

Index  
Number

Class

Candidate's Name \_\_\_\_\_

--	--



**ST ANDREW'S SECONDARY SCHOOL**  
**PRELIMINARY EXAMINATION 2022**  
**SECONDARY 4 EXPRESS / 5 NORMAL (ACADEMIC)**

ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL  
ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL  
ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL  
ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL  
ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL  
ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL  
ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL ST ANDREW'S SCHOOL

**PRINCIPLES OF ACCOUNTS**

**7087/02**

Paper 2

**25 August 2022**

**2 hours**

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 answer paper ask the invigilator for a continuation booklet.

Answer **all** questions.

The use of an approved calculator is allowed.

The businesses described in this question paper are entirely fictitious.

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

For Examiner's Use	
1	20
2	15
3	11
4	14
Total	60

Answer **all** questions.**1** GWS Pte Limited buys and sells medical equipment.

The following balances were extracted from its books on 31 December 2021.

	\$	
Accumulated depreciation of motor vehicles	51 200	
Allowance for impairment of trade receivables	7 600	
Cash at bank	9 400	Credit
Commission income	12 600	
Cost of sales	320 400	
Discount allowed	8 400	
Equipment	50 000	
General expense	50 200	
Interest on 5% bank loan	3 000	
Inventory	73 600	
Motor vehicles	341 000	
Rent expense	65 200	
Retained earnings 1 January 2021	56 600	
Sales returns	20 600	
Sales revenue	505 800	
Share capital, 200 000 ordinary shares	200 000	
Trade payables	35 600	
Trade receivables	46 400	
5% Bank loan	100 000	

Additional information:

- 1 Commission income, \$1 500, has yet to be received.
- 2 The rent expense includes \$20 000 for the five months ending 31 March 2022.
- 3 Interest on the 5% bank loan was not fully paid.
- 4 One-quarter of the 5% bank loan is repayable on 30 June 2022.
- 5 The allowance for impairment of trade receivables is to be maintained at 10% of trade receivables.
- 6 Motor vehicles are to be depreciated at 10% per annum using the reducing-balance method.
- 7 Equipment is to be depreciated using the straight-line method over a useful life of ten years. The estimated residual value is \$5 000.
- 8 The company declared a dividend of \$0.05 per share and it will be paid on 15 January 2022.

**REQUIRED**

- (a) Prepare the statement of financial performance for the year ended 31 December 2021. [8]
- (b) Prepare the statement of financial position as at 31 December 2021. [12]

[Total: 20]

- 2 Wai Soh Dim owns a business importing premium lighting products.

The following information relates to Wai Soh Dim's business at 30 April 2021 and 2022.

	30 April 2021	30 April 2022
	\$	\$
Allowance for impairment of trade receivables	2 300	5 540
Capital	50 770	69 790
Cash at bank	1 950	-
Bank overdraft	-	3 400
Inventory at cost	6 800	17 600
Long-term bank loan	50 000	70 000
Motor vehicles (net book value)	90 000	126 000
Prepaid general expenses	720	630
Trade payables	5 100	14 700
Trade receivables	8 700	19 200

Additional information:

Included in motor vehicles at 30 April 2022 was a payment, \$38 000, during the year for a new delivery van.

### REQUIRED

- (a) Explain what is meant by the liquidity of a business. [1]
- (b) Calculate the following for Wai Soh Dim's business for the year ended 30 April 2022.
- (i) Current ratio [2]
- (ii) Quick ratio [2]

Give your answers to **two** decimal places where necessary. Show **all** workings.

On 30 April 2021, Wai Soh Dim's current ratio was 3.11 and the quick ratio was 1.64.

### REQUIRED

- (c) Evaluate the trend in liquidity over the two years ended 30 April 2021 and April 2022. Use the given information and your answer to (b). [6]
- (d) State **one** reason why it is important for Wai Soh Dim's business to be liquid. [1]
- (e) Using the information from above to support your answer, suggest **two** ways the purchase of the new delivery van may have been financed. [2]
- (f) Explain why the quick ratio is a more reliable indicator of liquidity than the current ratio. [1]

[Total: 15]

[Turn over]

- 3 Mr Shu operates a shoes retail business, Soles Proprietor, whose financial year ends on 31 May.

Soles Proprietor's draft profit for the year ended 31 May 2022 was \$29 000.

After calculating the draft profit for the year, the following omissions and errors were discovered.

