Name : _____ Index Number : _____ Class: _____

O

Clementi Town Secondary School
Preliminary Examination 2024
Secondary 4 & 5

PRINCIPLES OF ACCOUNTS
Paper 1

7087/01
11 September 2024
1 hour

Candidates answer on the Question Paper.
No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

Do not open the booklet until you are told to do so.
Write your name, index number and class on all the work you hand in.
Write in dark blue or black pen.
The use of an approved calculator is allowed.
Do not use staples, paper clips, glue, or correction fluid.

Answer **all** questions.

The businesses described in this question paper are entirely fictitious.

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 **40**.

For Examiner's Use
40

This question paper consists of **11** printed pages including this cover page, and **5** blank pages.

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1 Rachel started a new business selling electronic products.
She purchased supplies on credit from Harly Norman Wholesale Electrical.

The following transactions took place during the month of June 2024.

6 June Rachel purchased electrical goods, list price $3 000 and received a trade discount of 10%.

9 June Rachel returned some damaged electrical goods, list price $600 bought on 6 June, to Harly Norman Wholesale Electrical.

15 June Rachel paid $1 836 by cheque, as full settlement for the amount owing.

REQUIRED

(a) State the type of business Rachel had started.

.....

..... [1]

(b) Complete the following table to name the source document that Rachel would use to record each of the transactions on the following dates.

	Source document
6 June	
9 June	
15 June	

[3]

(c) State the purpose of a trade discount.

.....

..... [1]

(d) Calculate the percentage of the cash discount on 15 June 2024.

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..... [2]

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On 20 June 2024, Rachel received a call from Harly Norman Wholesale Electrical, informing her that the cheque of $1 836 has been dishonoured.

REQUIRED

(e) State **two** reasons why a cheque may be dishonoured.

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.....

.....

..... [2]

[Total: 9]

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2 John runs a business provides plumbing services. The business has a financial year end of 30 June 2024.

The plumbing fee income received during the year was $86 400.

John provided plumbing services, which amounted to $1 760, which had not been received by the business at the end of the financial year.

REQUIRED

(a) Name and explain the accounting theory applied when accounting for the provision of services.

Name: .....

Explanation: .....

.....

..... [2]

(b) State the double entry required to record the transfer of the plumbing fee income to the income summary for the year ended 30 June 2024.

Narration is **not** required.

Journal

Date 2024		Debit $	Credit $
Jun 30			

[2]

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(c) Prepare an extract of the statement of financial position as at 30 June 2024 to show the $1 760 of plumbing fees income that had not been received.

Extract of Statement of Financial Position as at 30 June 2024

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.....[2]

John also provided the following ledger account.

Rent expense account

Date	Particulars	Debit	Credit	Balance	
2023		$	$	$	
Jul 1	Rent expense payable		3000	3000	Cr
2024					
Mar 23	Cash at bank	23 000		20 000	Dr
Jun 30	Rent expense payable	5 000		25 000	Dr

REQUIRED

(d) Interpret the entries in the rent expense account on:

(i) 1 July 2023 .....

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..... [1]

(ii) 23 March 2024 .....

.....

..... [1]

(iii) 30 June 2024 .....

.....

..... [1]

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(e) Analyse the effect of **not** making an adjustment for rent expense payable on 30 June 2024 on:

(i) Profit for the year

.....

..... [1]

(ii) Statement of financial position

.....

..... [1]

[Total: 11]

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3 Sofia runs a business selling flowers. The business has a financial year end of 31 July. The following balances were extracted from the books of the business as at 31 July 2024.

	$
Inventory	14 200
Trade receivables	25 000
Allowance for impairment of trade receivables	1 700
Office equipment	5 000
Cash at bank	800
Prepaid rent	1 500
Trade payables	2 300
Wages payable	9 100
Bank loan	30 000
Current portion of long term borrowings	10 000

REQUIRED

(a) Calculate the following for the year ended 31 July 2024. Show your answers to **two** decimal places.

(i) Current ratio

.....

..... [2]

(ii) Quick ratio

.....

..... [2]

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Sofia has provided the following information about her business for the two years ended 31 July 2022 and 31 July 2023.

