



ANDERSON SECONDARY SCHOOL
Preliminary Examination 2022
Secondary Five Normal Academic



CANDIDATE NAME:

ANSWER SCHEME

CLASS:

INDEX NUMBER:

PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

26 August 2022

2 hours

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

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** the questions.

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

This document consists of ___ printed pages and ___ blank pages.
Answer **all** questions.

Qn 1 (a)

Xin Yi Pte Ltd
Statement of financial performance for the year ended 31 March 2022

	\$	\$
Sales Revenue		184 470
Less: Sales Returns		11 000
Net Sales Revenue		173 470
Less: Cost of Sales		78 050
Gross Profit		95 420
Add: Other Income		
Discount Received		3 850
		99 270
Less: Other Expenses		
Impairment loss on inventory	1 100	
Wages expense (-4400)	26 400	
Depreciation of motor vehicle [15%X (152000-50000)]	15 300	
Impairment loss on trade receivables [5250 – (5000-3500)]	3 750	
Motor vehicle expenses	12 000	
Interest on loan	8 000	
Discount allowed	2 050	
Rent expense	6 000	
		74 600
Profit for the year (OF)		24 670

[10]

(b)

Xin Yi Pte Ltd
Statement of financial position as at 31 March 2022

<u>Assets</u>	\$	\$	\$
<u>Non-Current Assets</u>	Cost	Accumulated Depreciation	Net Book Value
Motor vehicles	152 000	65 300	86 700
Total non-current assets	152 000	65 300	86 700
<u>Current Assets</u>			
Trade receivables (-3500)	105 000		
Less: Allowance for impairment of trade receivables	5 250		
		99 750	
Inventory		89 000	
Prepaid wages		4 400	
Cash at Bank (+20000)		71 200	
Total current assets			264 350
Total Assets			351 050
<u>Shareholders' Equity</u>			
Issued share capital (+20000)		180 000	
Retained earnings (36870+24670-9000)		52 540	
Total shareholders' equity			232 540
<u>Non-Current Liabilities</u>			
Long-term Borrowings			50 000
<u>Current Liabilities</u>			
Trade Payables		59 510	
Dividend payable		9 000	68 510
Total equity and liabilities			351 050

[10]

(c) Two purposes of internal controls are :
 Safeguard assets of the business

Ensure that business transactions are recorded accurately
 Comply with laws and regulations.
 Detect fraud (Any 2)

[2]
[Total: 22]

Qn 2

- (a)** Liquidity refers to the ability of the business to convert current assets into cash to pay current liabilities. Or
 Liquidity measures the ability of the business to meet its short-term obligations. [1]

(b) (i) Working Capital = Current assets – Current Liabilities
 = 24900 – 21900
 = \$3000 [2]

(ii) Current ratio = Current assets / Current liabilities
 = 24900 / 21900
 = 1.14 [2]

(iii) Quick ratio = (Current assets - inventory – prepayments) / Current liabilities
 = (24900 – 18000 – 500) / 21900
 = 0.29 [2]

(c) (i)

	2020	2021	2022
Current ratio	3.52	2.32k	1.14
Quick ratio	1.83	1.05	0.29

- The liquidity has worsened over the three years.
- Current ratio has worsened from 3.52 in 2020 to 2.32 in 2021 and to 1.14 in 2022.
- In 2022, current ratio is below the general benchmark of 2.
- This indicates that in 2022, Farhana does not have enough current assets to pay off her current liabilities.
- Quick ratio has also worsened from 1.83 in 2020 to 1.05 in 2021 and to 0.29 to 2022.
- In 2022, the quick ratio fell below the general benchmark of 1.
- This indicates the Farhana does not have sufficient quick assets to pay off her current liabilities.
- In 2022, Farhana has bank overdraft of \$900 which might indicate that she is facing cashflow problems.

(Any 4 points) [4]

- (ii)** Farhana could be holding on to too much inventory which she has difficulty selling.
 Farhana has to repay part of her long-term borrowings of \$5000 which is repayable within the year.
 (or any reasonable answer) [1]

- (d)** The rate of inventory turnover has worsened from 8.46 times in 2020 to 6.78 times in 2021 and to 4.46 times in 2022.

