



XINMIN SECONDARY SCHOOL
新民中学
SEKOLAH MENENGAH XINMIN
PRELIMINARY EXAMINATION 2022

CANDIDATE NAME

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CLASS

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INDEX NUMBER

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PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

25 August 2022

Secondary 4 Express/ 5 Normal Academic

2 hours

Setter: Ms Jaclyn Neo

Vetter: Mdm Norhuda Maksum and Mrs May Ng

Additional materials: Writing paper (5 sheets)

READ THESE INSTRUCTIONS FIRST

Write your name, class and index number 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 rough working.

Do not use staples, paper clips, glue or correction fluid. The use of an approved calculator is allowed.

Answer **all** questions.

The businesses mentioned in this question paper are fictitious.

Start each question on a separate page.

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

At the end of the examination, fasten all your work securely together.

For Examiner's Use								
Q1	/ 20	Q2	/ 10	Q3	/ 13	Q4	/ 17	/ 60
Parent's Signature								

1

The following balances were extracted from the books of Eat Smarter, a retailer of whole foods, at the end of the financial year on 31 July 2021.

	\$	
Capital, 1 August 2020	80,819	
Sales revenue	120,800	
Sales returns	22,320	
Cash at bank	950	Cr
Cost of sales	46,600	
Commission income	26,000	
Trade payables	28,000	
Trade receivables	44,400	
Allowance for impairment of trade receivables	340	
Discount allowed	809	
Interest on bank loan	500	
Inventory	32,000	
4% bank loan taken on 1 August 2018	15,000	
Selling and advertising expense	8,860	
Rental expense	13,000	
Wages and salaries	30,800	
Utilities expense	12,520	
Motor vehicles at cost	60,000	
Accumulated depreciation of motor vehicles	12,000	
Equipment at cost	14,200	
Accumulated depreciation of equipment	2,100	

Additional information

- 1 Legal fees \$550 relating to the purchase of a new equipment had been recorded in the selling and advertising expense account.
- 2 A sales invoice of \$1,200 had been completely omitted in the books.
- 3 Interest expense on the 4% bank loan had not been fully paid up.
- 4 The owner had withdrawn \$30 every month from the business bank account to pay for his telephone bill since 1 January 2021. This has been recorded as utilities expense in the books.
- 5 During the year, a credit customer owing \$1,000 was declared bankrupt. The amount owing was to be written off.
- 6 The allowance for impairment of trade receivables is to be maintained at 5% of trade receivables.
- 7 Motor vehicles are to be depreciated at 15% per annum using the reducing-balance method.
Equipment is to be depreciated at 20% per annum using the straight-line method.
- 8 The entire bank loan is repayable on 31 December 2021.

REQUIRED

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

[Total: 20]

- 2 Jingle Wellness buys and sells convenient packs of traditional herbal medicine and soups. The business operates a few machines to pack its inventory.

The business provided the following information for the year ended 30 September 2020.

Machinery account

2019		Dr (\$)	Cr (\$)	Bal (\$)
Oct 1	Balance b/d			53,280 Dr
Nov 29	Sale of non-current assets		14,000	39,280 Dr
Dec 1	Trade payable - Packwell (b)	12,000		51,280 Dr
2020				
Oct 1	Balance b/d			51,280 Dr

Accumulated depreciation of machinery account

2019		Dr (\$)	Cr (\$)	Bal (\$)
Oct 1	Balance b/d			13,450 Cr
Nov 29	Sale of non-current assets	5,040		8,410 Cr
2020				
Sep 30	Depreciation of machinery		8,574	16,984 Cr

Jingle Wellness depreciates machinery using the reducing balance method. A full year's depreciation is charged in the year of purchase and no depreciation is charged in the year of sale.

REQUIRED

- (a) Define the following terms:
- (i) non-current assets. [1]
 - (ii) depreciation [1]
- (b) Interpret the transaction labelled **(b)** in the machinery account. [1]
- (c) Calculate the rate of depreciation charged on machinery. [2]

The business had received a \$13,000 cheque for selling the machine on 29 November 2019.

REQUIRED

- (d) Prepare the journal entry to record the gain or loss on the sale of non-current asset for the year ended 30 September 2020. A narration is required. [3]
- (e) State **two** non-accounting information a business should consider when deciding to purchase a non-current asset. [2]

[Total: 10]

- 3 Janice Learning Centre provides enrichment lessons to students. The following information was extracted for the year ended 31 August 2021.