	31 July 2022	31 July 2023
Current ratio	2.13	1.92
Quick ratio	0.72	0.98

(b) Evaluate the change in liquidity of Sofia's business between 31 July 2022 to 31 July 2024.

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..... [5]

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(c) Explain **two** ways in which Sofia could further improve the liquidity of the business.

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..... [2]

[Total: 11]

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4 Kathy is a sole proprietor. Her business has a financial year end of 31 December. The business provided the following information at 1 January 2023.

	$
Office equipment	16 400
Cash at bank	9 700
Trade receivables	20 800
Trade payables	7 900
Inventory	13 400
Bank loan	17 000
Capital	?

On 4 June 2023, Kathy contributed a motor van, costing $16 000, to the business.

On 17 August 2023, Kathy withdrew inventory, costing $800, for her personal use.

On 30 September 2023, Kathy withdrew $400 from the business bank account for her personal use,

The loss for the year ended 31 December 2023 was $8 500.

REQUIRED

(a) Explain the extent of the risk as a sole proprietor.

.....

.....

..... [1]

(b) State **one** other form of business ownership.

.....

..... [1]

(c) Name **one** type of stakeholder who would be interested in the accounting information of a business.

.....

..... [1]

(d) Name the accounting theory which is applied when the business is assumed to operate indefinitely.

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..... [1]

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(e) Define 'equity'.

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..... [1]

(f) Calculate Kathy's capital as at 1 January 2023.

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..... [1]

(g) Prepare the capital account in the books of Kathy for the year ended 31 December 2023.

Capital account

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..... [3]

[Total: 9]

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Name : _____ Index Number : _____ Class: _____

Clementi Town Secondary School
Preliminary Examination 2024
Secondary 4 & 5

PRINCIPLES OF ACCOUNTS
Paper 2
INSERT

7087/02
11 September 2024
2 hours

CLEMENTI TOWN SECONDARY SCHOOL CLEMENTI TOWN SECONDARY SCHOOL CLEMENTI TOWN SECONDARY SCHOOL CLEMENTI TOWN SECONDARY SCHOOL
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READ THESE INSTRUCTIONS FIRST

This insert contains the data for Question 1.

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Data for Question 1 : Clementi Town 2024 Paper 2 (Insert)

Ping runs a consultancy business, Ping Consultancy Services Pte Limited. The following balances were extracted from the books of his business on 31 December 2023.

	$
Fixtures and fittings	90 000
Office equipment	22 000
Accumulated depreciation	
Fixtures and fittings	35 000
Office equipment	8 000
Consultancy fee revenue	115 000
Rental expense	36 000
Utilities expense	23 600
Wages and salaries	27 000
Trade receivables	22 500
Allowance for impairment of trade receivables	2 200
Trade payables	5 900
Cash at bank (debit balance)	7 400
Share capital, 120 000 ordinary shares	30 000
Retained earnings, 1 January 2023	17 700
Advertising income	4 700
6% bank loan	10 000

Additional information

1 Fixtures and fittings are depreciated using the using the straight-line method. The fixtures and fitting have a scrap value of $20 000 and an estimated useful life of 10 years.

2 Office equipment is to be depreciated at 15% per annum using the reducing-balance method.

3 Utilities expense, $600, was prepaid and wages and salaries, $2 000 were owing.

4 Consultancy fee revenue, $8 200, had been received in advance.

5 The allowance for impairment of trade receivables is to be maintained at 5% of the trade receivables.

6 The bank loan was obtained on 1 April 2023. Interest on the bank loan for the year to 31 December 2023 had not yet been paid.

7 The company declared a dividend of $0.03 per share. This will be paid on 4 January 2024.

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Name : _____ Index Number : _____ Class: _____

O

Clementi Town Secondary School
Preliminary Examination 2024
Secondary 4 & 5

PRINCIPLES OF ACCOUNTS
Paper 2

7087/02
11 September 2024
2 hours

Candidates answer on the Question Paper.
Additional Materials: Insert

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Answer **all** questions.

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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**.

For Examiner's Use
60

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Answer **all** questions.

