AHMAD IBRAHIM SECONDARY SCHOOL
GCE O-LEVEL PRELIMINARY EXAMINATION 2022

SECONDARY 4 EXPRESS & 5 NORMAL (ACADEMIC)

Name:	Class:	Register No.:

PRINCIPLES OF ACCOUNTS **7087 / 02**
Paper 2 **25 August 2022**
2 hours

Additional Materials: Writing paper

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.
You may use an HB pencil for any rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.
The use of an approved calculator is allowed.

Answer **all** questions.

The business described in this question paper are fictitious.
Start each question on a separate page.
All calculations must be shown adjacent to the answer.

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.

This paper consists of **6** printed pages.

[Turn over

Answer all questions.

1 The following balances were extracted from the books of Nice Brew Ltd on 31 December 2021.

	$
Fixtures and fittings at cost	42 000
Motor vehicles at cost	98 000
Accumulated depreciation:	
Fixtures and fittings	12 600
Motor vehicles	18 620
Sales revenue	368 000
Sales returns	10 050
Cost of sales	158 600
Wages and salaries	90 700
Insurance expense	11 160
Rent income	2 180
Trade receivables	32 900
Trade payables	27 900
Cash at bank	85 830
Allowance for impairment of trade receivables	4 900
Inventory	93 710
Share capital, 100 000 ordinary shares	100 000
Retained earnings,1 January 2021	11 000
5% Bank loan	80 000
Interest expense	2 250

Additional information

1) Insurance expense was paid for eighteen months up to 30 June 2022.
2) Rent income of $620 was earned but not yet collected.
3) A credit note of $1 340 received from a credit supplier had been omitted from the books.
4) Interest expense was not fully paid up yet.
5) One-fifth of the long-term loan is due for repayment on 30 June 2022.
6) Fixtures and fittings is depreciated at a rate of 15% per annum on cost.
   Motor vehicles are depreciated at a rate of 10% per annum on net book value.
7) A trade receivable who owed $1 600 was declared bankrupt. This has not been recorded in the books.
8) A review of the trade receivables indicated that 8% of the balance is likely to become uncollectible.
9) The company declared a dividend of $0.12 per share. The dividend will be paid on 10 January 2022.

REQUIRED

(a) Prepare the statement of financial performance for the year ended 31 December 2021. [7]

(b) Prepare the statement of financial position at 31 December 2021. [13]

[Total: 20]

2 Venus Ltd had the following ledger account balances on 1 April 2021.

	$
Motor vehicles at cost	140 000
Accumulated depreciation of motor vehicles	30 000

/

Additional information

1 Depreciation is provided at 10% per annum using the reducing balance method.
2 A full year depreciation is charged in the year of purchase but no depreciation is charged in the year of sale.
3 On 31 January 2022, two lorries were purchased on credit from Nice Cars Ltd for $50 000 each.
4 A van bought for $40 000 in 1 April 2019 was sold for $30 000 on 28 February 2022 on credit to Fast Deals Ltd.

REQUIRED

(a) Define depreciation. [1]

(b) Comment on the suitability of the depreciation method used for motor vehicles by Venus Ltd. [2]

(c) Prepare the motor vehicle account for the year ended 31 March 2022. [3]

(d) Calculate the gain or loss on sale of non-current asset. [2]

(e) Calculate the depreciation expense for the year ended 31 March 2022. [2]

(f) Prepare an extract of the statement of financial position as at 31 March 2022. [2]

(g) Explain with a relevant accounting concept, why business needs to charge depreciation. [2]

[Total: 14]

[Turn over

3 Mastercook is a trader in stoves. The following information was taken from the business books on 30 June 2021.

	Number of ovens (units)	$
Inventory, 1 July 2020	175	210 000

Additional information:

1 All purchases for resale are paid by cheque. A summary of the purchases is shown below:

2020	Quantity (units)	$
5 July	50	66 500
19 Oct	90	120 150
2021		
23 Jan	85	108 800
4 May	20	28 000

2 Mastercook uses the FIFO (First In First Out) method of inventory valuation.

3 On 13 April 2021, Mastercook sold 225 ovens on credit to Jin Cook for $310 000.

4 The market value of the inventory on 30 June 2021 was $250 000.

REQUIRED

(a) Explain, with an accounting concept, how inventory is valued. [2]

(b) Prepare the inventory account for the year ended 30 June 2021. [5]

(c) Calculate to **one** decimal place, Mastercook's inventory turnover rate for the year ended 30 June 2021. [2]

Just Stoves, a close competitor of Mastercook, has a rate of inventory turnover of 2.3 times for the same period.

REQUIRED

(d) Compare and comment on the rate of inventory turnover of both businesses and suggest **two** reasons for their differences. [3]

[Total: 12]

4 The financial year of Kane Trading's business ends on 31 December. On 31 December 2021, Kane Trading decided to create an allowance for impairment of trade receivables.

His trade receivables on 31 December were as follows:

	2020	2021
	$	$
Trade receivables	46 220	46 700

The business maintains an allowance for impairment of trade receivables at 5% of trade receivables at every financial year end.

