Class/ Index Number	Centre Number/ 'O' Level Index Number	Name
/	/	



# 新加坡海星中学 MARIS STELLA HIGH SCHOOL

## PRELIMINARY EXAMINATION SECONDARY FOUR

# PRINCIPLES OF ACCOUNTS

Paper 2

7087/02 24 August 2022 2 hours

Additional Materials: Multi-column accounting paper (5 sheets)

### READ THESE INSTRUCTIONS FIRST

Write your class, index number, Centre number, O level index number and name in the spaces at the top of this page.

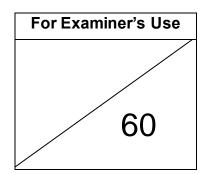
Write in dark blue or black pen.

You may use a HB pencil for any diagrams or graphs.

Do not use staples, paper clips, glue or correction fluid.

Answer **all** the questions.

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. The total number of marks for this paper is 60.



This document consists of **7** printed pages.

#### Answer all questions.

1 The following balances were extracted from the books of Spencer Pte Ltd on 30 June 2021.

	\$
Issued share capital, 100 000 ordinary shares	140 000
Retained earnings	49 400
7% bank loan repayable 30 June 2028	40 000
Sales revenue	85 800
Sales returns	4 300
Cost of sales	57 700
Office equipment	80 000
Motor vehicles	105 000
Accumulated depreciation:	
Office equipment	5 000
Motor vehicles	17 000
General expenses	3 600
Wages and salaries	11 800
Rentincome	6 000
Trade receivables	23 800
Trade payables	17 700
Cash at bank	31 500
Allowance for impairment of trade receivables	1 700
Inventory	44 900

#### Additional information

- 1 Wages and salaries, \$900 were prepaid and general expenses, \$2 700 were owing.
- 2 Rent income received during the year was for 15 months ended 30 September 2021.
- 3 Office equipment is to be depreciated at 15% per annum using the straight-line method.
- 4 Motor vehicles are to be depreciated at 20% per annum using the reducingbalance method.
- 5 Interest on the bank loan for the year ended 30 June 2021 had not yet been paid.

- 6 The allowance for impairment of trade receivables is to be maintained at 3% of trade receivables.
- 7 Dividend of \$0.08 per share was declared on 15 June 2021. The dividends would be paid on 31 July 2021.

#### REQUIRED

(a) Prepare the statement of financial performance for the year ended 30 June 2021.

[10]

(b) Prepare the statement of financial position as at 30 June 2021. [10]

[Total: 20]

2 On 1 April 2019, Jackson Enterprise bought two identical motor vehicles costing \$38 000 each by cheque.

On 30 June 2021, one of the motor vehicles was sold for \$23 700 and a cheque was received.

The business provides depreciation on motor vehicles at a rate of 20% per annum using the reducing-balance method. Depreciation is not provided in the year of sale.

The business financial year ends on 31 March.

#### REQUIRED

(a)	Calculate the gain or loss on the sale of the motor vehicle.	
(b)	Prepare the journal entries to record the sale of the motor vehicle on 30 June 2021. Narrations are <b>not</b> required.	[6]
(c)	Prepare an extract of the statement of financial performance for the year ended 31 March 2022, showing only the other expenses section.	[2]
(d)	Using a relevant accounting theory, explain why a business should depreciate its non-current assets.	[2]
(e)	Explain why Jackson Enterprise chose the reducing-balance method to depreciate the motor vehicles.	[2]
	[Total:	14]

**3** Kongcha and Leeho are two businesses in the same industry. The following information was available from both businesses for the year ended 31 December 2021.

	Kongcha (\$)	Leeho (\$)
Net sales revenue	132 000	109 000
Gross profit	28 500	19 400
Profit for the year	12 345	11 565

### REQUIRED

- (a) Calculate the following profitability ratios for both businesses for the year ended 31 December 2021. Show your answers to **two** decimal places.
  - (i) Mark-up on cost
  - (ii) Gross profit margin

		[Total:	14]
(c)	Sug	gest <b>two</b> ways to improve the profitability of a business.	[2]
(b)		g your answers in <b>(a)</b> , compare and comment on the profitability of the two nesses.	[6]
	(iii)	Profit margin	[6]

4 Wilfred buys and sells machinery parts to businesses all over the world. Recently, two of his customers, Nam Seng and Boon Heng, requested for a longer repayment period, from 30 to 40 days. Wilfred intends to extend a longer repayment period to only one customer.

	Nam Seng	Boon Heng
Location	Located in Country A, a developing country with fluctuating economic growth	Located in Country B, a developed country with a stable economy
Industry outlook	In the manufacturing industry which is expected to grow by 50% over the next 2 years	Demand for machinery parts has increased in recent years
Average trade receivables balance	\$65 000	\$88 000
History of repayment	Average collection period of 36 days with 5 occurrences of late payment	Average collection period of 21 days with 2 occurrences of late payment
Reputation	Been in business for 10 years and has received many positive reviews from customers	Relatively new business so no review available

Wilfred gathered the following information about the two customers.

#### REQUIRED

(a) If you are Wilfred, which customer would you give a longer repayment period to? Justify your decision with **three** reasons. [7]

The following ledger account is provided by Wilfred. The financial year of his business ends on 31 December.

Rent expense account				
2021		Dr (\$)	Cr (\$)	Balance (\$)
Jan 1	Prepaid rent expense	900		900 Dr
Aug 31	Cash at bank	4 000		4 900 Dr
Dec 31	Prepaid rent expense		1 300	3 600 Dr
31	Income summary		3 600	_

#### REQUIRED

- (b) Interpret the following entries in the rent expense account on:
  - (i) 1 January 2021
  - (ii) 31 August 2021
  - (iii) 31 December 2021 [4]
- (c) Explain the accrual basis of accounting theory. [1]

[Total: 12]

#### **END OF PAPER**