



Pasir Ris Secondary School

Name	Class	Register Number
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SECONDARY 4 EXPRESS / 5 NORMAL (ACADEMIC) PRELIMINARY EXAMINATION 2022

PRINCIPLES OF ACCOUNTS

7087/2

Monday 1100 – 1300

**29 August 2022
2 hours**

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

An 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** 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.

All questions in this paper carry equal marks.

Section AAnswer **all** questions.

- 1 The following balances were extracted from the books of Daniel Consultancy on 30 June 2022.

	\$
Consultancy fee revenue	325 200
Share capital, 50 000 ordinary shares	50 000
Retained earnings	80 540
Rent	64 000
Wages and salaries	114 000
Insurance	5 400
Fixtures and fittings	35 000
Motor vehicles	75 000
Accumulated depreciation:	
Fixtures and fittings	12 250
Motor vehicles	30 000
Trade receivables	125 600
Allowance for impairment of trade receivables	5 782
Trade payables	8 720
Cash at bank	134 742
6% Bank loan repayable	35 000
Interest on bank loan	550
Commission income	6 800

Additional information

- 1
 - Rent expense relates to a sixteen-month period ending on 31 October 2022.
 - Wages and salaries, \$2 600 were outstanding.
 - Commission income received in advance was \$950.
- 2 Bank loan approved and started on 1 January 2022. Loan interest for the year ended 30 June 2022 was not fully paid.
- 3 Motor vehicle is to be depreciated at 20% per annum using the reducing balance method.
- 4 Fixtures and fittings are to be depreciated at 10% per annum using the straight-line method.
- 5 A trade receivable owing \$6 600 was declared bankrupt. This amount is to be written off.
- 6 The allowance for impairment of trade receivables is to be maintained at 5% of trade receivables.
- 7 The company declared a dividend of \$0.50 per share. The dividend will be paid on 31 December 2022.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 30 June 2022. [10]
- (b) Prepare the statement of financial position as at 30 June 2022. [10]

[Total: 20]

- 2 The following information was extracted from the books of Wei Cong Trading on 31 August 2021:

	\$
Trade receivables	25 000
Allowance for impairment of trade receivables	4 320

On 26 January 2022, a credit customer, Bhatti Pte Ltd owing a debt of \$3 500 filed for bankruptcy. It has been agreed that Mr Bhatti will pay \$0.20 for every \$1.00 owed. The remaining unpaid debt will be written off. The cheque from Mr Bhatti was received on the same day.

At the end of 31 August 2022, the trade receivables balance was \$38 000.

Wei Cong Trading maintains an allowance for impairment of trade receivables at 3% of the trade receivables balance at the end of the financial year.

REQUIRED

- (a) Prepare the journal entries to record the following. Narration is not required:

- (i) the transaction on 26 January 2022. [3]
- (ii) Adjustment of allowance for impairment of trade receivables on 31 August 2022, including the closing entry [4]

Additional Information

- 1 Wei Cong Trading grants all its customers 28 days credit term.
- 2 For the year ended 31 August 2022

	\$
Sales revenue	360 580
Sales returns	4 990
Cost of sales	180 151

- (b) Calculate the following for the year ended 31 August 2022. Show your answers to two decimal places

- (i) Rate of trade receivables turnover [2]
- (ii) Trade receivables collection period [1]

Given that for the year ended 31 August 2021,

- (i) The rate of trade receivables turnover was 13.21 times and
- (ii) The trade receivables collection period was 25.35 days.

REQUIRED

- (c) Evaluate the efficiency of Wei Cong Trading's trade receivables management over the two years. [5]
- (d) Suggest two ways to improve Wei Cong Trading's efficiency in trade receivables management. [2]
- (e) Explain the term impairment loss on trade receivables. [1]
- (f) Using an appropriate accounting theory, explain why it is necessary for a business to account for impairment loss on trade receivables. [2]

[Total: 20]

- 3 The following inventory ledger account was extracted from the books of Ka Sing Trading for the month of July 2022:

Inventory account

Date	Particulars	Debit \$	Credit \$	Balance \$
2022				
July 1	Balance b/d			5 830 Dr
8	Trade payable – Andy Wong	13 450		19 280 Dr
10	Trade payable – Andy Wong		3 200	16 080 Dr
15	Cost of sales		6 750	9 330 Dr
23	Cost of sales		4 500	4830 Dr
28	Cash at bank	780		5 610 Dr
31	Impairment loss on inventory		600	5 010 Dr
August 1	Balance b/d			5 010 Dr

Additional information

On 31 July 2022, \$600 worth of goods were damaged by overnight flooding in the office.

