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JURONG SECONDARY SCHOOL
2022 GRADUATION EXAMINATION 2
SECONDARY 4 EXPRESS
SECONDARY 5 NORMAL ACADEMIC

CANDIDATE NAME	

CLASS			INDEX NUMBER	

PRINCIPLES OF ACCOUNTS **7087/02**

Paper 2 **18 Aug 2022**

2 hours

Additional Material: Writing papers (6 sheets)

READ THESE INSTRUCTIONS FIRST

Write your class, 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 HD pencil for rough working.
Do not use staple, paper clips, highlighters, glue or correction fluid.
The use of an approved calculator is allowed.

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

The total marks for this paper is **60**.

This document consists of **6** printed pages including this page.

[Turn over]

1 The following trial balance was extracted from JingTing Pte Ltd on 31 May 2022.

	$
Share capital, 100 000 ordinary shares	150 000
Retained earnings 1 June 2021	82 200
Property	200 000
Accumulated depreciation - property	40 000
Motor Vehicles	80 000
Accumulated depreciation - motor vehicles	16 000
Inventory	49 600
Trade receivables	15 500
Cash at bank	10 000
Allowance for impairment of trade receivables	1 400
10% Bank Loan	80 000
Interest on bank loan	1 000
Cost of sales	72 700
Sales revenue	85 000
Commission income	3 800
Rental expenses	30 000
Discount received	400

Additional information:

1 On 31 May 2022:
   (i) Rental expenses covers the period 1 June 2021 to 31 August 2022.
   (ii) Commission income, $200, had been received in advance.

2 The net sale realisable value of inventory as at 31 May 2022 was $49 000.

3 A credit customer was declared bankrupt. $500 of debt was be written off.

4 A review shows that 5% of the trade receivables are likely to be uncollectible.

5 One- fifth of the loan was due for repayment on 30 June 2022. Interest on loan was not fully paid.

6 Depreciation policy is as follows:
   (i) Property: 5% per annum on cost.
   (ii) Motor vehicles: 20% per annum on net book value.

7 Dividends at $0.05 per share was declared on all shares on 31 May 2022 and will be paid out on 31 July 2022.

REQUIRED

(a) Prepare the Statement of financial performance for the year ended 31 May 2022. [10]

(b) Prepare the Statement of financial position as at 31 May 2022. [10]

[Total: 20]

[Turn over]

2 Jolene Trading's financial year ends on 30 April. The following information is supplied.

	30 April 2021	30 April 2022
	$	$
Equipment	-	100 000
Inventory	20 000	50 000
Trade receivables	10 000	8 000
Cash at bank	3 000	-
Bank overdraft	-	5 000
Trade payables	8 000	9 000
Current portion of long-term borrowing	10 000	10 000
10 years bank loan	100 000	100 000
Prepaid utilities expenses	-	800
Drawings	800	2 000
Mark- up on cost	-	20%
Cost of sales	-	400 000
Trade receivables collection period	4.30 days	?

REQUIRED

(a) Explain the importance of being liquid. [1]

(b) Calculate the following for the year ended **30 April 2022**. [4]

- **(i)** Current ratio
- **(ii)** Quick ratio
- **(iii)** Net sales revenue
- **(iv)** Trade receivables collection period

(c) Comment on the changes in liquidity for the two years ended 30 April 2021 and 2022. [4]

(d) Suggest **two** ways in which Jolene Trading can improve on its liquidity. [2]

(e) Evaluate on the efficiency of trade receivables management over the two years. [2]

(f) Suggest **one** way which can Jolene Trading to improve the management of trade receivables. [1]

[Total: 14]

[Turn over]

3 The following extract is taken from the books of Markus Enterprise on 1 August 2020.

Equipment $150 000

Accumulated depreciation $28 500

On 1 January 2021, the business sold one of the equipment, costing $50 000, to KJ Trading on credit for $20 000. The equipment was purchased on 1 April 2019.

The business purchased a replacement equipment $30 000 on credit from Zander Engineering on 2 January 2021.

