NAME		
CLASS	REGISTER NUMBER	
DDINICIE		7006/

Secondary Four Normal Academic PRELIMINARY EXAMINATION 2024

PRINCIPLES OF ACCOUNTS

Paper 2

Candidates answer on the Question Paper.

Additional Materials: Insert

READ THESE INSTRUCTIONS FIRST

Write your name, class and register number on all the work you hand in. Write in dark blue or black pen. Do not use staples, paper clips, glue or correction fluid.

The use of an approved calculator is allowed.

Answer all the questions.

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.

The total number of marks for this paper is 60.





7086/02

2 hours

7 August 2024

Answer all questions.

1 Refer to the Insert for data for Question 1.

REQUIRED

(a) Prepare the statement of financial performance for the year ended 30 June 2024.

Fantastic Services Statement of Financial Performance for the year ended 30 June 2024

..... (b) Prepare the statement of financial position as at 30 June 2024.

Fantastic Services Statement of Financial Position as at 30 June 2024

[Total: 20]

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2 Ning owns a trading business with a financial year end of 30 June.

On 1 October 2023, the business purchased an air conditioning system and paid cheques for the following expenditures.

	Ψ
Cost of air conditioning system	8 550
Installation cost	90
Air conditioning system maintenance services (4 times within 12 months)	360

¢

REQUIRED

(a) Explain what is meant by capital expenditure.

(b) Explain what is meant by revenue expenditure.

(c) Calculate the cost of the air conditioning system to be recorded in the statement of financial position.

.....[1]

The air conditioning system is to be depreciated over its useful life.

REQUIRED

(d) Define the term depreciation.

.....[1]

(e) State the accounting theory adhere to when a business depreciates its non-current assets using the same methods and estimates over time.

.....[1]

As at 30 June 2024, \$90 of air conditioning maintenance services remains unutilised.

REQUIRED

(f) Calculate the amount of air conditioning maintenance services expense the business incurred for the year ended 30 June 2024.

.....[1]

(g) Explain how the air conditioning maintenance services expense is treated according to the matching theory.

 	 	[2]

[Total: 10]

3 The financial year of Ann's trading business ends on 30 June. The following information is provided.

	1 July 2023	30 June 2024
	\$	\$
Commission income received in advance	500	
Commission income receivable		800

During the year, commission income of \$9700 was received by bank transfer.

REQUIRED

(a) Prepare journal entries to account for commission income for the year ended 30 June 2024, including the closing of the commission income. Narrations are **not** required.

	Journal		
Date 2023	Particulars	Debit (\$)	Credit (\$)

[8]

(b) Define accrual basis of accounting.

......[1]

Ann planned to expand her business and was considering taking a bank loan or a bank overdraft.

REQUIRED

(c) State one difference between a bank loan and a bank overdraft.

.....[2]

During the month of July 2024, the following transactions took place.

2024

- Jul 4 Ann contributed \$15 000 of her own money to the business bank account.
 - 17 Ann took goods costing \$800 from the business for her personal use. The goods taken could be sold for \$1800.

REQUIRED

(d) Prepare journal entries to record the transactions during the month of July 2024. Narrations are **not** required.

	Journal		
Date	Particulars	Debit	Credit
2024		(\$)	(\$)
	I	1	[4]

4 Nick's business buys and sells a variety of chocolate products.

REQUIRED

(a) Identify two possible costs of purchases.

.....[2]

(b) State two ways a business can manage inventory.

.....[2]

(c) Provide two non-accounting information which Nick's business might consider when deciding on which chocolate products to buy and sell.

.....[2]

On 31 July 2024, there was a flood and chocolate products which cost \$1 500 had a net realisable value of \$100.

REQUIRED

(d) Provide the journal entry to record the impairment loss on inventory. A narration is required.

	Journal		
Date	Particulars	Debit	Credit
2024		(\$)	(\$)

(e) State how inventory should be valued in the statement of financial position.

.....[1]

[3]

Nick's business is introducing a new range of chocolate products and is considering between these two possible new suppliers. The following information is provided.

	Choco Lover	Best Chocs
Cost	\$9 per box of chocolate Free delivery	 \$9.20 per box of chocolate \$5 dolivery fee for every
		order.
Credit terms	• 21 days	 30 days
	No cash discount offered	 3% cash discount for payment within 21 days.
Location	Local supplier	Overseas supplier
Reputation	 Newly established business. Customer reviews say that delivery is speedy. 	 Been in operation for over 7 years. Many positive customer reviews about the quality of products.

REQUIRED

(f) Recommend whether Nick's business should choose Choco Lover or Best Chocs as the new supplier. Justify your decision with **two** reasons.

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[Total: 15]

Suggested solution

1	(a) Fantastic Services				
	Statement of financial performance for the year ended 30 June 2024				
	Service fee revenue (199 600 - 600)		Φ	» 199 000	
	Other income Commission income (1 200 + 300)			1 500	
	Less: Other expenses Insurance expense (3 700 – 100) General expense Wages and salaries Rent expense Interest expense (700 + 50) Impairment loss on trade receivable (4% X (264 – 600)) Depreciation of equipment (20% X 32 000)	(6 600 - 600) —	(3 600) (8 800) (96 000) (50 400) (750) (576)		
	Depreciation of motor vehicles (30% X (75 Profit for the year	000 – 22 500))	(15 750)	(182 276) 18 224	
	(b) Fantastic Services				
	Assets	\$	\$	\$	
		Cost	Accumulated	Net Book	
	Non-current assets		Depreciation	Value	
	Equipment	32 000	12 800	19 200	
	Motor vehicles	75 000	38 250	36 750 55 950	
	Current assets Trade receivables (6 600 – 600)	6 000			
	Less: Allowance for impairment of trade receivables	(240)	5 760		
	Cash in hand		900		
	Prepaid insurance expense		100		
	Commission income receivable Total assets		300	7 060 63 010	
	Equity and liabilities Owner's equity				
	Capital (26 936 + 18 224 – 9 800)			35 360	
	Non-current liabilities Long term borrowings (25 000 – 5 000)			20 000	

