


Class	Register Number	Name
-------	-----------------	------



**Bukit Batok Secondary School**

**Bukit Batok Secondary School**

**GCE 'O' Level Preliminary Examination 2023**

**Secondary 5 Normal Academic**

**PRINCIPLES OF ACCOUNTS**

Paper 2

Additional Materials: Writing paper (6 sheets)

**7087/02**

25 August 2023, Friday

0820 - 1020

2 hours

**READ THESE INSTRUCTIONS FIRST**

Write your name, register number and class on all the work you hand in.

Write in dark blue or black pen on both sides of the paper.

You may use a pencil for any rough working.

All calculations must be shown adjacent to the answer.

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

The use of an approved calculator is allowed.

Answer all questions.

Start each question on a separate page.

Where the columnar format is used, the running balance column should be updated for the first and last entries. Where applicable, the balance should be brought down to the next financial year.

The businesses described in this question paper are fictitious.

You are reminded of the need for clear presentation in your answers.

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.

**HOM: Strive for accuracy and precision**

**For Examiner's Use**

This document consists of 7 printed pages and 1 blank page.

## Answer all questions

- 1 The following balances were extracted from the books of Jackman Trading on 30 November 2022.

	\$
Fixtures and fittings at cost	225,000
Office equipment at cost	248,000
Accumulated depreciation	
Fixtures and fittings	101,250
Office equipment	49,600
Sales revenue	229,740
Sales returns	11,487
Cost of sales	80,409
Inventory	33,950
Marketing income	17,620
Wages and salaries	45,280
Rent expense	8,765
Interest on loan	265
Administrative expense	12,450
Trade receivables	45,950
Allowance for impairment of trade receivables	1,160
Cash at bank	7,850
Trade payables	16,975
2% Bank loan repayable 2030	200,000
Capital	98,811
Drawings	11,450

**Additional information**

- 1 Fixtures and fittings are to be depreciated at 15% per annum on cost.
- 2 Office equipment is to be depreciated at 20% per annum on net book value.
- 3 At 30 November 2022:
  - i Wages and salaries were paid for 15 months up to 28 February 2023.
  - ii Marketing income \$460 had not been received.
  - iii Net realisable value of inventory was \$30500.
- 4 \$2000 cheque sales was wrongly credited to the cash at bank account.
- 5 A review of trade receivables showed 2% of the trade receivables are likely to become uncollectible.
- 6 Interest on the bank loan for the year to 30 November 2022 had not yet been fully paid.

**REQUIRED**

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

[Total: 20]

[Turn over

- 2 The following information has been provided for two businesses for the year ended 28 February 2023.

	Rob Mechanics	Bob Engineering
	\$	\$
Sales revenue	24 500	129 800
Sales returns	1 200	4 870
Cost of sales	14 500	58 230
Expenses	5 800	54 600
	%	%
Return on equity	14.91	18.22

#### REQUIRED

- (a) State **two** consequences a business might face due to declining profitability. [2]
- (b) Calculate to **two** decimal places for **each** business:
- (i) Gross profit margin [2]
- (ii) Profit margin [2]

Freddy is considering investing in **either** Rob Mechanics or Bob Engineering.

#### REQUIRED

- (c) Evaluate the profitability of Rob Mechanics **and** Bob Engineering for the year ended 28 February 2023 and recommend which business Freddy should invest in. [6]
- (d) Suggest **one** way in which Freddy could improve the profitability of the business he invests in. [1]

[Total: 13]



- 3 Chester Trading provided the following details from the cash at bank account of the business for the month of June 2023.

**Cash at bank**

Date 2023	Particulars	Debit \$	Credit \$	Balance \$
Jun 1	Balance b/d			16 180 Dr
4	Capital	3 000		19 180 Dr
5	Hammel (Cheque 0611)		1 470	17 710 Dr
14	Floyd (Cheque 0612)		1 130	16 580 Dr
17	Phoman (Cheque 0613)	1 022		17 602 Dr
21	Iceil (Cheque 0614)		900	16 702 Dr
28	Service fee revenue	4 560		21 262 Dr
Jul 1	Balance b/d			21 262 Dr

The business received the following bank statement on 1 July 2023.

