

Name	Register Number	Class	Calculator Model



# MANJUSRI SECONDARY SCHOOL

## 文殊中學

### PRELIMINARY EXAMINATION 2023

Subject: Principles of Accounts  
 Paper: 7087 / 02  
 Level: Secondary 4 Express / 5 Normal (Academic)  
 Date: 28 August 2023  
 Duration: 2 hours  
 Setter: Miss Tan Ai Hua

Additional Materials: Writing Paper (4 sheets)

#### READ THESE INSTRUCTIONS FIRST

Write your Register Number, Name and Class on all the work you hand in.  
 Write in dark blue or black pen on both sides of the paper.  
 You may use an HB pencil for rough working.  
 Do not use staples, paper clips, glue or correction fluid.

Answer **all** questions.

The use of an approved calculator is allowed.

The businesses described in this question paper are fictitious.

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

For Examiner's Use	
Q1	/20
Q2	/16
Q3	/10
Q4	/14
Total	/60

Answer **all** questions.

- 1 The following balances were extracted from the books of Qi Qi Trading on 30 April 2023.

	\$
Equipment at cost	80 000
Motor vehicles at cost	40 000
Accumulated depreciation:	
Equipment	12 000
Motor vehicles	10 000
Sales revenue	294 650
Sales returns	11 250
Cost of sales	78 230
Wages and salaries	20 300
Motor vehicle expenses	8 960
Rent and rates	25 000
Discount allowed	10 630
Insurance expense	19 800
Commission received	2 150
Trade receivables	46 700
Trade payables	36 290
Cash at bank (debit balance)	2 890
Inventory	36 200
Capital	40 470
Drawings	15 600

Additional information

- 1 Monthly rent and rates expense was \$2 500.
- 2 The insurance relates to a fifteen-month period ending on 31 July 2023.
- 3 Commission owing to the company was \$1 200.
- 4 Equipment is depreciated at 20% per annum using the straight-line method. Motor vehicles are depreciated at 25% per annum using the reducing-balance method.
- 5 The accountant reviewed the trade receivables and found that 6% of the balance was unlikely to be collectible.
- 6 Cost of repairs to Qi Qi's personal car, \$1 600, was included in motor vehicle expenses.

## REQUIRED

- (a) Prepare the statement of financial performance for the year ended 30 April 2023. [10]
- (b) Prepare the statement of financial position as at 30 April 2023. [10]

[Total: 20]

- 2 Jun Ming is a retailer of computers. At 1 April 2022, his inventory valuation was \$20 000 for 80 computers. Jun Ming's purchases for the financial year ended 31 March 2023 were as follows.

Date	Number of computers purchased	Cost
2022		\$
July 12	130	29 900
November 18	150	33 000
2023		
January 13	110	26 400
March 6	90	22 950

Additional information

- 1 Jun Ming uses the First-In-First-Out (FIFO) method of inventory valuation.
- 2 During the year ended 31 March 2023, Jun Ming sold 470 computers for \$270 600.

#### REQUIRED

- (a) Calculate the cost of sales for the year ended 31 March 2023. [4]
- (b) Calculate the inventory value at 31 March 2023. [1]
- (c) Calculate the rate of inventory turnover for the year ended 31 March 2023. Show your answer to two decimal places. [1]

The rate of inventory turnover for the year ended 31 March was 9.25 times for 2021 and 7.17 times for 2022.

#### REQUIRED

- (d) With your answer to (c), comment on the trend of the rate of inventory turnover over the three years from 2021 to 2023. [1]
- (e) Suggest **two** possible causes for the change in the rate of inventory turnover. [2]

[Turn over

Jun Ming provided the following information regarding expenditure on motor vehicles.