- 1 On 1 September 2020, service fee revenue owing to the business was \$10,200.
- 2 During the year, the business had received service fee revenue of \$89,000 by cash and cheques. Out of the amount collected, \$14,000 was received for lessons which will be conducted in September 2021.

REQUIRED

- (a) Define the revenue recognition theory. [1]
- (b) Calculate the service fee revenue earned for the year ended 31 August 2021. [2]
- (c) Prepare the journal entry to adjust the service fee revenue account on 31 August 2021. [2]

Janice Learning Centre also provided the following information relating to rent expense for the year ended 31 August 2021.

Rent expense				
2020		Dr (\$)	Cr (\$)	Bal (\$)
Sep 1	Prepaid rent expense (i)	2,150		2,150 Dr
Nov 9	Cash at bank	21,500		23,650 Dr

2021				
Feb 1	Capital (ii)	1,075		24,725 Dr
Aug 31	Rent expense payable	1,075		25,800 Dr
31	? (iii)		25,800	-

REQUIRED

(d) Interpret the transactions (i) and (ii) in the rent expense account above. [[2]

(e) Name the account marked (iii) in the rent expense account. [1]

Janice recently hired a new accountant to help with the business as she is concerned about Janice Learning Centre's profitability worsening over the past two years.

REQUIRED

(f) Name and define **one** professional ethic her accountant should uphold. [2]

(g) State **one** reason why it is important to be profitable. [1]

(h) Suggest **two** ways in which Janice Learning Centre can improve its profitability. [2]

[Total: 13]

4

Jaime Toys uses the First-In-First-Out (FIFO) method to record its inventory of toy model cars. The following information was provided for the financial year ending 30 April 2021.

2020

May 1 Beginning inventory of 25 units at \$3,800.

Summary of transactions relating to inventory

2020

May 30 Bought 50 units of inventory costing \$5,300 on credit.

Jun 4 Returned all the goods purchased on May 30 to the supplier.

Aug 3 Bought 50 units of inventory costing \$3,000 by cheque

Oct 14 Bought 25 units of inventory costing \$4,600 by cash.

As at 30 April 2021, Jaime Toys had sold 75 units of toy model cars for \$35,900.

REQUIRED

(a) Prepare the inventory account for the year ended 30 April 2021. [3]

(b) Identify the source document used on 4 June 2020. [1]

In 2022, Jaime Toys started selling soft toys which costs \$10 each. These soft toys are sold at a mark-up of 12%.

On 15 April 2022, 50 soft toys were damaged due to a flood and could only be sold for \$4 each.

REQUIRED

- (c) Calculate the expected sales revenue to be earned from selling the 50 soft toys if they had not been damaged. [2]
- (d) State and explain the accounting theory applied on the valuation of ending inventory. [2]
- (e) Copy and complete the following table on your answer paper to show the effect on the following items if there was no adjustment made to inventory on 15 April 2022.

Where there is an effect, indicate the amount which is understated or overstated. If there is no effect, place a tick (✓) in the "No effect" column.

	Understated	Overstated	No effect
Profit for the year			
Current assets			

[2]

Jaime Toys is considering selling action figures to meet the demands of its customers and has shortlisted two popular brands. The business is intending to purchase action figures from one game franchise.

	Popomon action figures	Flower Fantasy action figures
Cost of one action figure	\$80	\$120
Cost of shipping each action figure	\$4	\$2
Estimated gross profit margin to be earned	15%	25%
Storage	Can be stored anywhere indoors.	Must be stored in a cool and dry environment, preferably in an air-conditioned room.

	Requires less storage space as the action figures are stored in cardboard boxes.	Requires more storage space as the action figures are stored in glass cases and has many layers of protective packaging.
Nature of product	Material – PVC plastic Strong and durable but the aesthetic details of action figures are less life-like.	Material – Silicone rubber Less durable but the action figures are of limited edition and known to be of top quality. Expression of action figures are very life-like as the details are intricate.
Customer preference	Appeals to teenagers and adults who like the game franchise and are looking for affordable action figures to display at home.	Appeals to serious collectors and the working population who are willing to place orders in advance and spend more as the action figures may become more valuable over time.

REQUIRED

- (f) Recommend whether Jaime Toys should sell Popomon or Flower Fantasy action figures. Justify your decision with **three** reasons. [7]

[Total: 17]

End of paper