1 Refer to the Insert for data for Question 1.

REQUIRED

(a) Prepare the statement of financial performance for the year ended 31 December 2024.

Ping Consultancy Services Pte Limited
Statement of Financial Performance for the year ended 31 December 2024

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[9]

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(b) Prepare the statement of financial position as at 31 December 2024.

Ping Consultancy Services Pte Limited
Statement of Financial Position as at 31 December 2024

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[11]

[Total: 20]

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2 Lisa runs a logistic business with a financial year end of 31 December 2023.
The following balances were taken from the books, on 1 January 2023.

	$
Motor vehicles	72 000
Accumulated depreciation of motor vehicles	34 000

The business depreciates motor vehicles using the reducing balance method at 10% per annum.

On 1 October 2023, the business sold one of its motor vehicles for $4 600 by cheque.

The motor vehicle was bought on 1 January 2021, costs $8 000.

The business does **not** charge depreciation in the year of the sale.

REQUIRED

(a) State **two** causes of depreciation.

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[2]

(b) State **two** sources of **non**-accounting information that the business might use when deciding which non-current asset to buy.

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[2]

(c) Name and explain the accounting theory applied by the business when charging depreciation expense.

Name
.....

Explanation
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[2]

(d) Calculate the gain or loss on the sale of motor vehicle on 1 October 2023.

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[2]

(e) Calculate the depreciation expense on the motor vehicle for the year ended 31 December 2023.

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[2]

During the year, Lisa extended her shop premises at a cost of $26 700. She had included the total cost in the business's statement of financial performance.

REQUIRED

(f) State **one** difference between capital and revenue expenditure.

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[2]

(g) Analyse the effect and amount of including the cost of the shop extension in the statement of financial performance on the following:

(i) Profit for the year

.....

..... [1]

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(ii) Non-current asset

.....

..... [1]

[Total: 14]

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3 Leon runs a business selling children's clothes.

He provided the following information about his business for the two years ended 30 April 2023 and 2024.

	30 April 2023	30 April 2024
	$	$
Cost of sales	120 000	109 000
Ending inventory	42 500	47 400

REQUIRED

(a) Calculate the rate of inventory turnover for the year ended 30 April 2024. Show your answer to **two** decimal places.

.....

.....

.....

..... [2]

Leon also provided information about his competitor, Kid's World for the year ended 30 April 2024

	Kid's World
Rate of inventory turnover	3.71 times

REQUIRED

(b) Evaluate the efficiency in inventory management for Leon and his competitor, Kid's World.

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..... [4]

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(c) Explain **one** way in which Leon could improve its efficiency in managing inventory.

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..... [2]

When preparing the business financial statements for the month ended 31 May 2024, Leon discovered the following errors.

1 Cheque payment for salaries, $1 680 had been recorded as $1 860.

2 Interest income, $700, received in cash had been credited to cash in hand account and debited to interest income account.

3 Telephone bills for Leon's personal mobile subscription, $230, had been recorded as telephone expenses of the business.

4 The cost of sales of $4 700 was omitted. The sales revenue was correctly recorded in the business books.

REQUIRED

(d) Prepare the journal entry to correct errors 1 and 2. A narration is **not** required.

Error 1

	Debit $	Credit $

[2]

Error 2

	Debit $	Credit $

[2]

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(e) Complete the following table to show the effect of errors 3 and 4 on the profit **before** correction. If there is no effect, place a tick (✓) in the No effect column.

When there is an effect on the profit before the correction, indicate the amount by which the profit is overstated or understated.

	Overstated $	Understated $	No effect
Error 3			
Error 4			

[2]

[Total: 14]

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4 Kalina runs a trading business buying and selling milk powder.

She uses the First-In-First-Out (FIFO) method to record her inventory.

On 1 May 2024, the inventory showed a balance of $3 600 for 90 cans of milk powder. All purchases and sales are on credit.

The purchases in May are shown below:

2024	Quantity purchased (cans)	Total cost of inventory purchased ($)
May 4	125	6 000
8	155	7 000
17	80	3 500
19	70	2 900
25	50	2 000

On 18 May 2024, 370 cans of baby milk powder were sold at $21 000.

