



**HILLGROVE SECONDARY SCHOOL
PRELIMINARY EXAMINATION 2022
SECONDARY FOUR (EXPRESS)
/ FIVE (NORMAL ACADEMIC)**

CANDIDATE NAME ()

CLASS -

CENTRE NUMBER S

INDEX NUMBER

PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

23 Aug 2022

No Additional Materials are required.

2 hours

11.40 AM to 1.40 PM

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.

Parent's/ Guardian's Signature: _____

For Examiner's Use	
	Marks
1	
2	
3	
4	
TOTAL	

Answer **all** questions.

- 1 The following balances were extracted from the books of Sedap Pte Ltd on 30 June 2022.

	\$
Sales revenue	900 000
Cost of sales	795 000
Sales returns	7 000
Office equipment	30 000
Motor vehicles	90 000
Accumulated depreciation:	
Office equipment	6 000
Motor vehicles	22 500
Cash at bank	10 800
Trade receivables	8 000
Allowance for impairment of trade receivables	400
Share capital. 10 000 ordinary shares	20 000
Retained earnings at 1 July 2021	50 450
Service fee income	10 800
Discount received	100
Discount allowed	200
Rent	35 000
Utilities	4 900
Wages and salaries	38 500
2% Loan from GT Bank	24 000
Interest	50
Inventory	14 800

Additional information

- Office equipment is to be depreciated at 10% per annum using the straight-line method.
- Motor vehicles are to be depreciated at 25% per annum using the reducing-balance method.
- Annual service fee income earned for the year ended 30 June 2022 was \$12 000.
- Included in rent was \$9 000 paid for 3 months ending 31 August 2022.
- It was estimated that the business may not be able to collect payment from 3% of its credit customers.
- Loan of \$24 000 was taken up on 1 April 2022. The loan is repayable over 6 years on every 31 March, starting 31 March 2023. Interest is charged at 2% per annum and part of it was still outstanding as at 30 June 2022.

- 7 Dividends of \$0.10 per share were declared on 25 June 2022. The dividends will be paid on 3 July 2022.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 30 June 2022. [9]

- (b) Prepare the statement of financial position as at 30 June 2022. [11]

[Total: 20]

- 2 Durian Queen is a business that buys durian from Malaysia and sells them to customers in Singapore in vacuum-sealed boxes.

Recently, Durian Queen paid the following amounts relating to a batch of durians.

	\$
Purchase price of durians	7 000
Freight	100
Custom duties	490
Packaging materials (e.g. vacuum sealer rolls and boxes)	200
Salary of part-time workers hired to pack the durians into boxes	900
Salary of sales promoter hired to promote the durians	1 000

REQUIRED

- (a) Calculate the cost of purchase for this batch of durian. [1]

Durian Queen also buys and sells whole durians. On 1 January 2022, there were 20 durians costing \$480 in Durian Queen's shop. The following transactions took place during the month of January 2022.

January	
5	Bought 20 durians at \$500 on credit from Fruits King.
10	Sold 20 durians on credit at \$900 to Grand Hotel
15	Paid \$500 by cheque to Fruits King.

REQUIRED

- (b) Prepare Durian Queen's inventory account for the month ended 31 January 2022. [4]

A fire broke out on 31 March 2022 and destroyed durians costing \$1 000. On the same day, Durian Queen submitted insurance claim and was informed that it would receive compensation for 25% of the destroyed durians on 30 April 2022.

REQUIRED

- (c) Prepare journal entries on 31 March 2022 in the books of Durian Queen. Narrations are **not** required. [3]

As at 30 April 2022, there were Gao Shan Wang variety of durians costing \$700 in Durian Queen's shop. However, this variety of durians was no longer popular with customers and Durian Queen estimated that the net realisable value of these durians was \$200.

REQUIRED

(d) Using an accounting theory, explain the valuation method of inventory on statement of financial position. [3]

(e) State **two** accounts that can be found on statement of financial performance of **all** trading businesses. [1]

[Total: 12]

3 The following were extracted from the books of Mugum's business.

Drawings				
Date	Particulars	Dr (\$)	Cr (\$)	Bal (\$)
2020				
Nov 21	Inventory	100		100 Dr
2021				
Oct 10	Cash in hand	140		240 Dr

Capital				
Date	Particulars	Dr (\$)	Cr (\$)	Bal (\$)
2020				
Nov 1	Bal b/d			50 500 Cr
Dec 12	Cash at bank		7 000	
2021				
Oct 31	Income summary	3 000		

REQUIRED

(a) Define 'equity'. [1]

(b) Interpret the entry on 12 December 2020 in the capital account. [1]

(c) Interpret the entry on 31 October 2021 in the capital account. [1]

(d) Prepare journal entry for the transfer of drawings to the capital account for the year ended 31 October 2021. [2]

The following information relates to Mugum's business at 31 October 2019, 2020 and 2021.

	2019	2020	2021
	\$	\$	\$
Non-current assets at net book value	50 000	70 000	180 000
<u>Current assets</u>			
Inventory	10 000	22 000	98 720
Trade receivables	27 000	30 000	40 000
Cash at bank	20 000	17 000	-
Total current assets	57 000	69 000	138 720
<u>Current liabilities</u>			
Bank overdraft	-	-	9 000
Trade payables	18 000	21 000	27 000
Expenses payable	100	200	300
Current portion of long-term borrowings	-	-	5 000
Total current liabilities	18 100	21 200	41 300
Working capital	\$38 900	\$47 800	?
Current ratio	3.15	3.25	?
Quick ratio	2.60	2.22	?

REQUIRED

(e) Define 'liquidity'.

[1]

(f) Calculate the following for Mugum's business as at 31 October 2021. Show **all** workings.

- (i) Working capital
- (ii) Current ratio (to **two** decimal places)
- (iii) Quick ratio (to **two** decimal places)

[3]

(g) Evaluate the trend in liquidity of the business over the three years ended 31 October 2019, 2020 and 2021.

[8]

[Total: 17]

- 4 Isaac is thinking of starting a business and has asked you for help in understanding the following accounting theories.

REQUIRED

- (a) Explain the going concern theory. [1]
- (b) Explain the revenue recognition theory. [1]
- (c) Explain the materiality theory. [1]

Isaac is aware that there are 3 legal forms of business ownership.

REQUIRED

- (d) Explain the difference in transferability of ownership between sole proprietorship and limited liability partnership. [1]

Isaac is considering setting up an Art enrichment centre that provides Art lessons and is seeking advice on which legal form of business he should choose.

Isaac was working as an Art teacher in a primary school for the last 30 years. Although he is an accomplished Art teacher, he has no idea about accounting, marketing and human resource management. Nonetheless, Isaac has cousins who are experts in these areas of business and may be keen to set up the business together with him.

Isaac would like total control over what type of Art lessons are conducted and how the Art lessons are conducted. He is prepared to invest \$20 000. However, he is aware setting up an Art enrichment centre requires a lot more funds than that. It is Isaac's dream to set up centres all over the country and not only one centre. Nonetheless, as Isaac has elderly parents whom he needs to support financially, he does not wish to pay for debts or losses of the business using his personal assets.

Isaac has two children whom he hopes can operate the business together with him when they are ready.

REQUIRED

- (e) Advise Isaac on whether limited liability partnership or private limited company will be a more suitable form of business for him. [7]

[Total: 11]