Additional information

On 31 August 2021, a credit customer, Bounce Ltd announced its closure. Bounce Ltd paid $0.30 for every dollar of its outstanding debt of $1 500 and the remaining amount was written off.

REQUIRED

(a) Prepare the journal entries to record the transaction on 31 August 2021. Narrations are not required. [3]

(b) Prepare the journal entries to adjust the balance of the allowance for impairment of trade receivables for the year ended 31 December 2021. [2]

(c) State the effect on profit and current asset when no allowance for impairment of trade receivables is provided. [2]

[Turn over

Kane Trading is a wholesale business, which sells a wide range of health-related products and supplements. The following information is provided in regards to sales:

1 The business's terms of trade with customers are for payment in full within 30 days.

2 Cash discount of 5% if payment is received within 25 days.

3 All sales are made on credit.

William is a potential new customer.

The following information has been made available about William, who is based overseas.

1 William started a new popular business selling health supplements six months ago. As a successful business, he expects to double his sales revenue within one year.

2 William is expecting to open new retail shops in ABC country with an ageing population. ABC country's government has planned some incentives to encourage more elderly to keep fit and to take supplements to stay healthy.

3 William pays its suppliers on average within 40 days.

4 William can provide details of two current suppliers who are willing to give a reference as to his reliability and payment history.

REQUIRED

(d) Recommend if Kane Trading should agree to sell to William on credit. Justify your decision with three reasons. [7]

[Total: 14]

Setter: Ms Lynn Tay

End of paper

Ahmad Ibrahim Secondary School 2022 POA PRELIMS
Sec 4E5N P2 – Marking Scheme

(a) Nice Brew Limited
Statement of financial performance for the year ended 31 December 2021

	$		$	
Sales revenue	368 000			
Less: Sales returns	10 050			
Net sales revenue			357 950	
Less: Cost of sales			158 600	
Gross profit			199 350	**[1]**
Add: Other income				
Rent income (2 180 + 620)			2 800	**[1]**
Less: Expenses				
Wages and salaries	90 700			
Insurance [(11 160/18) x 12]	7 440	**[1]**		
Interest expense (2250 + 1750)	4 000	**[1]**		
Depreciation of equipment (15% x 42 000)	6 300	**[1]**		
Depreciation of motor vehicles [10% x (98 000 – 18 620)]	7 938	**[1]**		
Reversal of impairment loss on trade receivables				
{(4 900 – 1 600) – [8% x (32 900 – 1 600)]}	(796)	**[1]**		
			115 582	
Profit for the year			86 568	

[7]

(b) Nice Brew Limited
Statement of financial position as at 31 December 2021

Assets	$	$		$	
Non-current Assets	Cost	Accumulated Depreciation		Net book value	
Equipment	42 000	12600 + 6300 = 18 900		23 100	
Motor vehicles	98 000	18620 + 7938 = 26 558		71 442	
				94 542	**[1] OF**
Current Assets					
Trade receivables (32 900 – 1 600)	31 300		**[1]**		
Less: Allowance for impairment of trade receivables	2 504		**[1]**		
		28 796			
Inventory (93 710 – 1 340)		92 370	**[1]**		
Rent income receivable		620	**[1]**		
Prepaid insurance expense		3 720	**[1]**		
Cash at bank		85 830		211 336	
Total Assets				305 878	
Equity & Liabilities					
Shareholder's equity					
Share capital, 100 000 ordinary shares		100 000			
Retained earnings [11 000 + 86 568 **[1] OF** – (0.12x100 000)**[1]**]		85 568		185 568	
Non-current liabilities					
Long-term borrowings (4/5 x 80 000)				64 000	**[1]**
Current liabilities					
Trade payables (27 900 – 1 340)		26 560	**[1]**		

Current portion of long-term borrowings		16 000	**[1]**		
Dividends payable		12 000	**[1]**		
Interest expense payable		1 750	**[1]**	56 310	
Total equity & liabilities				305 878	

[13]
[Total: 20]

2a
Depreciation is the allocation of cost of a non-current asset over its estimated useful life. [1]

2b
It is suitable [1] as motor vehicles are more efficient in their earlier years and so more depreciation should be charged in their earlier years. [1]

2c

Motor vehicles account				
Date	Particulars	Dr	Cr	Balance
2021		$	$	$
Apr 1	Balance b/d			140 000 Dr [1]
2022				
Jan 31	Trade payable – Nice Cars Ltd	100/ 000		240 000 Dr [1]
	(50 000 x 2)			
Feb 28	Sale of non-current asset		40 000	200 000 Dr [1]
Apr 1	Balance b/d			200 000 Dr

2d
AD of MV to be sold = 10%x40 000 + 10% x (40000-4000) = $7600 [1]
NBV of MV to be sold = 40 000 – 7600 = $32 400

Loss ~~Gain~~ on sale of NCA = ~~32400 – 30000~~ = 30000 – 32400 = $2 400 [1]