REQUIRED

(a) Explain why businesses keep inventories.

.....

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..... [1]

(b) State the double entry to record the credit purchases of inventory.

Account to be debited	Account to be credited

[2]

(c) Calculate the cost of sales for the transaction on 18 May 2024.

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..... [2]

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As part of her efforts to expand the range of milk powder, Kalina has provided the following information about the brands she is considering.

	B Strong	HS Energy
Cost per unit	$25	$30
Gross profit margin	30%	50%
Day sales in inventory	12.3 days	14.9 days
Nature of product	• Contain A2 protein for easy digestion. • Available in vanilla and strawberry flavours.	• Contain DHA known to support brain and eye development. • Available in one flavour only.
Storage	Use contents within 45 days of opening.	Use contents within 21 days of opening.

Kalina also discovered the following customer preferences in her research:

1. There is a strong demand for milk that is easier for babies and toddlers to digest.
2. Additionally, there is a growing demand for milk powder with a shorter expiry date as this indicates freshness of the milk powder.
3. Customers are also seeking milk powder that can aid in developmental growth.

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REQUIRED

(d) Recommend whether Kalina should buy B Strong or HS Energy. Justify your decision with **three** reasons.

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[Total: 12]

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Additional page

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CTSS 2024 4E5N Prelim

Paper 1 Suggested Solutions

Question 1

a) Trading business ✓

b)

	Source document
6 June	Invoice ✓
9 June	Credit note ✓
15 June	Receipt/ remittance advice/ payment voucher ✓

c) The purpose of a trade discount is to encourage (Any one of the following ✓):

- Customer to buy in bulk
- Customer's patronage
- Customer's loyalty

d)

Amount owing = (3000 – 600) x 90% = 2160 ✓

Percentage of discount received
= 2160 – 1836)/ 2160 x 100% = 15% (For correct answer ✓)

e) Any two of the following ✓✓:

- Payer's bank account has **insufficient funds** / is closed / is **frozen**
- Cheque has **expired**
- Cheque is **post-dated**
- **Incomplete** information on the cheque (missing date / signature / amount paid)
- **Inconsistent** information on the cheque (amount written in figures does not match amount written in words)

[Total: 9]

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Question 2

(a) Revenue recognition theory. ✓

Revenue is earned when goods have been delivered or services have been provided. ✓

(b)

Journal

Date 2024		Debit $	Credit $
Jun 30	Plumbing fee income (86400+1760)	88 160 ✓	
	Income summary		88 160 ✓

(c)

Extract of Statement of Financial Position as at 30 June 2024

	$
Current asset ✓	
Plumbing fee income receivable	1 760✓

(d)

(i) 1 July 2023

Rent expense payable of $3 000 was **still owing from the previous financial year** ending 30 June 2023 to **be paid in this financial year** ✓.

(ii) 23 March 2024

There is a **cheque payment** ✓ of $23 000 for rent expense.

(iii) 30 June 2024

Rent expense of $5 000 **incurred but not yet paid** ✓for the current financial year ending 30 Jun 2024.

(e)

(i) Profit for the year will be **overstated by $5000**. ✓

(ii) The **current liabilities** will be **understated by $5000**. ✓

[Total: 11]

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Question 3

(ai) CA = 14200 +25000 -1700 +800 +1500 = $39800
CL = 2300 +9100 +10000= $21400

Current ratio
= current assets / current liabilities ✔
= 39800 / 21400
= 1.86 ✔

(aii) Quick ratio
= current assets – inventory – prepayments / current liabilities ✔
= 39800 – 14200 – 1500/ 21400
= 1.13 ✔

(b)

P
The current ratio has worsened from the three years from 2.13 in 2022 to 1.92 in 2023 to 1.86 in 2024. ✔

E
This is below the general benchmark of 2 in 2024, which suggest that the business have insufficient current assets to pay for its immediate debts in 2024. ✔

P
However, the quick ratio of the business has improved over the three years from 0.72 in 2022 to 0.98 in 2023 to 1.13 in 2024. ✔

E
This is above the bench of 1 in 2024, which suggest that the business is has sufficient quick assets to pay for its immediate debts in 2024. ✔