Current liabilities		
Bank overdraft	2 000	
Current portion of long term borrowings	5 000	
Interest expense payable	50	
Service fee revenue received in advance	600	7 650
Total equity and liabilities		63 010
Total equity and habilities		03 0 10

2 (a)

- Capital expenditure are costs to buy and bring the non-current assets to their intended use as well as costs to enhance the non-current assets.
- Capital expenditure provides benefits for more than one financial year.
- Capital expenditure is recorded as non-current asset in the statement of financial position.

(b)

- Revenue expenditure are costs to operate, repair and maintain the non-current assets in working condition.
- Revenue expenditure provides benefits which will be used within one financial year.
- Revenue expenditure is recorded as an expense in the statement of financial performance.
- (c) \$8 550 + \$90 = \$8 640
- (d) Depreciation refers to the allocation of the cost of a non-current asset over its estimated useful life.
- (e) Consistency theory
- **(f)** \$360 \$90 = \$270
- (g)
 - The portion of the air conditioning maintenance services expense paid for but unused will be adjusted out of the air conditioning maintenance services expense account and be recognised as prepaid air conditioning maintenance services expense.
 - Based on the matching theory, expenses incurred (air conditioning maintenance services expense used) must be matched against income earned in the same period to determine the profit for that period.

/				
Journal				
Date 2023	Particulars	Debit	Credit	
Jul 1	Commission income received in advance	500	(4)	
	Commission income		500	
2024				
Jun 30	Cash at bank	9 700		
	Commission income		9 700	
30	30 Commission income receivable			
	Commission income		800	
30	Commission income	11 000		
	Income summary		11 000	

3 (a)

- (b) Accrual basis of accounting states that business activities that have occurred, regardless of whether cash is paid or received, should be recorded in the relevant accounting period.
 - For a bank loan, the amount borrowed is fixed and the cash is transferred to the business bank account but for a bank overdraft, business can withdraw more than what has been deposited in the bank account, subject to a limit, which the business and bank have agreed upon.
 - For a bank loan, the business makes regular cash payments in equal instalments over the bank loan period to reduce the principal sum while for bank overdraft, the business deposits cash into the bank account within the year to reduce the overdraft.
 - A bank loan is presented as long-term borrowings under non-current liabilities in the statement of financial position. On the other hand, bank overdraft is presented as bank overdraft under current liabilities in the statement of financial position.

		Journal		
Date 2024	Particulars		Debit (\$)	Credit (\$)
Jul 4	Cash at bank Capital		15 000	15 000
17	Drawings Inventory		800	800
 (a) Price of goods Transport costs to bring goods to the business Customs duties paid when bringing in the goods to the business Insurance for goods in transit to the business Packing materials 				

Packing materials
Wages for employees involved in repacking of goods.

(b)

4

- Keeping proper records to track inventory,
- Keeping physical inventory in the warehouse,
- Buying insurance to insure the inventory.

(C)

- Nature of products
- Types of storage
- Customer's preference

(d)

	Journal		
Date	Particulars	Debit	Credit
2024		(\$)	(\$)
Jul 31	Impairment loss on inventory (\$1 500 - \$100)	1 400	
	Inventory		1 400

Impairment loss on inventory was \$1 400.

(e) Lower of cost and net realisable value.

Nick's business should choose Choco Lover as the new supplier.

The cost of one box of chocolate from Choco Lover is \$9 as compared to at least \$9.50 per box from Best Chocs (considering shipping). Since the box of chocolates are cheaper from Choco Lover, this will result in lower cost of inventory for the business. When the chocolates are sold, there will be a lower cost of sales and higher profits for the business.

Choco Lover is a local business and Best Choco is an overseas supplier. Nick's business is able to visit Choco Lover's business to view the quality of its physical product. Hence, Nick's business can be assured of its product quality and this would ensure that customers are satisfied with its products and be more likely to purchase chocolate products from Nick's business repeatedly, it will boost the sales revenue and profits of the business.

There are customer reviews mentioning that the delivery for Choco Lover is speedy. Nick's business can be assured that it can avoid a stock-out situation because the business can get its inventory readily for sale.

Nick's business should choose Best Chocs as the new supplier.

There is a 30 day credit period extended by Best Chocs as compared to only 21 days by Choco Lover. This means that cash can be conserved and used in Nick's business for a 9 more days for operating needs when they purchase from Best Chocs as compared to Choco Lover. This will improve the cash flow of the business.

Best Chocs offers 3% cash discount for payment within 21 days whereas Choco Lover does not offer cash discounts. When Nick's business buys from Best Chocs and pays within 21 days, it can receive discounts, which increases the other income for the business and boosts its profits.

Best Chocos is in operation for over 7 years while Choco Lover is a newly established business. Nick's business can be assured that its customers will be satisfied with the chocolate products Best Chocos supplies, given that it has been around for years and there are favourable reviews about the quality of products. With satisfied customers who are more likely to purchase chocolate products from Nick's business repeatedly, it will boost the sales revenue and profits of the business.