2e
Depreciation expense = 10%x (200 000 – (30000-7600) [1]) = $17 760 [1]

2f

Venus Ltd
Statement of financial position as at 31 March 2022

Assets	$	$	$

Non-current assets	Cost	Accumulated dep	Net book value
Motor vehicles	200 000	40 160	159 840

2g
According to the prudence theory, business should not overstate assets and profits and understate liabilities and losses. [1] Thus, business need to charge depreciation expense so that the non-current assets are not overstated. [1]

OR

According to the matching theory, income earned must be matched to the expenses incurred in the same accounting period to calculate the correct profit. [1] Thus, business need to match depreciation expense of the non-current asset to the income earned by using the non-current asset. [1]

3a) Inventory is valued at lower of cost or net realisable value. [1]
Prudence concept requires all losses (whether realized or unrealized) to be recorded but unrealized gains are not recognized so as not to overstate profits
and assets. [1]

b)

Inventory Account

Date 2020	**Particulars**	**Debit $**	**Credit/ $**	**Balance $**		
1-Jul	Balance b/d			210 000	Dr	[1]
5-Jul	Cash at bank *	66 500		276 500	Dr	
19-Oct	Cash at bank *	120 150		396 650	Dr	
2021						
23-Jan	Cash at bank *	108 800		505 450	Dr	
13-Apr	Cost of sales [1]		276 500[1]	228 950	Dr	
4-May	Cash at bank *	28 000		256 950	Dr	
30-Jun	Impairment loss on inventory [1]		6 950	250 000	Dr	
1-Jul	Balance b/d			250 000	Dr	

*all 4 lines for 1 mark
Total: 5m

c) Inventory turnover rate = $\frac{\text{Cost of sales}}{\text{Average inventory}}$ = 276500/[(210000+250000)/2] [1]
= 1.2 times [1]

d) Just Stoves' inventory turnover rate of 2.3 times is higher and better than Mastercook's 1.2 times. [1]

- Just Stoves is able to move its inventory faster than Mastercook and is enjoying much higher sales than Mastercook. Thus it is likely that Just Stoves has higher cost of sales than Mastercook. [1]
- Just Stoves may also be more efficient in managing its inventory, thereby holding a lower average inventory than Mastercook. [1]

4(a)
Prepare journal entry to record the transaction on 31 August 2021. Narrations are not required.

Journal			
Date	Particulars	Debit ($)	Credit ($)
2021			
Aug 31	Cash at bank (0.30 X1 500) [1]	450	
	Trade receivables – Bounce Ltd		450
	Allowance for impairment of trade receivables (1 500 - 450) [1]	1 050	
	Trade receivables – Bounce Ltd [1]		1 050

(b) Adjusted allowance for impairment of trade receivables (after write off on 31 Aug 2021)
= 2 311 – 1 050 = 1 261

Allowance for impairment of trade receivables (31 Dec 2021)
= 5% X 46 700 = 2 335

Impairment of loss on trade receivables
= 2 335 – 1 261 = 1 074

General Journal			
Date	Particulars	Debit ($)	Credit ($)
2020			
Dec 31	Impairment loss on trade receivables	1 074	
	Allowance for impairment of trade receivables		1 074

1 mark for correct double entry, 1 mark for correct amount.

(c)

Profit for the year	Overstated [1]
Current asset	Overstated [1]

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4d)

Decision	Yes, Kane Trading should sell to William on credit.
Evidence 1	ABC Country is a country with ageing population. The country's government has planned some incentives to encourage more elderly to keep fit and take supplements to stay healthy.
Explanation 1	Hence, the elderly in the country might be encouraged by the government to buy more health supplements and hence increase the demand for William's products. William would be able to have enough cash to pay Kane Trading when his debts fall due.
Evidence 2	William is a new popular business and expects to double his sales revenue within one year.
Explanation 2	Given the popularity in the country, William would be able to continue to attract large volumes of sales and be better able to pay its debts.
Evidence 3	William can provide details of two current suppliers who are willing to give a reference as to his reliability and payment history.
Explanation 3	The two suppliers would be able to provide a good track record of William's payment history, hence Kane Trading could be more assured that William would be able to pay him back.

OR
k

Decision	No, Kane Trading should not sell to William on credit.
Evidence 1	William pays its suppliers on average within 40 days.
Explanation 1	This is 10 days longer than Kane Trading's terms on trade with customers of 30 days. Hence, Kane Trading might not be able to collect back cash in time from William, which might affect his business operations.
Evidence 2	William is a new business, which just started six months ago.
Explanation 2	William's business might not survive well as the country might have many competitors selling the same products as William as they are encouraging more elderly to take supplements. Hence, if William does not do well, he will not be able to pay Kane Trading.
Evidence 3	William's business is based overseas.
Explanation 3	This may mean possible delays in receiving payment, more risk due to currency exchange and possible language problems in the debt collection process.

Max 1 mark for decision. Justification based on max 3 reasons to a max of total 6 marks. For each reason 1 mark for stating the reason and an additional mark for developing it.