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HOLY INNOCENTS' HIGH SCHOOL

Established in 1892

Candidate Name

Class

Index Number

PRELIMINARY EXAMINATION 2022
SECONDARY 4 EXPRESS / 5 NORMAL ACADEMIC
PRINCIPLES OF ACCOUNTS
PAPER 2

60

7087/02

Date: 22 August 2022

Duration: 2 Hours

Writing Paper (5 sheets)

READ THESE INSTRUCTIONS FIRST

Write your name, class and index number on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams or graphs.
Do not use staples, paper clips, glue or correction tape/fluid.

Answer **all** questions.

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

Set by: Mr Nalpon Walter Edgar
Vetted by: Ms Natalie Kwok

Answer **all** questions.

1 The following balances were extracted from the books of Charlie and Brothers Pte Ltd, a consultancy business, on 31 March 2021.

	$
Motor vehicles, at cost	60 000
Fixtures and fittings, at cost	8 000
Accumulated depreciation of motor vehicles	12 000
Accumulated depreciation of fixtures and fittings	2 400
Share capital, 40 000 ordinary shares	40 000
Retained earnings, 1 April 2020	47 480
Rental expense	24 000
Cash at bank	117 240
Commission income	7 000
Trade receivables	33 300
Allowance for impairment of trade receivables	1 800
Consultancy service revenue	131 360
Utilities expense	9 700
General expenses	39 800
Long-term loan	50 000

The following information was made available on 31 March 2021.

1 Rental expense covers the period 1 April 2020 to 30 June 2021.

2 Commission income of $2 500 was earned but yet to be received.

3 One-fifth of the long-term loan is to be repaid on 31 December 2021.

4 Motor vehicles are to be depreciated at 20% per annum on net book value.
Fixtures and fittings are to be depreciated at 10% per annum on cost.

5 A review of trade receivables showed that 4% of the trade receivables are likely to become uncollectible.

6 Ordinary shares of 20 000 were issued at $2 each and paid on 31 December 2020. This has not been recorded in the books.

7 Dividends at $0.04 per share were declared on all shares issued on 31 March 2021. The dividends would be paid on 7 April 2021.

REQUIRED

(a) Prepare the statement of financial performance for the year ended 31 March 2021. [7]

(b) Prepare the statement of financial position as at 31 March 2021. [13]

[Total: 20]

2 The following balances were extracted from the books of Cailler Ltd as at 1 July 2020.

	$
Equipment	111 000
Accumulated depreciation of equipment	30 200

On 15 February 2021, Cailler Ltd sold one of its equipment for $28 000 by cheque. This equipment was purchased on 1 November 2019 for $40 000. The business depreciates its equipment at 20% per annum using the reducing-balance method. A full year's depreciation is provided in the year of purchase and no depreciation is provided in the year of sale. The business ends its financial year on 30 June each year.

REQUIRED

(a) Using an accounting theory, explain why equipment need to be depreciated. [2]

(b) Prepare the journal entries to record the sale of the equipment on 15 February 2021 including the closing entry. Narrations are **not** required. [4]

(c) Calculate the depreciation of equipment for the year ended 30 June 2021. [2]

Cailler Ltd is deciding between two options to obtain new equipment for the business. The following information was provided.

	Purchase	Rental
Cost	$50 000 Estimated useful life 8 years Need to pay 20% of the cost upfront. Business can take an interest-free bank loan to finance the purchase.	$800 rental fee per month Rental fees reviewed annually upon renewal of contract and this may cause the fees to be higher or lower after renewal.
Other costs	Equipment owner has to pay all servicing and repair costs.	All servicing and repairs to be done by rental company for free.
Training Cost	Training costs to be borne by the business.	Free training provided for up to three employees.
Additional information	Equipment can be modified to suit business needs. Business can sell the equipment anytime it wants.	Equipment cannot be modified. Business can test new models before renting them once contract is renewed.

REQUIRED

(d) Justify, with **three** reasons, whether Cailler Ltd should buy or rent the equipment. [7]

[Total: 15]

3 The financial year of Klinton Pte Ltd ends on 31 December. On 1 October 2020, Klinton Pte Ltd took up a bank loan of $50 000 at a certain interest rate per annum. The loan is to be paid equally over 5 years. The partial principal sum repayment and the interest payment of the loan are to be made on 30 September every year.

Klinton Pte Ltd provided the following interest expense account for the year ended 31 December 2021.

Interest expense account

Date	Particulars	Debit	Credit	Balance
2021		$	$	$
Jan 1	Interest expense payable		500	500 Cr
Sep 30	Cash at bank	2 000		1 500 Dr
Dec 31	Interest expense payable	?		
31	Income summary		?	

REQUIRED

(a) Interpret the entries in the interest expense account on the following dates. [2]

(i) 1 January 2021

(ii) 30 September 2021

(b) Calculate the interest rate per annum of the bank loan. Show your workings clearly. [1]

(c) Calculate the amount that would be transferred to income summary on 31 December 2021. Show your workings clearly. [3]

(d) Explain **two** differences between a bank loan and a bank overdraft. [2]

Klinton Pte Ltd also rents out a portion of its office and charges rental at a rate of $2 500 per month. Klinton Pte Ltd received a total of $36 000 by cheque for the year ended 31 December 2021.

REQUIRED

(e) State the rental income earned for the year ended 31 December 2021. [1]

(f) Prepare an extract of the statement of financial position as at 31 December 2021, showing only the year-end adjustment to rental income. [2]

(g) Name **two** professional ethics the accountant of Klinton Pte Ltd has to uphold. [2]

[Total: 13]

4 Two businesses in the Sports Apparels Industry, Hill Pte Ltd and View Pte Ltd, provided the following information for the year ended 31 December 2021.

	Hill Pte Ltd	View Pte Ltd
Gross profit margin	18%	25%
Profit margin	12%	8%
Cost of sales	$9 000	$7 500
Average inventory	$2 500	$1 600

REQUIRED

(a) Evaluate the profitability of the **two** businesses for the year ended 31 December 2021. [4]

(b) Calculate the rate of inventory turnover of the **two** businesses as at 31 December 2021. Round off your answers to **two** decimal places. [2]

(c) Evaluate the rate of inventory turnover of the **two** businesses for the year ended 31 December 2021. [2]

(d) Suggest **two** ways a business can improve on its profit margin. [2]

(e) Name **two** stakeholders who might be interested in the financial statements of Hill Pte Ltd and View Pte Ltd. [2]

[Total: 12]

END OF PAPER

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