

**CHIJ KATONG CONVENT
PRELIMINARY EXAMINATION 2022
SECONDARY 4 EXPRESS / 5 NORMAL (ACADEMIC)**

PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

August/September 2022

2 hours

Additional Materials: Writing paper (7 sheets)

READ THESE INSTRUCTIONS FIRST

Write your class, index number and name on all the work you hand in.

Write in dark blue or black pen on both sides of the paper. Do all your rough work in pen.

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

The use of an approved calculator is allowed.

Answer **all** questions.

The businesses described in this question paper are entirely fictitious.

Start each question on a separate page.

All calculations must be shown adjacent to the answer.

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.

Answer **all** questions

- 1 The following balances were extracted from the books of Mario Limited on 31 March 2022.

	\$
Share capital, 80 000 ordinary shares	96 000
Retained earnings, 1 April 2021	3 900
Trade payables	5 340
4% Bank loan (repayable 30 June 2026)	80 000
Machinery (at cost)	120 000
Fixtures and fittings (at cost)	19 000
Accumulated depreciation – machinery	6 000
Cash at bank	12 900
Inventory	21 000
Trade receivables	42 120
Allowance for impairment of trade receivables	1 500
Sales revenue	180 950
Sales returns	17 200
Cost of sales	92 100
Commission income	5 450
Interest on loan	2 800
Rent expense	18 000
General expenses	13 460
Wages and salaries	20 560

Additional Information:

- At 31 March 2022:
 - Commission income, \$1 000 was earned but not received.
 - Annual rent expense is \$16 000.
- \$800 received by cheque from a credit customer was not recorded in the books.
- It was decided that the allowance for impairment of trade receivables on 31 March 2022 should be 5% of trade receivables.
- Machinery is to be depreciated at 10% per annum using the reducing-balance method.
- Fixtures and fittings are estimated to last over five years with a scrap value of \$2 000. Mario Limited decided to depreciate its fixtures and fittings using the straight-line method.
- Interest on bank loan was not fully paid up. One-quarter of the bank loan was due to be repaid on 31 December 2022.
- 10 000 shares were issued at \$1.50 per share on 1 March 2022. The proceeds were deposited into the business bank account. The transaction has yet to be recorded.
- The company declared a dividend of \$0.03 per share. The dividend will be paid on 11 April 2022.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 31 March 2022. [8]
 (b) Prepare the statement of financial position as at 31 March 2022. [12]

[Total: 20]

- 2 Bright Wellness Spa provides massage and spa services to customers on credit. The following balances relate to the business on 30 June **2021**.

	\$
Trade receivables	15 000
Allowance for impairment of trade receivables	1 200

Bright Wellness Spa reviewed its list of trade receivables at the end of every financial year and estimates that 6% of its trade receivables are likely to be uncollectible.

The trade receivables balance as at 30 June **2022** is as follows:

	\$
Trade receivables	12 000

The following transaction was not recorded in the books:

On 15 May 2022, one of the credit customers, Eden, who owed Bright Wellness Spa \$1 600, was declared bankrupt. However, she could pay \$0.30 in a dollar by cheque and the remainder was written off as irrecoverable.

REQUIRED

- (a) Prepare the journal entries, without narrations, to record the following:
 (i) the entry for 15 May 2022
 (ii) adjustment to the balance of allowance for impairment of trade receivables for the year ended 30 June 2022. [4]
- (b) State the amount shown in the statement of financial position as at 30 June 2022 for:
 (i) Trade receivables
 (ii) Allowance for impairment of trade receivables. [2]
- (c) How would the adjustment in (a) (ii) affect profit for the year ended 30 June 2022? State the effect and the amount. [2]
- (d) State and explain the accounting theory that supports the adjustment for allowance of impairment of trade receivables. [2]

[Total: 10]

- 3** The following information relates to Cindy's business as at 31 July 2020, 2021 and 2022.

	2020	2021	2022
	\$	\$	\$
Motor vehicles	95 640	90 200	105 400
Inventory	42 800	44 400	56 500
Trade receivables	32 050	17 800	47 000
Cash at bank	18 200	5 000	–
Prepaid advertising expense	6 100	5 400	7 230
Trade payables	22 400	22 430	33 000
Bank overdraft	–	–	28 040
 Working capital	 76 750	 50 170	 ?
Current ratio	4.43	3.24	?
Quick ratio	2.24	1.02	?

REQUIRED

- (a)** Calculate the following as at 31 July 2022. Show your answers to **two** decimal places.

- (i) Working capital
- (ii) Current ratio
- (iii) Quick ratio

[5]

- (b)** Comment on the trend in liquidity of the business over the three years ended 31 July 2020, 2021 and 2022.

[6]

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

[2]

- (d)** Suggest **two** ways to improve the liquidity of Cindy's business.

[2]

[Total:15]

- 4 Adam is the owner of a food catering business. The financial year of Adam's business ends on 30 June. The following balances were available on 1 July 2021.

	\$
Motor vehicles	150 000
Accumulated depreciation of motor vehicles	76 500

On 1 April 2022, the business purchased a new motor vehicle for \$60 000 on credit from Hooever Motors. On the same date, one of the motor vehicles was sold for \$30 000 on credit to Eva. This motor vehicle was purchased on 1 October 2020 for \$50 000.

It is the company's policy to depreciate motor vehicles at 30% per annum using the reducing-balance method. A full year's depreciation is charged in the year of purchase and no depreciation in the year of sale.

REQUIRED

- (a) Prepare journal entries to record the sale of non-current assets for the year ended 30 June 2022. [6]
- (b) State whether it is a gain or loss on sale of motor vehicle and where it will appear in the statement of financial performance. [2]

Adam's food catering business is expanding, and he needs to purchase an additional delivery van to transport his food to more places at a shorter time. Adam is considering purchasing the delivery van from one of the companies below. He is planning to use the delivery van for 10 years.

	Vonda (Model: 888X)	Jissan (Model: 777Y)
Price	\$98 000	\$110 000
Features	<ul style="list-style-type: none"> ▪ Able to carry up to 1 500 kgs of food. ▪ Fuel efficiency at 10 litres per 100 km ▪ Vehicle's height is suitable for entering car parks in housing estates around Singapore. ▪ Estimated scrap value of \$20 000 at the end of 10 years. 	<ul style="list-style-type: none"> ▪ Able to carry up to 2 000 kgs of food. ▪ Fuel efficiency at 12 litres per 100 km. ▪ Estimated scrap value of \$28 000 at the end of 10 years.
Servicing and maintenance	<ul style="list-style-type: none"> ▪ Free servicing for the first year, with free petrol voucher worth \$300. ▪ Servicing will be chargeable at \$200 every 6 months. ▪ Warranty: 3 years. 	<ul style="list-style-type: none"> ▪ Free servicing for three years. ▪ Servicing will be chargeable at \$250 every 6 months. ▪ Warranty: 5 years.
Review	Vehicle is assembled in Thailand and engine is silent. Low fuel consumption and after sales service provided is fantastic!	Vehicle is made completely in Japan and the performance is superb! After sales service is better than expected.

REQUIRED

- (c) Advise Adam which delivery van he should purchase. Support your advice with **three** reasons. [7]

[Total: 15]

END OF PAPER