**Bank statement**

Date 2022	Particulars	Withdrawal \$	Deposit \$	Balance \$
Jun 1	Balance b/d			15 580 Cr
2	Credit transfer - Cain Motors		2 300	17 880 Cr
3	Cheque 0517		600	18 480 Cr
6	Direct payment - Utilities	400		18 080 Cr
10	Cheque 0611	1 470		16 610 Cr
15	Cheque 0612	1 130		15 480 Cr
19	Cheque 0613		1 202	16 682 Cr
23	Cheque 0614	900		15 782 Cr
26	Dishonoured cheque (deposited 10 Jun)		1 470	17 252 Cr

**Additional information:**

The bank informed Chester that it recorded a wrong amount for cheque number 0613.

**REQUIRED**

- (a) Prepare the adjusted cash at bank account for the month of June 2023. [5]
- (b) Prepare the bank reconciliation statement as at 30 June 2023. [4]
- (c) Explain the purpose of internal controls in a business. [1]
- (d) State **one** internal control over cash, besides preparing a bank reconciliation. [1]

[Total: 11]

[Turn over]

- 4 Tom sells hiking equipment. All sales are made on credit. The standard credit terms are payment within 30 days.

On 1 April 2022 his business had a balance of \$6 430 in its allowance for impairment of trade receivables account.

### REQUIRED

- (a) Explain the accounting for allowance for impairment of trade receivables in relation to prudence theory. [1]

On 4 July 2022 Kazan Climbs, who owed \$5 300, ceased business. Kazan Climbs was able to pay 20 cents for every dollar owed to Tom's business. On the same day, Tom received a cheque and wrote off the remaining amount.

### REQUIRED

- (b) Prepare journal entries to write off the debt owed by Kazan Climbs. [3]

	31 March 2022	31 March 2023
Rate of trade receivables turnover	1.56 times	?
Net sales revenue		\$356 080
Trade receivables	?	\$148 300

Tom's business reviews its list of trade receivables at the end of every financial year and estimates that 5% of its trade receivables are likely to be uncollectible.

### REQUIRED

- (c) Calculate the rate of trade receivables turnover for the year ended 31 March 2023. Show your answers to two decimal places. [3]
- (d) Evaluate the management of trade receivables by Tom's business over the two years ended 31 March 2022 and 31 March 2023. [2]

Two existing customers, Nat Explorers and Trace Heights, have approached Tom to negotiate for a longer repayment period from their current credit terms of 30 days to 40 days. Tom intends to extend a longer repayment period to only one customer.

Tom gathered the following information about the two customers.

	Nat Explorers	Trace Heights
Nature of business	Tour agency that provides hiking tours locally and overseas.	An interest group that hosts a wide range of outdoor activities, primarily mountain climbing and hikes.
Annual sales revenue	\$52 600 One of Tom's major customers	\$8 900 Tom is the sole supplier of their equipment.
Average trade receivables balance	\$10 000	\$3 000
Repayment history over the past year	Within 38 days. Repaid late 3 times.	Within 32 days. Repaid late once.
Reputation of business	Successful business with online presence of 10 years.	Established in 1990. Target customers are middle to higher income.
Industry outlook	In the tourism industry, business is expected to pick up due to an influx of visitors into the country.	Increasing focus on physical and mental health encourages more individuals to try out mountaineering.

#### REQUIRED

- (e) Advise whether Tom's business should grant longer repayment period to Nat Explorers or Trace Heights. Justify your decision with **three** reasons. [7]

[Total: 16]

**END OF PAPER**

**HOM: Strive for accuracy and precision**

**BLANK PAGE**

**BLANK PAGE**