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**QUEENSWAY SECONDARY SCHOOL**  
**PRELIMINARY EXAMINATION 2022**  
**SECONDARY 4 EXPRESS/ 5 NORMAL ACADEMIC**

<b>Principles of Accounts</b>	<b>7087/02</b>
Paper 2	<b>12 September 2022</b>
	<b>2 hour</b>
Additional Materials: Multi-column accounting paper (5 sheets)	

**READ THESE INSTRUCTIONS FIRST**

Write your index number and name 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 any rough working.

All calculations must be shown adjacent to the answer.

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.

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.

For Examiner's Use	Parent's Signature
<b>60</b>	

This document consists of 5 printed pages.

**Section A**

Answer all questions.

- 1** The following balances were extracted from the books of Cozy Pte Ltd, an interior design company on 31 December 2021.

	\$
Trade receivables	15 000
Allowance for impairment of trade receivables	2 000
Equipment	60 000
Fixtures and fittings	40 000
Accumulated depreciation of equipment	6 000
Accumulated depreciation of fixtures and fittings	4 000
Bank loan	50 000
Interest expense	1 200
Discount allowed	500
Discount received	800
Cash at bank	32 000
Trade payables	14 600
Design fee revenue	25 800
Rent expense	15 600
Salaries expense	17 000
Share capital, 20 000 ordinary shares	50 000
Retained earnings, 1 January 2021	28 100

Additional information:

- 1 Annual depreciation is charged on:
  - (i) Equipment at 5% per annum using the reducing-balance method
  - (ii) Fixtures and fittings at 10% per annum using the straight-line method.
- 2 The amount for rent expense covers 1 January 2021 to 31 January 2022.
- 3 One of the company's credit customers was declared bankrupt. The debt of \$800 has yet to be written off.
- 4 A review of trade receivables revealed that 4% of the trade receivables are likely to be uncollectible.
- 5 Design fee revenue amounting to \$5 000 was received in advance.

- 6 A dividend of \$0.05 per share had been declared and will be paid on 1 April 2022.
- 7 A repayment of \$8 000 on the bank loan is to be made on 31 March 2022.

**REQUIRED**

- (a) Prepare the statement of financial performance for the year ended 31 December 2021. [10]
- (b) Prepare the statement of financial position as at 31 December 2021. [10]

**[Total: 20]**

- 2 The following information is extracted from the books of Lim Pte Ltd for the years ended 30 April 2020 to 2022.

	2020	2021	2022
	\$	\$	\$
Equipment	8 600	9 050	9 300
Cash at bank	19 425	15 680	9 800
Trade payables	17 400	17 250	17 000
Prepaid rental	1 550	1 420	2 500
Prepaid insurance	-	-	4 000
Trade receivables	9 400	8 800	11 000
Cash in hand	1 560	1 030	2 000
Inventory	10 700	11 500	25 000
Current portion of long-term borrowings	-	-	10 000

### REQUIRED

- (a) Calculate the following as at 30 April 2022. Correct your answers to two decimal places.

(i) Current ratio

[1]

(ii) Quick ratio

[1]

The following information relates to 30 April

	2020	2021	2022
Current ratio	2.45	2.23	?
Quick ratio	1.75	1.48	?

### REQUIRED

- (b) Comment on the trend in liquidity of the business over the three years ended 30 April 2020, 2021 and 2022. [6]

The business profit has remained the same over the 3 years ended 30 April 2020, 2021 and 2022.

### REQUIRED

- (c) Suggest why the liquidity of the business has changed even though the profit has remained the same over the 3 years.

[4]

**[Total: 12]**

**3** Mandy, the owner of a clothing store provided the following information on 31 December 2021.

- 1 Mandy took cash, \$500, for her own use every month.
- 2 Mandy took inventory costing \$400 for her own use during the year.
- 3 The capital account had a balance of \$50 000 at 1 January 2021.
- 4 The business made a loss of \$7 400 for the year ended 31 December 2021.
- 5 On 1 June 2021, she contributed a \$10 000 cheque to the business.

**REQUIRED**

- (a) Prepare journal entries to:
- (i) record the additional capital contributed on 1 June 2021. Narrations are **not** required. [2]
  - (ii) transfer the loss for the year to the capital account on 31 December 2021. Narrations are **not** required. [2]
  - (iii) transfer drawings to the capital account on 31 December 2021. Narrations are **not** required. [2]
- (b) Prepare the capital account for the year ended 31 December 2021. [5]
- (c) State the amount of capital which will be presented in the statement of financial position as at 31 December 2021. [1]
- (d) State the effect of owner's drawings on the business profit for the year. [1]
- (e) State two advantages of being a sole proprietor. [2]

**[Total: 15]**

- 4 On 1 January 2020, Timothy bought a piece of coffee-making machinery for \$80 000 from Jo Machinery on credit. The machinery is depreciated at 10% per annum using the reducing-balance method and charges no depreciation in year of sale.

On 31 July 2022, the machinery was subsequently sold for \$74 000 and the amount was banked in. Timothy's financial year ends on 31 December.

**REQUIRED**

- (a) Calculate the depreciation expense of each of the two years ended 31 December 2020 and 2021. [2]
- (b) Calculate the gain or loss on the sale of machinery. [2]
- (c) Prepare the journal entry to record the gain or loss on the sale of machinery. A narration is **not** required. [2]

Timothy wants to sell his coffee directly to his customers and he is considering whether to buy or rent a shop to sell his coffee.

To buy the shop, he would have to borrow from the bank, and the monthly loan repayment including the interest is \$2 000. The loan period is 10 years. He also has to pay for the yearly deep cleaning for the shop which costs \$5 000 and he would need to close for 3 days during the cleaning. Since the shop belongs to him, he can renovate and decorate the shop to suit his needs. The shop is also located at a popular tourist location.

To rent the shop, he needs to pay \$2 500 for rental per month and the rental agreement is 24 months, subject to renewal after that. To terminate the contract, he needs to give 3 months' notice. Unlike if he owns the shop, the landlord will arrange for yearly cleaning and maintenance which requires him to close for 1 week. The shop is quite well-decorated and no renovation is required or allowed. The shop is conveniently located near an MRT station.

**REQUIRED**

- (d) Recommend whether Timothy should purchase the shop, or rent one from a landlord. Justify your choice with **three** reasons. [7]

**[Total: 13]**

**End of Paper 2**