L
In conclusion, the liquidity of the business has improved from 31 July 2022 to 31 July 2024. ✔

(c) Sofia could:
1) Increase sources of cash by obtaining cash contribution from owner or shareholders/ obtain a long-term loan/ sell excess non-current assets for cash. ✔

2) Manage cash outflow by reducing operating expenses/ Negotiating for better credit terms from supplier. ✔

[Total: 11]

Question 4

(a) When the sole proprietor, incurred debts and losses incurred, the sole owner is obliged to pay them using his personal assets. ✔

(b) Any one of the following ✔

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- Limited liability partnership
- Private limited company

(c) Any one of the following ✔

- Shareholders
- Managers
- Employees
- Lenders
- Suppliers
- Customers
- Government
- Competitors

(d) Going concern theory ✔

(e) Equity is the claim by the owner on the net assets of the business. ✔

(f) Capital = (16400+ 9700 + 20800 + 13400) – (7900+17000) = 35400 ✔

(g)

Capital				
Date	Particulars	Dr ($)	Cr ($)	Bal ($)
2023				
Jan 1	Bal b/d			35400 CR
Jun 4	**Motor vehicle**		**16000** ✔	51400 CR
Dec 31	**Drawing**	**1200** ✔		50200 CR
Dec 31	**Income summary**	**8 500** ✔		41700 CR
2024				
Jan 1	Bal b/d			41700 CR

[Total: 9]

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CTSS 2024 4E5N Prelim

Paper 2 Suggested Solutions

Question 1

(a)

Ping Consultancy Services Pte Limited
Statement of financial performance for year ended 31 December 2023

	$	$	
Consultancy fee revenue (-8200)		106 800	✓
Other income			
Advertising income		4 700	✓
Less: Other expenses			
Rental expense	36 000		✓
Utilities expense (-600)	23 000		✓
Wages and salaries (+2000)	29 000		✓
Depreciation of fixtures and fittings [(90 000 – 20 000)/10]	7 000		✓
Depreciation of office equipment [15% x (22 000 – 8 000)]	2 100		✓
Reversal of impairment loss on trade receivables [5% x (22 500 -0) – 2 200]	(1 075)		✓
Interest expense (9/12 x 6% x 10000)	450	96 475	✓
Profit for the year		15 025	

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(b)

Ping Consultancy Services Pte Limited
Statement of financial position as at 31 December 2023

Assets	Cost	Acc Dep	NBV	
Non-current assets	$	$	$	
Fixture and fittings	90 000	(42 000)	48 000	✓
Office equipment	22 000	(10 100)	11 900	✓
			59 900	
Current assets				
Trade receivables	22 500			
Less: allowance for impairment of trade receivables	(1 125)	21 375		✓
Prepaid utilities		600		✓
Cash at bank		7 400	29 375	
Total assets			89 275	
Equity and liabilities				
Shareholder's equity				
Issued share capital, 120 000 ordinary shares		30 000		
Retained earnings (17 700+15 025 OF ✓– 3 600✓)		29 425	59 425	
Non-current Liabilities				
Long term borrowings			10 000	✓
Current Liabilities				
Trade payables		5 900		
Consultancy fee received in advance		8 200		✓
Wages and salaries payable		2 000		✓
Dividends payables (120 000 x 0.03)		3 600		✓
Interest payable		450	19 850	✓
Total equity and liabilities			89 275	

[Total: 20]

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Question 2

(a) Any two of the following: ✓✓

- Usage
- Wear and tear
- Obsolescence
- Legal limits

(b) Any two of the following: ✓✓

- Purpose of non-current asset
- Features of non-current asset
- Customer's review
- Warranty

(c) Matching Theory ✓
In line with the matching theory, a portion of the original cost of the non-current asset is recorded as depreciation expense, so as to match against the income earned in the same financial period to determine the profit for the period. ✓

(d) Depreciation for first year = 10% x (8000 – 0) = 800
Depreciation for second year = 10% x (8000 – 800) = 720
Total depreciation = 800 + 720 = 1520 ✓
Loss on sale of motor vehicle = 4600 – (8000 – 1520) = - 1880 ✓

