

Name: _____ ()

Class: _____



GREENDALE SECONDARY SCHOOL
Preliminary Examination 2022

PRINCIPLES OF ACCOUNTS

7087/02

SECONDARY 4 EXPRESS/5 NORMAL ACADEMIC

24 Aug 2022

Paper 2

2 hours

No additional Materials are required.

READ THESE INSTRUCTIONS FIRST

An answer booklet will be provided with this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Answer **all** questions.

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

Examination Marks

This document consists of 7 printed pages.

Question 1	20
Question 2	14
Question 3	16
Question 4	10
Total	60

Answer **all** questions.

- 1 The following balances were extracted from the books of Bingo Pte Ltd on 30 September 2021.

	\$
Share capital, 100 000 ordinary shares	150 000
Retained earnings, 1 October 2020	18 500
Discount allowed	3 450
10% Bank loan	20 000
Sales revenue	241 330
Sales returns	17 310
Cost of sales	164 930
Cash at bank	12 500
Rent income	300
Rent expense	5 340
Insurance expense	2 800
Furniture	150 000
Motor vehicles at cost	72 000
Accumulated depreciation:	
Furniture	30 000
Motor vehicles	54 400
Loan interest	850
Inventory	56 000
Trade payables	47 850
Trade receivables	78 400
Allowance for impairment of trade receivables	1 200

Additional information

- Loan interest for the year on 30 September 2021 was not fully paid up. One quarter of the bank loan is due for repayment on 30 September 2023.
- Insurance is paid for a 16-month period ending on 31 January 2022.
- Rent income \$1 800 was earned but not received.
- Furniture is depreciated at 10% per annum using the straight- line method.
Motor vehicles are depreciated at 20% per annum using the reducing- balance method.
- The net realisable value of inventory is \$59 000.
- A review of the trade receivables suggests that 3% of the total trade receivables are likely to be uncollectible.
- 50 000 new ordinary shares were issued and fully paid up at \$1.50 per share on 28 February 2021.
- A dividend of \$0.05 for each ordinary share was declared on 25 June 2021 and will be paid on 31 December 2021.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 30 September 2021. [9]
- (b) Prepare the statement of financial position as at 30 September 2021. [11]

[Total: 20]

2

YJR Trading is a business which trades in air purifiers.

On 1 July 2021, the business had 30 units of inventory valued at \$15 000. The business uses the FIFO method to determine the cost of sales.

During the month of July 2021, the following purchases took place.

2021

July 5 40 units at \$24 000

15 30 units at \$16 500

19 10 units at \$7 500

On 23 July 2021, the business sold 70 units of inventory for \$50 000 to a customer.

REQUIRED

(a) State the valuation rule for inventory and the accounting theory applicable. [2]

(b) Calculate the gross profit for the month of July 2021. [2]

On 31 July 2021, the batch of inventory which was bought on 19 July 2021 could only be sold for \$5 000 as a competitor had released a better product for a lower price.

REQUIRED

(c) Prepare the journal entry to record the adjustment on 31 July 2021. Narrations are **not** required. [1]

(d) State the effect on profit for the year and current assets if the inventory was not adjusted. [2]

To keep up with the competitors, YJR Trading is considering buying another brand of inventory for resale. The business has shortlisted two brands of air purifiers, Sony and Ivac.

	Sony	Ivac
Cost price	<ul style="list-style-type: none"> \$300 per unit 	<ul style="list-style-type: none"> \$500 per unit
Nature of product	<ul style="list-style-type: none"> Manufacturer warranty of 2 years. Filter must be changed every 6 months. Can only filter the air. Suction power of 20 kPA. <p><i>(kPA is the unit of measure to measure suction power of air purifier. The higher the kPA, the more powerful the suction.)</i></p>	<ul style="list-style-type: none"> Manufacturer warranty of 3 years. Filter must be changed every 2 months. Can automatically scan, filter and sterilise the air accordingly. Suction power of 14 kPA.
Storage cost	<ul style="list-style-type: none"> \$3.50 per unit <p>As the packaging is bulky, it requires a large amount of space for the business to store in their warehouse.</p>	<ul style="list-style-type: none"> \$1.40 per unit. <p>As the packaging is quite slim, units can be stacked up together if kept in the warehouse.</p>

REQUIRED

- (e) Which brand of inventory will you recommend YJR Trading to buy based on the factors in the given scenario? Justify your decision with **three** reasons. [7]

[Total: 14]

- 3 Zenker is a sole trader and the following information was extracted from his books on 30 September 2021.

