Name : _____ Index Number : _____ Class: _____

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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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READ THESE INSTRUCTIONS FIRST

Do not open the booklet until you are told to do so.
Write your name, index number and class in 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 **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
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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

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…….. [1]

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(ii) Non-current asset

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…….. [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.

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

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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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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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