

Name:() Class: Sec



St. Gabriel's Secondary School

2022 'O' Preliminary Examination

Subject : Principles of Accounts
Paper : 7087/02
Level/Stream : Sec 4 Express / 5 Normal Academic
Duration : 2 hours
Date : 24 August 2022
Setters : Mr Tuang Fook Yong / Mdm Ruby Cheah

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.

Answer **all** questions.

- 1 The following balances were extracted from the books of JY Pte Ltd, on 30 June 2022.

	\$	
Issued share capital, (400 000 ordinary shares on 1 July 2021)	778 000	
Retained earnings	62 300	
Property	900 000	
Cash at bank	23 000	Cr
Office equipment at cost	90 000	
Motor vehicles at cost	180 000	
Accumulated depreciation on 1 July 2021		
- Office equipment	20 000	
- Motor vehicles	24 000	
Wages & salaries	70 800	
Allowance for impairment loss of trade receivables	3 900	
Sales revenue	322 900	
Cost of sales	120 200	
Rent received	88 000	
Motor expenses	7 400	
Sales returns	4 300	
Insurance	28 000	
Discount received	1 400	
Inventory	28 600	
Trade receivables	29 500	
Trade payables	18 800	
Interest on mortgage loan	3 500	
4% Mortgage loan (repayable in 2032)	120 000	

[Turn over

Additional information

- 1 Included in the insurance of \$28 000 was a payment of \$12 000 for a one year fire insurance policy commencing on 1 October 2021.
- 2 JY Pte Ltd sublets part of its property to a tenant for \$8 000 a month since 2018.
- 3 A credit customer who owed \$3 500, paid 40 cents for every dollar of debts owed on 30 April 2022. No record was made in the books. The remaining amount was to be written off as irrecoverable on 30 June 2022.
- 4 It is the business policy to maintain its allowance for impairment of trade receivable at 5% of trade receivables.
- 5 Inventory as at 30 June 2022 has a net realisable value of \$26 500.
- 6 Cash of \$5 000 withdrawn from the business bank account for office use was omitted from the books.
- 7 No record was made for dividend declared on 30 June 2022 at 5 cents per share. The dividends are to be paid on 31 July 2022.
- 8 Mortgage loan of \$12 000 to be paid on 31 August 2022 and interest on mortgage loan was not fully paid in the year.
- 9 Depreciation is to be provided on non-current assets based on the information below:

Non-current asset

Depreciation

[Turn over

- Office equipment 20% per annum on cost, using the straight line method.
- Motor vehicles 10% per annum on book value, using the reducing balance method.
- Property Leasehold life of 60 years.

REQUIRED

- (a) Prepare JY Pte Ltd's statement of financial performance for the year ended 30 June 2022. [10]
- (b) Prepare JY Pte Ltd's statement of financial position as at 30 June 2022. [10]

[Total: 20]

- 2 Kaifung runs a retail business with a financial year end of 31 July. The following ledger accounts have been prepared as at 31 July 2021.

Motor vehicles account

Date	Particulars	Debit \$	Credit \$	Balance \$
2020				
Aug 1	Balance			80 000 Dr
Dec 1	G9 Motors	170 000		250 000 Dr
2021				
Aug 1	Balance			250 000 Dr

Accumulated Depreciation of Motor vehicles account

Date	Particulars	Debit \$	Credit \$	Balance \$
2020				

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Aug 1	Balance		8 000 Cr
July 31	Depreciation of motor vehicles	24 200	32 200 Cr
2021			
Aug 1	Balance		32 200 Cr

REQUIRED

(a) Interpret each of the entries below.

- (i) 1 December 2020 in Motor vehicles account. [1]
- (ii) 31 July 2020 in Accumulated depreciation of Motor vehicles account. [1]

On 30 May 2022, an old vehicle bought on 1 September 2019 for \$80 000 was sold. A cheque of \$69 800 was received on the same day.