REQUIRED

- (a) Interpret the entries on the following dates
- (i) 10 July [1]
 - (ii) 15 July [1]
 - (iii) 31 July [2]
- (b) What is the difference between the inventory and the office computer equipment owned by the business? [2]
- (c) Explain how the cost of inventory purchased is determined. [2]
- (d) Using an accounting theory, explain how inventory is valued. [2]

[Total: 10]

- 4** Cheng Trading buys and sells gaming keyboards. The following information is extracted for the year ended 30 September 2022.

	\$
Inventory	5 450
Net Sales revenue	85 790
Gross profit	40 010
Profit for the year	18 660

The inventory as at 1 October 2021 is \$8 000.

- (a)** Calculate the rate of inventory turnover for the year ended 30 September 2022. [1]
Show your answers to two decimal places
- (b)** Given Cheng Trading rate of inventory turnover is 4.13 for the year ended 30 September 2021, evaluate its efficiency in inventory management [2]

Cheng Trading shortlisted gaming keyboards from two new manufacturers.

The information available for comparison is listed below.

	Raxer Brand	Logicmach Brand
Price per unit	\$200	\$60
Minimum order	10 units per order	100 units per order
Cost of additional storage space	Not required	\$500
Warranty	4 months	1 year
Nature	Great overall build quality	Average overall build quality
Features	Wired and Wireless Black only	Wired only Multi-colour

REQUIRED

- (c) Advise Cheng Trading whether to order Raxer or Logicmach gaming keyboards. [7]

[Total: 10]

End of paper

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PRELIMINARY EXAMINATION 2022

PRINCIPLES OF ACCOUNTS Paper 2 (Marking Scheme)

Daniel Consultancy Statement of financial performance for the year ended 30 June 2022		
	\$	\$
Consultancy fee revenue		325 200 [1]
Other income		
Commission income (6 800 – 950)		5 850 [1]
Less: Other expenses		
Rent expense (64 000/16 x 12)	48 000[1]	
Depreciation – Fixtures and Fittings (10% x 35 000)	3 500[1]	
Depreciation – motor vehicle 20% x (75 000 – 30 000)	9 000[1]	
Wages and Salaries expense (114 000 + 2600)	116 600[1]	
Insurance expenses	5 400	
Interest expenses (6% x 35 000 x 6/12)	1 050[1]	
Impairment loss on trade receivable	6 768 [1]	190 318
5 950* - (5 782 – 6 600)* [1 for partial working shown]		
Profit for the year		140 732 [1 OF*]

*If profit is derived from adding rent income and expenses items only.

[Total: 10]

Daniel Consultancy Statement of financial position as at 30 June 2022			
	\$	\$	\$
Assets	Cost	Accumulated	Net Book
Non-current assets		Depreciation	Value
Fixtures and fittings	35 000	15 750 (12250+3500)	19 250
Motor vehicle	75 000	39 000 (30000+9000)	36 000
			55 250 [1 OF]
OF awarded if accumulated depreciation and net book value is derived correctly			
Current assets			
Prepaid rental expense (64 000 - 48 000)		16 000 [1]	
Trade receivables (125 600 – 6 600)	119 000		
Less: Allowance for impairment of trade receivables (5% x 119 000)	5 950	113 050 [1]	
Cash at bank		134 742	263 792
Total assets			319 042
Equity and liabilities			
Shareholders' equity			
Share capital 50 000 ordinary shares		50 000	
Retained earnings (80 540 + 140 732 [*1OF] - 25 000 [1])		196 272	246 272
*OF if RE derived from adding C/F profit less dividend \$25000			
Non-current liabilities			
Long-term borrowings			35 000 [1]
Current liabilities			
Interest expense payable (1 050 – 550)		500 [1]	
Wages and salaries payable		2 600 [1]	
Commission income received in advance		950 [1]	
Dividend payables (50 000 x 0.5)		25 000 [1]	
Trade payables		8 720	37 770
Total equity and liabilities			319 042

[Total: 10]

2(a)

(d)	General Journal		
Date 2022	Particulars	Debit \$	Credit \$
January 26	Cash at bank (0.2 x \$3500)	700[1]	
	Allowance for impairment of trade receivables	2 800[1]	
	Trade receivables – Bhatti Pte Ltd		3 500[1]
August 31	Allowance for impairment of trade receivables	380[1]	
	Impairment loss on trade receivables		*380[1]
	(3% x 38 000) – (4 320 – 2 800)		
August 31	Impairment loss on trade receivables	*380[1 OF]	
	Income summary		380[1 OF]

OF – adjustment consistent with entry * for adjusting allowance for impairment of trade receivables

(b) Net sales revenue for the year ended 31 August 2022 = 360 580 – 4 990 = \$355 590*

(i) Able to show partial * working [1]