This indicates that the business is taking longer to sell its goods. Or the business is getting less efficient at managing its inventory over the three years. [2]

[Total: 14]

Qn 3

- 1 Cheque payment of \$660 for marketing expenses has been wrongly recorded in the books as \$600.
- 2 Credit sale of \$400 has been debited to the sales revenue account and credited to the trade receivable account.
- 3 A cheque of \$265 received from Tata Store had been recorded in the account of Kaka Store.
- 4 Purchase of fixtures and fittings, \$120 has been debited to the stationery account.

(a) Journal

Date	Particulars	Dr	Cr
2022		\$	\$
May 31			
(1)	Marketing expenses	60	
	Cash at bank		60
(2)	Trade receivables	800	
	Sales revenue		800
(3)	Trade receivables, Kaka	265	
	Trade receivables, Tata		265
(4)	Fixture and Fittings	120	
	Stationery expense		120

[8]

(b)

Syahirah Sweets Pte Ltd
Statement to show adjusted profit for the year ended 31 May 2022

Unadjusted loss for the year	(450)	1
1) Less Marketing expenses understated	(60)	1
2) Add Sales revenue understated	800	1
3) No effect	-	
4) Add Stationery expense overstated	120	1
Adjusted profit for the year	410	1

Qn 4

(a) 7marks = Decision **[1]** + 3 basic points supported by development points **[3]x2**

Decision	Shanice should buy the machine.
Basic point 1	<p>If Shanice uses the machine for 5 years, it would be overall cheaper for Shanice to buy the machine than to rent the machine.</p> <p>For 5 years, Cost of buying machine (plus servicing) = \$5000+\$1250 = \$6250 Cost of renting machine = 5 X \$1500 = \$7500</p>
Development 1	If this cost is done over annual instalments, the cost of buying is still cheaper at \$1250 per year as compared to renting this machine for five years. The \$1250 saved could be used in its other business operations therefore, it is better to buy the machine than to rent the machine.
Basic point 2	If Shanice buys the machine, she will receive a new machine as compared to using a used machine if she were to rent the machine.
Development 2	Due to wear and tear, a used machine may not operate as efficiently as compared to the new machine she would receive if she were to buy the machine.
Basic point 3	If Shanice buys the machine, it is an asset which can be sold off in the future.
Development 3	Shanice would have the freedom to sell the machine and make a profit on sale.
Basic point 4	Shanice would be able to customise printing if she buys the machine as compared to renting.
Development 4	Business can better cater to customers' needs/ demands to generate more profit.
Conclusion	Therefore, Shanice should buy the machine.

OR

Decision	Shanice should rent the machine.
Basic point 1	Shanice should rent the machine as it is cheaper to rent at \$1500 annually as compared to committing to pay \$5000 for the machine right from the start.
Development 1	The money can be put to better use to generate more profit for the business as instead of making a big upfront payment, it can be spread out over 5 years. or Committing to pay \$5000 will lock up the business's liquidity and this will reduce the business's liquidity and cash flow for its other operations.
Basic point 2	If Shanice were to rent the machine, she would not need to go through the trouble to arrange her own servicing and would not need to pay for the servicing expense of \$250 as compared to buying the machine.
Development 2	Shanice could save this time and money saved from the cost of the maintenance to improve her existing business operations.
Basic point 3	The warranty for buying of the photocopy machine is only 2 years but for renting of the machine, it is part of the contract.
Development 3	Hence, after 2 years, Shanice may need to spend money for repairs whereas, if she is renting, she will not need to spend more.
Basic point 4	If Shanice rents the machine, she will be able to receive the machine earlier and start using it for business as opposed to buying the machine which will only be delivered 3 months later.
Development 4	The business can start generating income 3 months earlier and make more profits.
Conclusion	Therefore, Shanice should rent the machine.

			[7]
(b) Depreciation of machine for the year ended 31 December 2020	= 10% x (4000-400)		
	= \$360 (1)		
Depreciation of machine for the year ended 31 December 2021	= 10% x 5000		
	= \$500 (1)		
(c) Net Book Value	= Cost – Accumulated Depreciation		[2]
	= \$4000 – (400+360)		
	= \$3240 (1)		
Loss on sale of non-current asset	= \$3240 - \$2800		
	= \$440 (1)		[2]
			[Total: 11]

End of Solution