It is the business policy to provide depreciation at 10% per annum on net book value.

A full year's depreciation is charged in the year of purchase but no depreciation is charged in the year of sales.

REQUIRED

- (b) Calculate the gain or loss on sale of the old vehicle on 30 May 2022. Show working clearly. [4]
- (c) Prepare journal entries to record the sale of the old vehicle on 30 May 2022. Narrative is **not** required. [4]

[Turn over]

[Total: 10]

- 3 The following information relates to Sanchit's business at 31 August 2021 and 2022.

	<u>2021</u>	<u>2022</u>
	\$	\$
Inventory	25 650	40 350
Expenses payable	-	6 500
Cash at bank	5 000	-
Bank overdraft	-	1 000
Trade receivables	25 000	30 000
Trade payable	22 300	27 000
Motor vehicle	90 000	90 000
Bank loan	-	100 000
Income receivables	-	2 000
Current portion of loan		20 000
Current ratio	2.50 : 1	?

[Turn over]

Quick ratio

1.35 : 1

?

REQUIRED**(a)** Calculate the following for the year ended 31 August 2022.**(i)** Current ratio [2]**(ii)** Quick ratio [2]

Sanchit's business policies were as follows:

- He sells goods on a credit basis, offering cash refunds for sales return.
- He pays suppliers promptly within 7 days of receiving an invoice to enjoy cash discount.
- He usually orders one year in advance to meet possible demand and avoid price hikes.
- He orders in bulk to enjoy trade discount.

REQUIRED**(b)** Comment on the change in liquidity from the year ended 31 August 2021 to the year ended 31 August 2022, using information given as well as answers from part **(a)**. [6]**(c)** Recommend **two** actions Sanchit could take to improve the liquidity of the business. Give reasons to support your answers. [4]**[Total: 14]**

- 4** Lao Ban, age 40, has been an accountant for 10 years and retrenched from food delivery business ShoppinEat. Lao Ban interested in food and beverage business. His savings as well as the compensation that he has gotten from his retrenchment are more than sufficient for Lao Ban to set up a speciality coffee cafe and restaurant at Upper Thomson area.

He has plans to sell house-brewed coffee, pastries and cakes using secret recipes passed down from his grandmother. Lao Ban is not comfortable to share these recipes with others.

As for main course items, Lao Ban intends to get the expertise of his best friend who is currently working as an Executive Chef in a 6 star hotel in Switzerland. However, Lao Ban cannot offer to match up with his friend's current salary. Lao Ban has been thinking of alternative ways to solve this problem as well as to retain his friend's long term services as his friend is very renowned in the industry.

[Turn over]

In addition, from his many years in ShoppinEat, Lao Ban is knowledgeable about the logistics of providing food deliveries as well as food supplier contacts. He is hesitant to have another owner in his business as he is very particular of his way of operating the business.

Lao Ban has plans to expand his business to ultimately setting up more branches. One of the key ingredients for a cafe's initial success is a good rapport with the social media. A couple of Lao Ban's ex-colleagues are experts in this and they have expressed interest to join Lao Ban in his business. Lao Ban's immediate family members are also willing to contribute money to his business with the intention of receiving a cut off the profits generated by the cafe.

REQUIRED

- (a)** If you are Lao Ban, will you set up a sole proprietorship or private limited company? Explain your answer. [7]

The following information was extracted from the books of Nain Co on 1 August 2021.

	\$
Share capital, 500 000 ordinary shares	800 000
Retained earnings	185 900

The following transactions took place during the year ended 31 July 2022.

2021 150 000 ordinary shares were issued at \$2 per share.
October 2

2022 Dividends at 5 cents per share were declared and to be
July 30 paid on 30 September 2022.

July 31 Loss for the year was \$85 000.

