eg. if she decides to buy a machine instead or rent a different machine, she will need to incur \$1000 as a penalty. **[1]**

OR

Lydia should rent the machine. **[1]**

The monthly rental of \$400 covers the servicing and maintenance **[1]**, so Lydia will not need to worry about having additional costs or making additional arrangements. **[1]**

Under normal usage, Lydia will not need to pay for repairs. **[1]** As the machine gets older, it may need to be repaired and Lydia does not have to worry about this if she chooses to rent a machine. **[1]**

After every 6 months, Lydia can choose to rent or buy another machine instead of being stuck with the same one. **[1]** Lydia may, for example, find the current machine no longer suitable as she expands her business. If she rents a machine, she has the flexibility to change to a more suitable machine later on. **[1]**

[1] for a decision made

[1] for a piece of evidence to support the decision (Maximum 3 pieces of evidence)

[1] for an explanation of how the piece of evidence will support the decision

Maximum **[7]**