It is the firm's policy to depreciate all the equipment at the rate of 10% using the reducing balance method. A full year depreciation is provided for equipment in the year of purchase and in the year of sale.

REQUIRED

(a) Prepare the journal entries to record the sales proceeds of the equipment on 1 January 2021. Narrations are **not** required. [2]

(b) Prepare the journal entries to record the purchase of the replacement equipment on 2 January 2021. Narrations are **not** required. [2]

(c) Calculate the depreciation expense for the year ended 30 September 2021. Show your workings. [2]

(d) Calculate the gain or loss on the sale of the equipment on 1 January 2021. [2]

(e) Using an appropriate accounting theory, explain why the business depreciate its non- current assets. [2]

[Total: 10]

[Turn over]

4 Kumar Publishing had the following balances for trade receivables over the three years.

	31 July 2020	31 July 2021	31 July 2022
	$	$	$
Trade receivables	34 500	30 800	40 000

On 15 September 2021, BFG Knowledge confirmed that it was ending its business and could only pay Kumar Publishing 80 cents for every dollar of its outstanding debt of $5 000. On the same day, a cheque was received from BFG Knowledge.

The business reviews its list of trade receivables at the end of every financial year ended 31 July and estimates that 5% of its credit customers are likely to be uncollectible.

REQUIRED

(a) Prepare the journal entries to record the transactions on 15 September 2021. Narrations are **not** required. [3]

(b) Prepare the journal entries to adjust the balance of allowance for impairment of trade receivable for the year ended 31 July 2022. Narrations are **not** required. [2]

(c) Prepare a statement of financial position extract as at 31 July 2022, showing the trade receivables. [2]

(d) State and explain how Kumar Publishing uses one internal control to manage its cash in the business. [2]

[Turn over]

The following two credit customers have approached Kumar Publishing to extend repayment period from 30 days to 45 days. As the economic forecast in 2022 is not favourable, Kumar Publishing intends to extend longer repayment to only one business. Kumar Publishing current repayment terms is 30 days.

	Matilda's Literacy	Charlie and Book Factory
Nature of business	Physical retail store in Orchard Road with a café Local publisher is known for its strong emphasis on local authors. Hosted several public talks by renowned local authors	Singapore- based online store that boasts 10 million book titles and a wide range of stationery and educational toys
Average trade receivables balance Repayment history over the past year	\$20 000 Collection days: 40 days Repaid late 4 times	\$37 000 Collection days: 35 days Repaid late twice
Reputation of business	Popular among supporters of local book scene Has been in operation for 10 years Popular Instagram-worthy café among youngsters	Online reviews of the company's collection of books to delivery and customers have been good Established in 2021 on multiple local ecommerce platforms Aggressive marketing and promotion by business
Industry outlook	Greater awareness and support of local writers. Many international bookstores are closing in Singapore	Strong online purchasing patterns is observed. Highly competitive ecommerce scene with new entrants emerging

REQUIRED

(e) Advise Kumar Publishing which credit customer it should extend credit terms to**.** Justify your recommendation with **three** reasons. [7]

[Total: 16]

[END OF PAPER]

ANSWERS

Question 1

JingTing Pte Ltd Statement of financial performance for the year ended 31 May 2022		
	$	$
Sales revenue		85 000
Less: Cost of sales		72 700
Gross Profit [2]		**12 300**
Add: Other Income		
Discount received **[1]**	400	
Commission income (3800 - 200) **[1]**	3 600	4 000
		16 300
Less: Expenses		
Impairment loss on inventory [**1**]	600	
Rental expense **[1]** or 30000/15 * 12	24000	
Depreciation of property (200000 x 5%) **[1]**	10 000	
Depreciation of motor vehicles 20% x (80000 – 16000) **[1]**	12 800	
Interest expense (10% x 80000) **[1]**	8 000	
Reversal of Impairment loss on trade receivables [750– (1400-500)] **[1]**	(150)	
		55 250
Loss for the year		38 950