REQUIRED

- (b) Prepare the retained earnings account for the year ended 31 July 2022. [3]
- (c) Prepare journal entries for recording of dividends for the year ended 31 July 2022, including the closing entries. [4]
- (d) State **one** advantage of a private limited company has as compared to a sole proprietorship business. [2]

[Total: 16]

End of Paper

Q1

(a) 10 marks

JY Pte Ltd

Statement of financial performance for the year ended 30 June 2022.

	\$	\$
Sales revenue		322900
Less Sales returns		4300
		<u>✓31860</u>
Net sales revenue		0
Less Cost of sales		120200
		<u>✓19840</u>
Gross profit		0
Add Other income		
Rent received (88000+8000) ✓	96000	
Discount received	<u>✓1400</u>	97400
Total income		295800
Less Other expenses		
	<u>✓7080</u>	
Wages & salaries	0	
Motor expenses	<u>✓7400</u>	
	<u>✓2500</u>	
Insurance (28000-3000) ✓	0	
Interest on mortgage loan (3500+1300) ✓	<u>✓4800</u>	
REVERsal of impairment loss on Trade receivables ✓	<u>✓ (500)</u>	
Impairment loss on inventory (28600-26500) ✓	<u>✓2100</u>	
Depreciation of		
	<u>✓1800</u>	
- Equipment 20%(90000) ✓	0	
	<u>✓1560</u>	
- Motor vehicles 10%(180000-24000) ✓	0	
	<u>✓1500</u>	
- Property (900000/60) ✓	0	158200
Profit for the year		<u>137600</u>

[Turn over

(b) 10 marks

JY Pte Ltd

Statement of financial position as at 30 June 2022.

Assets	\$	\$	\$
		Accumulate	
	Cost	d Depreciation	Net book value
Non-current assets			
Office equipment at cost	90000	✓38000	52000
Motor vehicles at cost	180000	✓39600	140400
Property	900000	✓15000	885000
	117000		✓107740
Total non-current assets	0	92600	0
Current assets			
Trade receivables (29500-3500) ✓		26000	
Less Allowance for impairment of trade receivables		(1300)	
Net Trade receivables		OF✓24700	
Inventory (28600-2100) ✓		26500	
Prepaid insurance		✓3000	
Rent receivable		✓8000	
Cash in hand		✓5000	
Total current assets			67200
Total assets			1144600
Shareholders' equity			
Share capital, 400000 ordinary shares ✓		778000	
Retained earnings		179900	
(62300-20000+137600) ✓✓			
Total equity			957900
Non-current liability			
Long term borrowing ✓		108000	
(120000-12000)			
Total non-current liability			108000

[Turn over

Current liabilities

Trade payables	✓18800	
Bank overdraft $(-23000+1400-5000)$ ✓✓	26600	
Dividend payable 0.05×400000 ✓	20000	
Interest payable ✓	1300	
Current portion of Long term borrowing ✓	12000	
Total current liabilities		<u>78700</u>
Total equity and liabilities		<u>1144600</u>

Q2**(ai) 1 mark**

Motor vehicle costing \$170 000 was bought on credit from G9 Motors.

(aii) 1 mark

Depreciation charge for motor vehicle for the year was \$24 200, leading to an accumulated depreciation of \$32 200.

(b) 4 marks

Cost = \$80 000

Accumulated depreciation
 $= 10\%(80000)$ ✓ $+ 10\%(80000-8000)$ ✓✓
 $= \$15\,200$ ✓

Net book value $= \$80000 - 15200 = \64800 ✓

Gain on sale of non-current asset $= \$69800$ ✓ $- 64800$ ✓ $= \$5000$ ✓

(c) 4 marks

		Dr	Cr
		\$	\$
2022			
May 30	Cash at bank ✓	✓69 800	
	Accumulated depreciation of motor vehicle ✓	OF ✓15 200	
	Motor vehicles ✓		✓80 000
	Income summary ✓		OF ✓5 000