	\$
Inventory	20 000
Trade receivables	6 000
Prepaid insurance	2 000
Rent received in advance	9 000
Bank overdraft	3 000
Bank loan payable 2025	30 000

REQUIRED

- (a) Should a bank use the current ratio or quick ratio to decide on whether to approve a loan to a business? Explain. [3]
- (b) Explain why Return on Equity is the best measure to determine whether or not to invest in a company. [2]
- (c) Calculate the following for the year ended 30 September 2021. Correct to two decimal places.
- (i) Current ratio
- (ii) Quick ratio [2]

Zenker also supplied the following information for his previous two years ended 30 September 2019 and 2020.

Year ended 30 June	2019	2020
Current ratio	3.00	2.50
Quick ratio	1.30	1.10

REQUIRED

- (d) Comment on the trend of liquidity of the business over the three years ended 30 September 2019, 2020 and 2021. [6]
- (e) Suggest **two** ways to improve the liquidity of his business. [2]

Zenker is comparing his efficiency in inventory management with his competitors.

REQUIRED

- (f) Name **one** efficiency ratio which Zenker could use as comparison. [1]

[Total: 16]

- 4 SJR Trading is a business dealing in soccer equipment. The business has a financial year end of 30 June 2021. The following information relating to royalty income has been provided.

Account balance at 1 July 2020	\$
Royalty income received in advance	4 000
During the year ended 30 June 2021	\$
Royalty income received	19 200
At 30 June 2021	\$
Royalty income receivable	1 500

REQUIRED

- (a) Explain the accrual basis of accounting concept. [2]
- (b) Calculate the amount (showing all workings) of royalty income earned for the year ended 30 June 2021. [4]

The business records show the following interest expenses account.

Interest expenses account

Date	Particulars	Debit	Credit	Balance
2020		\$	\$	\$
Jul 1	Interest expenses payable		1 200	1 200 Cr
Aug 17	Cash at bank	2 900		1 700 Dr
2021				
Mar 8	Cash at bank	5 300		7 000 Dr
Jun 30	Interest expenses payable	1 250		8 250 Dr
Jun 30	Income summary		8 250	-

REQUIRED

- (c) Prepare an extract of the statement of financial performance for the year ended 30 June 2021 showing both other income and expenses portion. [2]
- (d) Prepare an extract of the statement of financial position as at 30 June 2021, showing the relevant sections. [2]

[Total: 10]

- End of paper -

Suggested Solution

Question 1

(a)		Bingo Pte Ltd		
		Statement of financial performance for the year ended 30 September 2021		
			\$	\$
		Sales revenue		241 330
		Less: Sales returns		17 310
		Net sales revenue	[1]	224 020
		Less: Cost of Sales		164 930
		Gross Profit		59 090 [1]
		Add: Other income		
		Rental income (300+1800)		2 100 [1]
				61 190
		Less: Other expenses		
		Rent expense	5 340	
		Loan interest (20 000 x 10%)	2 000 [1]	
		Discount allowed	3 450	
		Insurance expense (2 800 / 16 x 12)	2 100 [1]	
		Depreciation of furniture (150 000 x 10%)	15 000 [1]	
		Depreciation of motor vehicle (72000 – 54 400) x 20%	3 520 [1]	
		Impairment loss on trade receivables (78 400 x 3% – 1 200)	1 152 [1]	32 562
		Profit for the year		28 628 [1]
				[Total 9]

	(b)	Bingo Pte Ltd		
		Statement of financial position as at 30 September 2021		
		Assets	\$	\$
		<u>Non-current Assets</u>	Cost	Accumulated Depreciation
		Furniture	150 000	45 000
		Motor vehicles	72 000	57 920
				119 080
		<u>Current Assets</u>		
		Trade receivables	78 400	
		Less: Allowance for impairment of trade receivables	2 352	76 048 [1]
		Inventory		56 000
		Cash at bank (12 500 + 50 000 x 1.50)		87 500 [1]
		Prepaid insurance expense (2 800 / 16 x 4)		700 [1]
		Rent income receivable		1 800 [1]
		Total Assets		341 128
		Equity and Liabilities		
		<u>Shareholder's equity</u>		
		- Share capital, 150000 ordinary shares		225 000 [1]
		- Retained earnings (18500+28 628 -7 500)		39 628 [1]*
				264 628
		<u>Non- current liabilities</u>		
		Long-term borrowings		20 000 [1]
		<u>Current liabilities</u>		
		Trade payables		47 850
		Dividends payable (150 000 x 0.05)		7 500 [1]
		Loan Interest expense payable (20 000 x 10%) - 850		1 150 [1]
				56 500
		Total Equity and Liabilities		341 128

*O.F from (a) if profit is wrong

[Total: 20]

Question 2

(a) Prudence concept. [1] Inventory is valued at the lower of cost and net realizable value. [1]

(b) 50 000 [1] – 39 000 [1] = 11 000

(c)

Date	Particulars	Dr	Cr
2021		\$	\$
July 31	Impairment loss on inventory	2 500	
	Inventory		2 500
[1] for the pair			

(d) Profit for the year [1] and current asset [1] overstated by \$2 500.