JingTing Pte Ltd
Statement of financial position as at 31 May 2022

	Cost $	Accumulated Depreciation $	Net Book Value $	
Assets				
Non-current assets				
Property	200 000	50 000	150 000	
Motor Vehicles	80 000	28 800	51 200	
			201 200	[1]
Current assets				
Inventory [1]		49 000		
Trade receivables (15 500 – 500	15 000			
Less: Allowance for impairment of trade receivables (5% x 15 000)	750	14 250	[1]	
Cash at bank		10 000		
Prepaid rental expense [1] (30000/15 *3)		6 000	79 250	
Total assets			280 450	
Equity and liabilities				
Shareholders' equity				
Share capital, 100 000 ordinary shares		150 000		
Retained earnings (82200 - 5000 - 38950) [OF 1]		38 250	188 250	
Non-current liabilities				
Long term borrowings [1]			64 000	
Current liabilities				
Dividend payables [1]		7 500		
Commission income received in advance [1]		200		
Current portion of long term borrowings [1]		16 000		
Interest payable [1]		5000	28 200	
Total equity and liabilities			280 450	

Question 2

a)

By being liquid, business would have sufficient cash to run its daily business operations, such as buying inventory, paying for rent and paying its workers' salaries.

Business would be able to repay its trade payables when the payment of goods is due. Suppliers will be more willing to sell to business on credit.

Banks and credit suppliers are more willing to lend money or loan to the business when business is able to repay the loans when they are due. **[Any 1] [1]**

(b) Calculate the following for the year ended **30 April 2022**.

(i) Current ratio 50000 + 8000+800/ 5000 + 9000+10000 = 2.45 **[1]**
(ii) Quick ratio 8000/ 5000 + 9000+10000 = 0.33 **[1]**
(iii) Net sales revenue 120/ 100 * 400 000 = 480 000 **[1]**
(iv) Trade receivables collection period 18000/ 2 / 480 000 x 365 days = 6.84 days **[1]**

c) Current ratio has improved from 1.83 (31 April 2021) to 2.45 (31 April 2022) **[1]** The current ratio in 2022 is above the general benchmark of 2 which indicates that it has sufficient current assets to pay for its short- term debts. **[1]** Quick ratio has worsened from 0.72 (31 April 2021) to 0.33 (31 April 2022) **[1]** In both years, the quick ratio is below 1 which indicate it has insufficient quick assets to pay for its short term debt. **[1]** This could be due to business holding onto excess inventory (from $20 000 to $50 000) as cash is tied up in the inventory. **[1]** It has a bank overdraft of $5 000. Its liquidity has worsened over the two years. **[1] [Any 4]**

d) Owners or shareholders to contribute additional cash into business **[1]**
Taking up a long- term borrowing so that business can take a longer time to repay the loan while obtaining fund **[1]**
Sell excess non- current assets for cash **[1] [Any 2]**

e) The Trade receivables collection period has worsened from 4.30 days in 2021 to 6.84 days in 2022. Calculation: 18000/ 2 / 480 000 x 365 days = 6.84 days (must show workings) **[1]**
This indicates that Jolene Trading is less efficient in the managing the trade receivables resulting in longer collection time from trade receivables. **[1]** This would resulted in poor liquidity. **[1]**

f)

(i) Offer cash discounts to encourage credit customers to pay early
(ii) Increase debt collection efforts by sending regular reminders to credit customers who delay payment or refuse to pay
(iii) Improve the credit granting processes by monitoring collection patterns carefully or ensuring credit is granted to creditworthy customers **[1] [Any 1]**

Question 3

(a)	Date		Dr $	Cr $
	1 January 2021	Other receivables: KJ Trading [1]	20 000	
		Sales of NCA [1]		20 000
(b)	2 January 2021	Equipment [1]	30 000	
		Other payable: Zander Engineering [1]		30 000

(c) Depreciation new: 30 000 x 10% = $3000 [1]
Depreciation existing: (150 000 – 50 000) – (28 500 – 5000 – 4500 – 4050) x 10% = $8505 [1]

