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| NAME: () | | |
| CLASS: | TEACHING GROUP: | MARKS /60 |



PEI HWA SECONDARY SCHOOL
PRELIMINARY EXAMINATIONS 2022

Secondary Four Express / Five Normal Academic

Principles of Accounts **7087/02**

Paper 2 **12 September 2022**

Additional Materials: 5 pieces of writing paper **2 hours**

READ THESE INSTRUCTIONS FIRST

1. Write your name, class, teaching group and index number on all question papers and answer scripts.
Write all answers in dark blue or black ink.
You may use a soft pencil for any diagrams or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.
2. Answer **all** questions.
3. Write all answers in the writing papers provided.
4. The use of a calculator is expected, where appropriate.
5. At the end of the examination, fasten all your work securely together.
6. The number of marks is given in brackets [] at the end of each question or part question.

- 1 The following trial balance was extracted for the year ended 30 November 2021 from the books of Mack Donald.

| | Debit \$ | Credit \$ |
|---|----------|-----------|
| 3% Bank loan (taken on 1 June 2021) | | 50 000 |
| Capital | | 101 963 |
| Cash at bank | 3 422 | |
| Cost of sales | 21 280 | |
| Discount | | 510 |
| Drawings | 2 000 | |
| Inventory | 24 228 | |
| Office equipment | 30 000 | |
| Property | 120 000 | |
| Accumulated depreciation of office equipment | | 1 500 |
| Accumulated depreciation of property | | 9 900 |
| Rent | | 4 867 |
| Salaries expense | 5 664 | |
| Sales returns | 433 | |
| Sales revenue | | 43 224 |
| Trade payables | | 9 983 |
| Trade receivables | 15 400 | |
| Allowance for impairment of trade receivables | | 480 |
| | 222 427 | 222 427 |

Additional information:

- For the year ended 30 November 2021:
Rent of \$3 000 was yet to be received.
The salaries of \$5664 was paid for 12 months up to 31 December 2021.
- \$10 000 of property maintenance expenses was classified as a capital expenditure.
- Depreciation is charged at the following rates:
Property on a 100 year lease with a scrap value of \$20 000.
Office equipment at 5% on net book value.
- Debts of \$400 owed by credit customers were written off.
- A review of trade receivables showed that 1% of trade receivables is likely to be uncollectible.
- The bank loan is repayable in full on 31 May 2031. The interest on the bank loan has yet to be recorded.

REQUIRED

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

[Total: 20 marks]

- 2 Kay FC Pte Ltd is a business that sells merchandise for several popular football clubs. The following balances were extracted on 1 August 2021.

| | \$ |
|--|---------|
| Share Capital (50 000 ordinary shares) | 100 000 |
| Retained Earnings | 33 780 |

The following transactions occurred during the year ended 31 July 2022.

| Date | Transaction |
|-------------------|--|
| 16 September 2021 | Issued 20 000 additional shares at \$1.50 per share. |
| 23 July 2022 | Declared a dividend of \$0.20 per share. |

The profit for the year ended 31 July 2022 was \$12 120.

REQUIRED

- (a) State the double entries to record the transaction on 16 September 2021. Indicate which accounts will be debited or credited and the amount. [2]
- (b) Prepare the Retained Earnings account for the year ended 31 July 2022. [4]

Harland is the founder of Kay FC Pte Ltd who owns 70% of the shares of the business. He is considering whether he should keep Kay FC Pte Ltd as a **private limited company** or convert it into a **sole proprietorship** by buying up all the remaining shares.

1. Harland would like to have as much control over business decisions as possible.

As Harland is getting older, he would like to pass on the business to his three children, Sam, Joe, and Ben.

2. Harland would like to ensure that his personal retirement savings are protected in case the business fails.
3. Harland is not trained in accounting and would like to minimise the need for reporting the financial information of the business.
4. Harland falls ill at unpredictable moments. He would like to be able to receive money from the business to supplement his unpredictable personal medical expenses.
5. Harland is thinking of opening 5 new branch stores and would like to be able to easily find funding to grow the business.

REQUIRED

- (c) If you are Harland, would you keep Kay FC Pte Ltd as a **private limited company** or convert it into a **sole proprietorship**. Justify your answer by referring to relevant characteristics of private limited companies and sole proprietorships. [7]

[Total: 13 marks]

- 3 The following information was obtained on 31 December 2021 from AN Trading and Double U Trading, two close competitors in the food and beverage industry.

| | AN Trading | Double U Trading |
|---------------------|-------------------|-------------------------|
| Gross Profit Margin | 25.00% | ? (i) |
| Mark-up on Cost | ? (ii) | 50.65% |
| Profit Margin | 10.00% | ? (iii) |
| Return on Equity | 22.22% | ? (iv) |

The following was extracted from the books of Double U Trading for the year ended 31 December 2021.

| | \$ |
|----------------|--------|
| Sales revenue | 24 600 |
| Sales returns | 1 400 |
| Cost of sales | 15 400 |
| Total Expenses | 2 800 |
| Average Equity | 34 000 |

REQUIRED

- (a) Calculate the following and round off your answers to 2 decimal places:
- (i) Gross Profit margin for Double U Trading.
[1]
 - (ii) Mark-up on Cost for AN Trading.
[1]
 - (iii) Profit margin for Double U Trading.
[1]
 - (iv) Return on Equity for Double U Trading
[1]
- (b) Evaluate the profitability of AN Trading and Double U Trading for the year ended 31 December 2021.
[4]
- (c) Suggest which business is the better investment. Provide **one** reason for your choice.
[2]

The following information pertaining to inventory management was extracted from the books of AN Trading and Double U Trading for the year ended 31 December 2021.

| | AN Trading | Double U Trading |
|----------------------------|------------------------|------------------------|
| Rate of Inventory Turnover | 2.21 times (2 d.p.) | 2.03 times (2 d.p.) |
| Days Sales in Inventory | 165.46 days | ? (d) |
| Average Inventory | ? | \$7 600 |

REQUIRED

- (d) Calculate the days sales in inventory for Double U Trading.
[1]
- (e) Comment on the efficiency of inventory management for AN Trading and Double U Trading.
[3]

[Total: 14 marks]

- 4 On 1 April 2020, Pop Eyes trading obtained a bank loan of \$50 000 from Jolly Bee Bank at an interest rate of 2% per annum. The loan is to be paid equally over 10 years. The partial principal sum repayment and the interest payment are to be made every 31 March. The financial year of Pop Eyes Trading ends on 31 December.

The following information on the loan was extracted from the books of Pop Eyes Trading for the year ended **31 December 2020**.

| | \$ |
|----------------------------|--------|
| Bank loan – Jolly Bee Bank | 50 000 |
| Interest expense | 750 |
| Interest expense payable | 750 |

REQUIRED

- (a) Prepare journal entries to record the interest expense for the year ended 31 December 2021. Narrations are **not** required.
- Include the transactions for:
- (i) Adjustment of interest expenses at the beginning of the year.
 - (ii) Amounts paid for interests during the year.
 - (iii) Adjustment of interest expenses at the end of the year.
 - (iv) Closing of the interest expense account to the income summary. [8]
- (b) Prepare an extract of the statement of financial performance for the year ended 31 December 2021. [3]
- (c) Using an accounting theory, explain why there is a need to record interest expense payable. [2]

[Total: 13 marks]

-END OF PAPER-