(e)

The business should choose to buy Sony. [1]

Reason #1	The cost per unit is cheaper than Ivac. [1]
Elaboration #1	With a lower cost per unit, the business is able to generate a higher gross profit margin. [1]
Reason #2	It has a strong suction power of 20 kPa which means that the air purifier is able to suck in more air to filter at any given time. [1]
Elaboration #2	Customers who would be looking to buy an air purifier which can clean the air in the shortest amount of time would purchase this product. With more customers purchasing this product, this would increase the sales revenue of the business. [1]
Reason #3	The filter needs to be changed less frequently as compared to Ivac. [1]
Elaboration #3	This would be more appealing to customers as it is less costly to maintain the product in the long-term. With more customers purchasing this product, this would increase the sales revenue of the business. [1]

The business should choose to buy Ivac. [1]

Reason #1	The storage cost is lower than Sony. [1]
Elaboration #1	The business can purchase more of Sony's products and it will not take up too much space and save on their warehousing cost. [1]

Reason #2	The product is can clean and sterilize the air automatically. [1]
Elaboration #2	This product makes it more convenient for their customers to clean the house and therefore make it more appealing to customers. With more customers purchasing the product, this would increase the sales revenue of the business. [1]
Reason #3	The manufacturer warranty is longer at 3 years as compared to 2 years. [1]
Elaboration #3	Customers would be more inclined to purchase a product which allows them to repair the product for free in case it malfunctions. A longer warranty also suggests that the product is more reliable. With more customers purchasing the product, this would increase the sales revenue of the business. [1]

[Total: 14]

Question 3

a) Quick ratio. [1] Quick ratio is more accurate as it considers only the liquid/quick assets needed to repay the loan [1] while the current ratio is not as accurate as it includes non-liquid current assets which are not able to be used to repay the loan. [1]

b) Return on equity measures how much profit a business earns for every dollar of equity invested by the owner or shareholders in the business. [1] The higher the return on equity, the more efficient the business is in generating profits for its owners and shareholders. [1]

c)

	2021
Current Ratio	2.33 [1]
Quick Ratio	0.50 [1]

d) The liquidity of the business has worsened from 3.00 in 2019 to 2.50 in 2021 to 2.33 in 2021 as seen from the decreasing trend of the current ratio. [1]

However, the current ratio is still higher than the general benchmark of 2.0 for all 3 years. [1]

So based on current ratio for 2021 as 2.33, this indicates that the business has sufficient current assets to pay off short term debts. [1]

However, if we use a more stringent quick ratio, we can see that the liquidity is getting worse over the three years as it decreased from a 1.30 in 2019 to 1.10 in 2020 to a low 0.50 in 2021. [1]

The liquidity of 0.50 in 2021 is lower than the general benchmark of 1. [1]

The business might have problems paying for their short-term debts as this indicates that the business does not have enough liquid assets to pay off its short term debts when it is due. [1]

Therefore, the liquidity of the business has worsened over the 3 years.

Any reasonable answers.

e) Any 2 points, [1] mark each, maximum 2 points

- Increasing sources of cash
 - Business can take up a long-term loan which is a non-current liabilities, while increasing its cash at bank which is a liquid current assets
 - Additional capital from owners in terms of cash
 - Making more sales so that cash or trade receivables can be increased
 - Sell off excess non-current assets
- Reducing cash outflows
 - Reducing operating expenses
 - Negotiate better credit terms with suppliers
- Reducing current liabilities
 - Holding only enough inventory for resale and not buying more than that. In this way, business need not incur extra payables due to the purchase of goods. At the same time, cash is not held up as inventory

Any reasonable answers.

f) Any 1, [1] mark maximum

Rate of inventory turnover

Day sales in inventory

[Total: 16]

Question 4

(a) Accrual basis of accounting states that business activities should be recorded in the relevant accounting period [1] regardless of whether payment has been received or not [1].

(b) Royalty income earned = 19 200 [1] + 4 000 [1] + 1 500 [1] = \$24 700 [1]

(c)

SJR Trading
Statement of Financial Performance for the year ended 30 June 2021 (extract)

	\$
Other income	
Royalty income	24 700 [1]
Less: Expenses	
Interest expense	8 250 [1]

(d)

SJR Trading
Statement of Financial Position as at 30 June 2021 (extract)

	\$
<u>Current assets</u>	
Royalty income receivable	1 500 [1]
<u>Current liabilities</u>	
Interest expense payable	1 250 [1]

[Total: 10]