(d) Sales proceeds vs Net book value = $20 000 [1]< (50 000 – 5000 – 4500 – 4050) [1]
Loss on sales of NCA = $16 450

(e) Matching/ Prudence [1] Explanation [1]

Question 4

a)

Date		Dr $	Cr $
2021 15 Sep	Cash at bank [1] (5000 x 0.8)	4 000	
	Allowance for impairment of trade receivable [1] (5000 x 0.2)	1 000	
	Trade receivables: BHG [1]		5 000

b)

Date		Dr $	Cr $
2022 31 July	Impairment loss on trade receivables [1]	1 460	
	Allowance for impairment of trade [1] (1540-1000) - 2000		1 460

c) Statement of financial position as at 31 July 2022

Current asset

Trade receivables 40 000 [1]

Less: Allowance for impairment of trade receivables 2000 [1]

Net trade receivables 38 000 [must show]

d)

Segregation of duties (different employees are tasked with handling and recording of cash. To ensure no one has sole control of entire cash process)
Custody of cash (Secure cash and cheque in locked storage)
Authorisation (Obtain proper approvals for all payments from authorized personnel)
Bank reconciliation (Compare business' records with bank's records to identify items that caused the discrepancies in cash at bank and bank statement) [Any 1] [2]

e)

Decision: I will give Matilda's Literacy a longer repayment period (1)	Decision: I will give Charlie and Book Factory a longer repayment period (1)
Evidence: Matilda's Literacy focuses on books written by local writer and the demand for such books is increasing. Matilda's Literacy is growing **(1)** **Explanation:** The growing clientele may translate to a higher revenue being generated by Matilda's Literacy and thus ensuring its survivability. Hence, it is safer to extend a longer credit period to Matilda's Literacy since there is a higher chance of repayment **(1)**	**Evidence:** Charlie and Book Factory is selling on multiple platform and conducting its promotion and marketing aggressively. **(1)** **Explanation:** Charlie and Book Factory is reaching out as many customers, using a few ecommerce platform. With its aggressive marketing and promotion, it is able to generate a higher sales revenue. Online platform will also help to reduce some of the operating expenses faced by physical retail store. With higher sales revenue, this may cushion the business's profitability in the unfavorable outlook, thus allowing it to repay its supplier. **(1)**
Evidence: Matilda's Literacy owes Kumar Publishing $20 000, which is lesser by $17 000, as compared to Charlie and Book Factory of $37 000. (**1)** **Explanation:** The amount owed by Matilda's Literacy is lesser than Charlie and Book Factory. This may improve the ability of Back to Basics to repay the debts since the amount is easier to manage. **(1)**	**Evidence:** Charlie and Book Factory has only repaid late twice, as compared to Back to Basic which repaid late four times in the past year. **(1)** **Explanation:** This may imply that Charlie and Book Factory is more prompt in debt repayment. With such a better record, it is safer to extend a longer credit period to Charlie and Book Factory **(1)**
Evidence: Matilda's Literacy has a popular café and this is attracting the youths who patronized the café. **(1)** **Explanation:** The café provides an extra income for the business. This steady source of revenue is quite stable thus ensuring its survivability since there is a constant flow of customers for the café. This might also attract the youth to hook onto their book collections, improving its sales revenue, thus ability to repay its debts. **(1)**	**Evidence:** The industry outlook of the business is very promising while the industry for the physical bookstore seemed going downhill. **(1)** **Explanation:** Modern consumers are getting more and more internet savvy, as such they are more likely to purchase their products online, given the convenience and time, and efforts saved. This is helped by the good reviews of Charlie and Book factory which provide greater assurance to the customers. This can provide Charlie and book with steady income. Big international bookstores, backed by its huge resources, are unable to survive or find this model not working, are closing down. As such, it is better for Kumar Publishing to extend credit to Charlie and Book Factory since it is able to survive in the long run.**(1)**