Candidate Name: _____ Class | Index No.

FUHUA SECONDARY SCHOOL

Secondary Four Express
Secondary Five Normal (Academic)

Preliminary Examination 2023

4E/5N

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PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

Additional Materials:
Foolscap paper (6 sheets)

DATE	**24 August 2023**
TIME	**0800 – 1000**
DURATION	**2 hours**

READ THESE INSTRUCTIONS FIRST

Write your class, index number and name on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
The use of an approved calculator is allowed.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** the questions.
The businesses described in this question paper are entirely fictitious.

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 SIGNATURE	FOR EXAMINER'S USE
	/ 60 marks

Setter: *Ms Esther Diana Lim You Qi* *Vetter:* *Mr Tan Boon Teck and Mr Sun Daojun*

This question paper consists of 7 printed pages and 1 blank page.

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Answer **all** questions.

1 The following information was available in Law Fairness' books on 31 December 2022.

	$
Office equipment	51 000
Fixtures & fittings	37 800
Accumulated depreciation of office equipment	10 200
Accumulated depreciation of fixtures & fittings	7 560
Capital	28 650
Trade receivables	4 560
Allowance for impairment of trade receivables	750
Trade payables	2 430
Cash at bank (overdraft)	500
Cash in hand	11 000
Legal fees revenue	105 323
Commission income	1 230
Interest expense	4 190
Rental expense	13 440
Salaries & wages	28 644
Bank loan	8 000
Discount allowed	6 520
Discount received	371
Drawings	7 860

Additional information on 31 December 2022:

1 Office equipment were depreciated using the reducing method at 25% per annum.

2 Fixtures & fittings were depreciated using the straight-line method at 10% per annum.

3 Trade receivables of $4 320 has yet to be recorded.

4 Interest expense payable was $1 200.

5 Allowance for impairment of trade receivables was provided at 10% of trade receivable.

6 Business recorded rental expense paid using cheque of $3 400 by debiting cash at bank and crediting rental expense.

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REQUIRED

(a) Prepare the statement of financial performance for the year ended 31 December 2022. [10]

(b) Prepare the statement of financial position as at 31 December 2022. [10]

[Total: 20]

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2 Kairos has the following information from his business.

	1 January 2020	31 December 2020
Salaries payable	$5 400	
Prepaid salaries		$1 500
Rental income receivable	$4 300	$3 890

A cheque of $45 000 was paid during the year for salaries expense and $53 000 was received by cash during the year for rental income.

REQUIRED

(a) Prepare the journal entry to record salaries payable on 1 January 2020. A narration **is** required. [3]

(b) Prepare the journal entry to record rental income receivable on 31 December 2020. A narration **is** required. [3]

(c) Prepare an extract of financial performance for the year ended 31 December 2020, showing income and expense only. [2]

(d) Explain the effects on profit for the year and equity if rental income was not adjusted at year end. [2]

(e) State the accounting theory that is applied by a business when recording income for the year. [2]

[Total: 12]

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3 Kira owns a clothing store. She provided the following information from her business.

Sale of non-current assets				
Date 2021		Debit $	Credit $	Balance $
May 31	Fixtures and fittings	10 000		10 000 DR
31	Accumulated depreciation of fixtures and fittings		5 000	5 000 DR
31	Other receivable – Sun		3 000	2 000 DR

REQUIRED

(a) Interpret the entries on May 31. [3]

(b) Prepare the journal entry to record the transfer of gain or loss on sale of non-current asset on 31 May 2021. A narration is **not** required. [2]

(c) Define 'depreciation'. [1]

(d) Explain, using an accounting theory, the presentation of non-current assets in the statement of financial position. [3]

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Kira wants to get a van as the business is starting to provide delivery services for the customers. She is considering between buying or renting.

The following information is available.

	Buy	Rent
Upfront payment	$100 000	Nil
Monthly instalment	$800 per month	$3 600 per month
Insurance	Business will have to find their own insurance company and choose the best quotation.	Covered and paid for by rental company.
Warranty	3 years	Not applicable
Other information	Modifications and designs can be done subject to additional cost borne by the business.	Customers are not allowed to paste business logo or make any adjustments to the exterior design of the car.
Contract period	Not applicable	12 months

(e) Advise Kira whether she should buy or rent a van. Justify your decision with **three** reasons. [7]

[Total: 16]

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4 Kate is a trader that specialises in electronic products. She primarily sells her inventory on credit.

(a) Explain the difference between liquidity and profitability. [2]

The following information was available in the month of July.

	$
Sales revenue	104 000
Cost of sales	45 600
Sales returns	10 700
Other expenses	23 000
Capital (1 January 2020)	56 000
Capital (31 December, 2020)	77 000

(b) Calculate the following profitability ratio.

(i) Gross profit margin
(ii) Profit margin
(iii) Return on Equity [3]

(c) State **two** ways which the business can improve its profitability ratio. [2]

An investor is deciding between investing in Kate or Spade's business.

The following information is available from Spade.

Profit margin	30.11%
Return on equity	28.91%

(d) Recommend which business should the investor invest in. [5]

[Total: 12]

END OF PAPER

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