(e) Depreciation expense = 10% x [(72000 – 8000) – (34000 – 1520)] ✓ = 3152 ✓

(f) Any one of the following: ✓

	Capital expenditure	**Revenue expenditure**
Definition	Expenditure incurred to increase earning capacity of the business	Expenditure incurred to maintain productive life of non-current assets
Consists of	• Costs to buy and bring the non-current assets to their **intended use** • Costs to **enhance** the non-current assets	• Costs to **operate, repair and maintain** the non-current assets in working condition
Benefits	Provides benefits for **more than a year**	Provides benefits which will be **used within one year**
Recorded as	**Non-current assets** in the Statement of Financial Position	**Expense** in the Statement of Financial Performance

(g)
(i) The profit will be understated by $26700 ✓
(ii) The non-current asset will be understated by $26700 ✓

[Total: 14]

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Question 3

(a) Rate of inventory turnover
= cost of sales / average inventory ✓
= 109000 / (42500 + 47400)/2
= 2.42 times ✓

(b)
P
Leon's rate of inventory turnover of 2.42 times is worse than Kid's World of 3.71 times. ✓
E
This will imply that Leon is selling the clothes slower than Kid's World. ✓

E
Leon is also more likely to incur excessive storage costs and inventory obsolescence. ✓
L
In conclusion, Leon is managing his inventory less efficiently.✓

(c) Any one of the following: ✓✓
- Reduce selling price for slow moving goods.
- Provide trade discounts to encourage customers to buy in bulk and regularly.
- Attract more customers through marketing campaigns.
- Use technological tools to implement inventory monitoring system to replace inventory on a timely basis and accurately predict customer demand.

(d) Error 1

	Debit $	Credit $
Cash at bank	180 ✓	
Salaries		180 ✓

Error 2

	Debit $	Credit $
Cash in hand	1400✓	
Interest income		1400 ✓

(e)

	Overstated $	Understated $	No effect
Error 3		270 ✓	
Error 4	4700 ✓		

[Total: 14]

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Question 4

(a) A business buys sufficient inventory to keep on hand **to prevent at stock-out situation**✓, which often results in a loss of sales.

(b)

Account to be debited	Account to be credited
Inventory ✓	Trade payables ✓

(c) Cost of sales = \$3600 + \$6000 + \$7000 (✓for any 2) = \$16600 ✓
(90) (125) (155)

(d)

Decision	Kalina should buy B Strong. ✓
Basic statement	The cost per tin is \$25. This is cheaper than HS Energy, which cost \$30. ✓
Development	The cost savings can be used for other business expenses or business operations. ✓
Basic statement	The days sales in inventory turnover at 12.3 days is better than that of HS Energy at 14.9 days. ✓
Development	This means that B Strong is popular and is selling faster than HS Energy allowing Kalina to have potential increase in sales.✓
Basic statement	B Strong contains A2 protein that can help babies to digest easily. ✓
Development	As customers are looking for milk powder that helps with babies digestion, this will suggest that B Strong will have a strong demand and is likely to enjoy strong sales.

1 decision + any 3 pairs of basic statement & development points for 7 marks.

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Alternative:

Decision	Kalina should buy HS Energy. ✓
Basic statement	HS Energy's gross profit margin at 50% which is higher than B Strong's at 30%. ✓
Development	The higher gross profit margin will mean that Kalina is making more gross profit for every dollar of net sales revenue. ✓ OR This suggests that Kalina can charge a higher selling price for the HS Energy as the customers are willing to pay for the higher price. ✓
Basic statement	HS Energy must be consumed within 21 days after the container is opened compared with 45 days for B Strong.✓
Development	As the customers prefer milk powder with a shorter expiry date, this will mean that HS Energy will be a better choice which will translate to higher sales.✓
Basic statement	HS Energy contains DHA that helps brain and eye development.
Development	As customers are looking for milk powder that helps with growth development, this will suggest that HS Energy will have a strong demand and is likely to enjoy strong sales.

1 decision + any 3 pairs of basic statement & development points for 7 marks.

[Total: 12]

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