

Class/ Index Number  /	Centre Number/ 'O' Level Index Number  /	Name
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**新加坡海星中学**  
**MARIS STELLA HIGH SCHOOL**  
**PRELIMINARY EXAMINATION**  
**SECONDARY FOUR**

**PRINCIPLES OF ACCOUNTS**

Paper 1

**7087/01**

**16 August 2022**

**1 hour**

Candidates answer on the Question Paper.  
No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

Write your class, index number, Centre number, O level index number and name in the spaces at the top of this page.

Write in dark blue or black pen.

You may use a HB pencil for any diagrams or graphs.

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

Answer **all** the questions.

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.

The total number of marks for this paper is 40.

**For Examiner's Use**

**40**

Answer **all** questions.

- 1 Julian is a sole proprietor of a trading business. On 1 July 2021, the business had a capital balance of \$42 500.

The following transactions took place for the year ended 30 June 2022.

2021	
Aug 15	Julian contributed his personal computer worth \$1 380 to the business.
Nov 28	Julian took goods costing \$200 from the business for his personal use.
2022	
Mar 11	Julian took \$520 cash from the business for his own use.
Jun 30	Profit for the year amounted to \$9 300.

## REQUIRED

- (a)** Name and explain the accounting theory behind the transaction on 28 November 2021.

[2]

- (b)** Prepare the drawings account for the year ended 30 June 2022.

[3]

**(c)** Prepare the capital account for the year ended 30 June 2022.

[illegible]

Julian is considering changing his business into a private limited company.

**(d)** State **two** advantages a private limited company has compared to a sole proprietorship.

[2]

**(e)** Explain the meaning of retained earnings.

.....[2]

**[Total: 13]**

- 2 On 1 May 2022, the inventory account of Jordan Trading showed a balance of \$3 800 for 30 units of inventory. The business records inventory movement using the First-In-First-Out (FIFO) method.

The following transactions took place during the month of May.

2022

- May 8 Purchased 40 units at \$6 400 from Hike Ltd on credit.  
 13 Purchased 20 units at \$1 300 by cheque.  
 15 Sold 70 units for \$12 000 to Jonathan.  
 21 Purchased 10 units at \$900 by cash.  
 26 Purchased 30 units at \$4 200 from Outdoor Ltd on credit.  
 29 Sold 30 units for \$2 700 to Johnny.

### REQUIRED

- (a) Explain, using a relevant accounting theory, how inventory is valued.

.....  
 .....  
 .....  
 ..... [3]

- (b) Calculate the cost of sales for the month of May 2022.

.....  
 ..... [2]

- (c) Calculate the gross profit for the month of May 2022.

.....  
 ..... [1]

- (d) State the value of the ending inventory as at 31 May 2022.

..... [1]

On 15 June 2022, Jordan Trading purchased a batch of inventory on credit from Kayden Ltd, an overseas supplier.

The following costs were incurred on this batch of inventory.

	\$
Cost of inventory	5 300
Wages for staff to advertise and sell the inventory	200
Import tax	150
Freight charges	280
Insurance for shipment of inventory	90
Wages for staff to repack the inventory	120

## REQUIRED

- (e) Calculate the cost of inventory purchased on 15 June 2022.

.....  
 ..... [2]

- (f) On 30 June 2022, Jordan Trading had inventory valued at \$12 700. On the same day, a fire destroyed some of the inventory and the net realisable value of the inventory was \$4 600. Prepare the journal entry to adjust the value of inventory. A narration is **not** required.

.....  
 .....  
 .....  
 ..... [2]

- (g) Complete the following table by indicating with a tick (☑) how the following items will be affected if the value of the inventory was not adjusted on 30 June 2022.

	Effect on	Overstated	Understated	No effect
(i)	Gross profit			
(ii)	Profit for the month			
(iii)	Current assets			

[3]

**[Total: 14]**

The following information was extracted from the books of Giga Home Supplies as at 31 December 2019, 2020 and 2021.

	2019 \$	2020 \$	2021 \$
Cash at bank	5 200	3 900	--
Inventory	4 500	5 400	7 900
Trade receivables	2 300	1 700	2 100
Prepaid expenses	800	1 100	1 200
Trade payables	2 100	2 900	4 300
Bank overdraft	--	--	2 200
Expenses payable	700	900	1 600
Current ratio	4.57	3.18	?
Quick ratio	2.68	1.47	?

### REQUIRED

- (a) State **two** reasons why liquidity is important for a business.

.....

.....

.....

..... [2]

- (b) Calculate the following as at 31 December 2021. Show your answers to **two** decimal places.

- (i) Current ratio

.....

..... [1]

- (ii) Quick ratio

.....

.....

.....

..... [2]

- (c)** Use the given information and your answers in **(b)** to comment on the changes in the liquidity position of the business over the three years ended 31 December 2019, 2020 and 2021.

[5]

- (d)** Suggest **three** ways to improve the liquidity of Giga Home Supplies.

[3]

**[Total: 13]**

**END OF PAPER**