- 1
- | Purchase date | Quantity | Payment method | Cost of <b>each</b> vehicle<br>\$ |
|---------------|----------|----------------|-----------------------------------|
| 1 June 2020   | 2        | Cheque         | 24 000                            |
- 2 On 8 February 2023, Jun Ming sold one of the vehicles and a cheque of \$12 100 was received. On the same day he bought a replacement vehicle for \$30 000, on credit from Siaw Hung Motoring.
- 3 Jun Ming uses the reducing-balance method to depreciate his vehicles at 20% per annum. A full year's depreciation is charged in the year of purchase, but no depreciation is charged in the year of sale.

### REQUIRED

- (f) State the accounts and amounts to be debited and credited on 8 February 2023 to record the following.
- (i) Sale proceeds of vehicle [2]
- (ii) Purchase of vehicle [2]

The sale of non-current asset account for the year ended 31 March 2023 showed a debit balance of \$3 260.

### REQUIRED

- (g) State the effect and amount of a debit balance on the sale of non-current asset account would have on Jun Ming's profit for the year ended 31 March 2023. [2]

Jun Ming is confused between capital expenditure and revenue expenditure.

### REQUIRED

- (h) State the accounting theory applied when deciding if expenditure on a non-current asset is capital expenditure or revenue expenditure. [1]

[Total: 16]

- 3** Le Jin is considering investing in one of the two businesses retailing in clocks and watches. The following information on two businesses, Precious Times and Great Times, for the year ended 31 July 2023 was provided.

	Precious Times	Great Times
	\$	\$
Sales revenue	50 000	45 000
Sales returns	10 000	15 000
Cost of sales	20 000	18 000
Operating expenses	10 000	8 000
Mark up on cost	100%	?
Gross profit margin	50%	?
Profit margin	25%	?

**REQUIRED**

- (a)** Calculate the following as at 31 July 2023 for Great Times' business. Show your answers to two decimal places.
- (i)** Mark-up on cost [2]
  - (ii)** Gross profit margin [1]
  - (iii)** Profit margin [2]
- (b)** Comment on the profitability of the two businesses for the year ended 31 July 2023. Use the given information and your answer to **(a)**. [5]

[Total: 10]

**[Turn over**

- 4 The following allowance for impairment of trade receivables account is extracted from the books of Royson Fashion for the year ended 30 June 2022.

Allowance for impairment of trade receivables account				
Date	Particulars	Debit \$	Credit \$	Balance \$
2021				
Jul 1	Balance b/d			6 230 Cr
Nov 7	Trade receivable - Nabillah	5 460		770 Cr
2022				
Jun 30	Impairment loss on trade receivables		8 190	8 960 Cr

Additional information

Trade receivables balance as at 30 June 2023 was \$145 200. The business decided to maintain its allowance for impairment of trade receivables at 5% of its trade receivables.

**REQUIRED**

- (a) Interpret the entries on 7 November 2021 and 30 June 2022. [2]
- (b) Prepare the journal entry to adjust the balance of allowance for impairment of trade receivables for the year ended 30 June 2023. A narration is **not** required. [2]
- (c) Explain, using a suitable accounting theory, why it is necessary for a business to account for allowance for impairment of trade receivables. [3]

Royson Fashion received applications from two of its credit customers, Grace Ltd and Sunny Trading, to extend the credit period allowed to them, from 30 days to 60 days.

Royson Fashion can only increase the credit period of **one** customer.

The following information is available.

	Grace Ltd	Sunny Trading
Annual sales revenue made to customer	\$80 000	\$35 000
Reputation of business	Has been in business for 10 years and has a strong base of customers who seeks quality and stylish clothing and accessories.	Has been in business for 2 years and is popular among youths who seek trendy clothing and accessories at affordable prices.
Location	Operates overseas	Operates locally
History of repayment	Within 50 days	Within 40 days
Industry outlook	The demand for quality clothing and accessories is stable among its customers.	The demand for trendy clothing and accessories is growing and youths have increasing spending power.

#### REQUIRED

- (d) Recommend to Royson Fashion which customer should receive the increase in credit period. Justify your decision with **three** reasons. [7]

[Total: 14]

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