[Turn over

Q3(a) (i) **2 marks**

Current assets / Current liabilities✓

= 72350 / 54500 ✓

= 1.33 : 1 ✓✓

(ii) **2 marks**

Quick assets / Current liabilities✓

= 32000 / 54500✓

= 0.59 : 1 ✓✓

(b) **6 marks**

The current ratio of Sanchit's business has worsen from 2.50 : 1 in year 2021 to 1.33 : 1 in year 2022. This means that for every \$100 of current debts, he has \$117 lesser in current asset to cover it, showing his weakening ability to settle his current debts. ✓✓

His cash at bank balance has decreased by \$6000 from \$5000 to an overdraft of \$1000. ✓ In addition, he has a new current portion of loan \$20 000 which needs repayment in near future. ✓ This weakening in cash balances could be due to his cash refund upon sales returns policy✓ as well as his prompt payment within 7 days to trade payable, ✓ resulting into business cash being paid out too fast. In addition, the quick ratio of Sanchit's business has also shown the same findings. It has worsened from 1.35 : 1 in year 2021 to 0.59 : 1 in year 2022. This signifies that for every \$100 of current debts, the quick assets to cover it has lessen by \$76. In addition, in year 2022, there was also insufficient quick assets to cover his current debts. ✓✓

This poor liquidity could be largely attributed to high holding of inventory from \$25650 in year 2021 to \$40350 in year 2022, an increase of \$14700. ✓ The high volume of inventory could be due to his policy of buying in bulk ✓and buying his inventory well ahead of his demand. ✓ As such much of his business cash is tied up in the inventory. ✓✓

As a result of his business policies, his business' liquidity has worsen. ✓✓

(c) **4 marks** [any 4 points]

Sanchit can

- Reduce his purchase of inventory so that funds will not be tied in the inventory
- Offer attractive trade discount for cash sales
- Review his sales return policy and not offer cash refunds as it will deplete his cash balance.
- Review his repayment policy on early repayment to suppliers so that he will not be cash tight.
- Offer cash discount to his credit customers for early repayment so that he can get back the cash from his debtors faster.

[Turn over

Q4

(a) **7 marks**

He should set up a sole proprietorship

- He has expertise in sourcing and has a network of suppliers which means that he does not need help to manage his business and he is self-sufficient.
- He has sufficient personal funding from his savings and retrenchment to set up the business by himself. Therefore there is no need for him to look for alternative funding.
- He prefers to have his own way of operating the business and is hesitant to have partners in his business. By having a sole proprietorship, he can retain control over his business decisions and need not consult others.

He should set up a private limited company

- He needs an alternative way to get the service of his friend as he could not offer him a high salary. Therefore, he can provide incentive for his friend to work in the restaurant by offering him ownership of the business which can also retain his friend's service to the business.
- His relatives can provide him funding which will support his plan for expansion of his business in the future. In this aspect, he does not need to borrow money and incur interest.
- His ex-colleagues can provide him support in social media technical expertise if he includes them as shareholders of the business. Lao Ban needs this area of expertise in order to start a name for his business.
- He has plans for expansion. Therefore it is better to set up a private limited company as he can have a better chance of getting bank loans.

(b) **3 marks****Retained earnings**

Date	Particulars	Dr (\$)	Cr (\$)	Bal (\$)
2021				
Aug 1	Balance b/d			✓185 900 CR
2022				
Jul 31	Dividends (0.05 X 650000)✓	32 500✓		153 400 CR
	Income summary✓	85 000✓		68 400 CR
Aug 1	Balance b/d			✓68 400 CR

[Turn over

(c) **4 marks****General Journal**

Date	Particular	Dr (\$)	Cr (\$)
2022			
July 30	Dividends✓✓	32 500	
	Dividends payable✓✓		32 500
July 31	Retained earnings✓✓	32 500	
	Dividends✓✓		32 500

(d) **2 marks [any 2 points]**

- Banks are more willing to grant loans to the private limited company
- Business can raise funds easier through the issuance of shares.
- Limited liabilities for the owners

[Turn over