	Year ended 31 August 2021	Year ended 31 August 2022
Net trade receivables	25000 – 4320 = 20680	38000 – 3% × 38000 = 36860*
(i) Rate of trade receivables turnover <i>$\frac{\text{Net credit sales revenue}}{\text{Average net trade receivables}}$</i>	13.21	$\frac{355590}{\frac{(20680 + 36860)}{2}} = \frac{355590}{28770} = 12.36[1]$
(ii) Trade receivables collection period <i>$\frac{\text{Average net trade receivables}}{\text{Net credit sales revenue}} \times 365 \text{ days}$</i>	25.35 days	$\frac{28770}{355590} \times 365 = 29.53 \text{ days}[1]$

(c) Wei Cong Trading's rate of trade receivables turnover worsen [1] from 13.21 times in 2021 to 12.36 times in 2022. This means that it was collecting payment from credit customers on a less timely basis than the previous year [1].

The slower collection of customers' debts can also be seen from the worsening [1] of trade receivables collection period from 25.35 days in 2021 to 29.53 days in 2022. As a result, customers' payment exceeded the 28-day credit term [1] granted to the credit customers.

Hence, Wei Cong Trading has become less efficient [1] at managing its trade receivables over the two years.

(d) By ensuring credit is granted to customers who are financially able/ by monitoring collection pattern closely / by offering cash discounts to encourage credit customers to pay early/by sending regular reminders to credit customers who delay payment or refuse to pay/ by engaging professional debt recovery agencies to collect payment from financially distressed credit customers.

Any 2 **[2]**

(e) Impairment loss on trade receivables refer to the change in allowance for impairment of trade receivables **[1]**.

(f) Matching theory **[1]** states that expenses incurred (impairment loss on trade receivables) must be matched against income earned in the same financial period to determine the profit for the period **[1]**.

[Total: 20]

3(a)(i) 10 July

The business returned goods at a cost of \$3 200 purchased previously on credit from Andy Wong **[1]**.

(ii) 15 July

The business sold goods and the cost of the goods was \$6 750 **[1]**.

(iii) 31 July

The cost of inventory was reduced by \$600 **[1]** to its net realizable value **[1]** as a result of damage caused by the flood.

3(b) Although both are assets, inventories are bought to be sold **[1]** while non-current assets such as office computer equipment are bought to be used within the business to generate income **[1]**.

3(c) The cost of inventory purchased includes the purchase price of goods **[1]** and all costs incurred to bring in and get them ready for sale **[1]** e.g. transport, custom duties, insurance for the import of goods and the packing materials, wages for employees involved in repacking goods to get them ready for sale.

3(d) Inventory is valued at the lower of cost and net realisable value **[1]**. The prudence theory states that the accounting treatment chosen should be the one that least overstates assets and profits, and least understates liabilities and losses **[1]**.

4(a) Cost of sales = Net sales revenue – Gross profit
= 85 790 – 40 010 = 45 780

	YE @30 Sep 2021	YE @30 Sep 2022
(i) Rate of inventory turnover $\frac{\text{Cost of sales}}{\text{Average inventory}}$	4.13 times	$\frac{45\,780}{(8\,000 + 5\,450) \div 2}$ $= \frac{45\,780}{6\,725} = 6.81 \text{ times}$ [1]

4(b) Ka Sing's inventory turnover has improved from 4.13 times in 2021 to 6.81 times in 2022 **[1]**. Ka Sing is selling its goods faster, hence, is more efficient in managing its inventory in 2022 as compared to 2021 **[1]**.

4(c) Any 7 [1]

Ka Sing Trading should buy Raxer gaming keyboards [1] because it has a much lower minimum order than Logismach. Each order of Raxer brand, the business required a cash outlay of (\$2000 x 10) \$2000 whereas Logismach brand required a cash outlay of (\$60 x 100) \$6000 [1] . As such more cash is made available for other business activities or losses can be minimized if there is unsold goods [1] .	Ka Sing Trading should buy Logismach gaming keyboards [1] because the unit price is \$140 cheaper than Raxer [1] . As such the business will earn a higher gross profit [1] .
Another reason is that no additional storage space is required to store the goods [1] . This will reduce the business operating expenses and as a result earn a higher profit [1] .	Logismach brand provided extra 8 month warranty period [1] . This will provide greater assurance to Ka Sing Trading's customers the keyboards can be repaired or replaced if there are product defects [1] .
Finally, Raxer brand provided a higher product quality than Logismach's average quality build [1] . This will help the business to attract more customers looking for quality product which results in achieving higher sales revenue [1] .	Finally, Logismach brand provided customers with more choices of colours [1] . This will enable the business to attract more customers since it is better able to meet customers personal preferences [1] .
Alternative answer: Finally, Raxer brand provided customers with better choices of wired and wireless keyboard [1] . This will enable the business to attract more customers since it is better able to meet customers personal preferences [1] .	

[Total:20]