- 1 Surplus furniture, net book value \$3 300, was sold by cheque for \$2 800.
- 2 The cost of repairs to motor vehicle, \$800, had been recorded in the motor vehicles account.

### REQUIRED

- (a) Calculate the adjusted profit for the year ended 31 May 2022 after the correction of these errors. [2]

On 1 June 2021, the balance in the capital account was \$49 700.

During the year ended 31 May 2022, the following took place.

2021

Oct 29 Goods costing \$340 had been taken by Mr Shu for his own use.

2022

Jan 4 Mr Shu paid the cost of maintenance of his home, \$600, from the business bank account.

May 11 Mr Shu sold his house for \$120 000. He put 25% of the proceeds into the business bank account.

### REQUIRED

- (b) Prepare the journal entries to record the following:

(i) the transaction on 11 May 2022 [2]

(ii) the transfer of drawings to a relevant account on 31 May 2022 [2]

Narrations are **not** required.

- (c) Calculate the total equity on 31 May 2022. [2]

- (d) State the effect drawings will have on the profit for the year. [1]

- (e) Describe the features of a sole proprietorship under the following headings.

(i) Access to funds [1]

(ii) Extend of liability [1]

[Total: 11]

- 4 Mr Koh runs a business, Mr Kohconut. The business buys and sells prepacked coconut water and has a financial year end of 30 June.

The following account appeared in Mr Kohconut's ledger.

Allowance for impairment of trade receivables account				
Date	Particulars	Debit \$	Credit \$	Balance \$
2020				
Jul 1	Balance b/d			18 000 Cr
2021				
Feb 18	Trade receivable – Coco Nutty	3 000		15 000 Cr
Jun 30	Impairment loss on trade receivables		800	15 800 Cr
Jul 1	Balance b/d			15 800 Cr

The total trade receivables amounted to \$225 000 on 1 July 2020.

#### REQUIRED

- (a) Explain what is meant by trade receivables. [1]
- (b) Calculate the rate of the allowance for impairment of trade receivables as a percentage. [1]
- (c) Interpret the entries in the allowance for impairment of trade receivables account on:
- (i) 18 February 2021 [1]
- (ii) 30 June 2021 [1]
- (d) State the meaning of the balance in the allowance for impairment of trade receivables account on 1 July 2021. [1]
- (e) State the effect and amount of the entry in the allowance for impairment of trade receivables account on 30 June 2021 on the profit for the year. [1]
- (f) Explain the matching theory in relation to maintaining an allowance for impairment of trade receivables. [1]

[Turn over]

Mr Kohconut's credit policy to its customers is shown below.

- 1 The credit period is 30 days.
- 2 A cash discount of 3% is given if payment is made within 14 days.
- 3 The credit limit is \$10 000.

Two existing customers of Mr Kohconut have approached Mr Koh to negotiate for longer credit period of 40 days. Due to the challenging economic conditions, Mr Koh intends to extend a longer credit period to only one business.

The details of the two customers are shown below.

	Buy The Way (BTW)	Coconut, ya? (CYA)
Nature of business	Grocery store with 8 outlets in Singapore	<ul style="list-style-type: none"> <li>Dessert shop that specialises in coconut desserts</li> <li>Has 2 outlets in Singapore</li> </ul>
Average trade receivable balance	\$7 500	\$10 300
Average monthly sales revenue for Mr Kohconut	\$15 900	\$25 100
Repayment history over the past year	<ul style="list-style-type: none"> <li>Average collection period of 31 days</li> <li>1 occurrence of late payment</li> </ul>	<ul style="list-style-type: none"> <li>Average collection period of 36 days</li> <li>3 occurrences of late payment</li> </ul>
Reputation of customer	<ul style="list-style-type: none"> <li>Popular among senior citizens due to extensive discounts provided</li> <li>Has been in business for 10 years</li> </ul>	<ul style="list-style-type: none"> <li>Products have received positive reviews by food critics on social media platforms</li> <li>Has been in business for 18 months</li> </ul>
Specific industry outlook	The business has no plans to have an online presence even though there is increasing competition from online retailers.	There is increasing demand for coconut desserts and the business has plans to expand to 5 outlets in 2 years' time.

## REQUIRED

- (g) Advise Mr Koh which customer he should grant a longer credit period to. Justify your decision with **three** reasons. [7]

[Total: 14]