Name of Candidate: …… ( ) Class: ……

BUKIT PANJANG GOVERNMENT HIGH SCHOOL

PRELIMINARY EXAMINATION 2024

SECONDARY 5

GCE 'O' LEVEL SYLLABUS

PRINCIPLES OF ACCOUNTS **7087/02**

Paper 2

21 August, 2024
2 hours
0750 h – 0950 h

Candidates answer on the Question Paper

Additional Materials: Insert

READ THESE INSTRUCTIONS FIRST

Do not turn over the cover page until you are told to do so.
Write in dark blue or black pen on both sides of the paper.
You may use an HB pencil for any diagrams or graphs.
Do not use staples, paper chips, glue or correction fluid.
The use of an approved calculator is allowed.

Answer **all** the 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.

MARKING SCHEME

FOR EXAMINER'S USE	
Question 1	/ 20
Question 2	/ 21
Question 3	/ 8
Question 4	/ 11
Total:	/ 60

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1(a)

Le-Vince Pte Ltd
Statement of financial performance for the year ended 31 March 2024

	$	$	
Legal fee revenue (40 400 - 3 200)		37 200	**[1]**
Add: Other incomes			
Commission income		8 000	**[1]**
		45 200	
Less: Other expenses			
Office expenses (6 200 - 1 230)	4 970		**[1]**
Wages and salaries (9 310 + 2 310)	11 620		**[1]**
Rent expense (15 000 / 15 x 12)	12 000		**[1]**
Interest on bank loan (6% x 60 000 x 5/12)	1 500		**[1]**
Depreciation of fixtures and fittings ([55 000 - 3 000] / 10)	5 200		**[1]**
Depreciation of equipment (10% x [150 000 - 28 500])	12 150		**[1]**
Reversal of impairment loss on trade receivable (780 – 640)	(140) **[1]**	(47 300)	
Loss for the year		(2 100)	**[1]**

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1(b)

Le-Vince Pte Ltd
Statement of financial position as at 31 March 2024

	$ Cost	$ Accumulated depreciation	$ Net book value	
Assets				
Non-current assets				
Equipment (AD: 28 500 + 12 150)	150 000	40 650	109 350	
Fixtures and fittings (AD: 15 600 + 5 200)	55 000	20 800	34 200	
			143 550	**[1]**
Current assets				
Trade receivables	32 000			
Less: Allowance for impairment of trade receivables (2% x 32 000)	(640)			
Net trade receivables		31 360		**[1]**
Prepaid rent expense (15 000 / 15 x 3)		3 000		**[1]**
Prepaid office expenses		1 230		**[1]**
Cash at bank (35 000 + [1 x 25 000])		60 000		**[1]**
			95 590	
Total assets			239 140	
Equity and Liabilities				
Shareholders' equity				
Share capital, 125 000 ordinary shares		125 000		**[1]**
Retained earnings (29 230 - 2 100 - [125 000 x 0.05])		20 880		**[1 – OF]**
			145 880	
Non-current liabilities				
Long-term borrowings			60 000	
Current liabilities				
Trade payables		21 000		
Legal fee revenue received in advance		3 200		**[1]**
Interest on bank loan payable (2 500 – 1 000)		500		**[1]**
Dividends payable		6 250		**[1]**
Wages and salaries payable		2 310		
			33 260	
Total equity and liabilities			239 140	

**OF – Students will still be awarded this mark as long as the right formula is applied even if the profit/loss for the year figure used from part (a) is calculated wrongly to avoid double-penalisation.*

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2(a) Drawings are assets taken from the business by the owner for personal use. **[1]**

2(b) **Accounting theory**: Accounting entity theory **[1]**

Explanation: Business and owner are treated as separate entities **[1]**. Hence, the amount of $500 was taken out from the business bank account for personal use is to be recorded as drawings. **[1]**

2(c) **(i)** On 6 May 2024, the owner / Tahiya took out goods costing $1 250 for personal use. **[1]**

(ii) On 30 September 2024, the total drawings of $3 750 was transferred to the capital account at the end of the financial year.

2(d) Liquidity is the ability of the business to convert its current assets into cash to pay its current liabilities **[1]** whereas profitability is the ability of the business to generate excess income to cover its expenses. **[1]**

2(e) **(i)** $Current\ ratio = \frac{Current\ assets}{Current\ liabilities}$ [1]

$Current\ ratio = \frac{68\ 580}{40\ 810}$

= 1.68 **[1]**

(ii) $Quick\ ratio = \frac{Current\ assets - Inventory - Prepayments}{Current\ liabilities}$ [1]

$Quick\ ratio = \frac{15\ 080}{40\ 810}$

= 0.37 **[1]**

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2(f) Evaluation of current ratio

- Current ratio has worsened each year from 3.18 in 2022 to 2.01 in 2023 to 1.68 in 2024. **[1]**
- This means that for every $1 of short-term debts, the company has $3.18, $2.01 and $1.68 of net current assets to cover its debts in 2022, 2023 and 2024 respectively. **[1]**

Evaluation of quick ratio

- Quick ratio has worsened each year from 1.68 in 2022 to 0.84 in 2023 to 0.37 in 2024. **[1]**
- This means that for every $1 of short-term debts, the company has $1.68, $0.84 and $0.37 of quick assets to cover its debts in 2022, 2023 and 2024 respectively. **[1]**

Reason for the decline in liquidity *(Any two of the following)* **[1 – per reason]**

- The reason was the increasing inventory of the business from $15 100 in 2022 to $37 800 in 2023 which suggests that the company is overstocking or have difficulties in selling its goods which worsens its liquidity of the business.

- The increase of net trade receivables from $9 200 in 2022 to $15 080 in 2024 which suggests that the business has difficulties in collecting payment from its credit customer.

- The decrease of cash at bank of $7 800 in 2022 to a bank overdraft of $19 050 in 2024 suggests that the business will have less fund to make its payment / obligation when it is due.

Conclusion

- Overall, the liquidity of Tahiya's business is in a worsening/declining trend as the quick ratio fell below 1. **[1]**

2(g) *Any **two** of the following* **[2]**:

(1) Increase cash by obtaining long-term loan.
(2) Increase cash by selling excess non-current assets.
(3) Increase cash by obtaining cash contribution from owners.
(4) Decrease cash outflow by negotiating better credit terms from supplier.
(5) Decrease cash outflow by reducing operating expenses.

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3(a) Trial balance will balance as long as there is a debit and credit entry of the same amount **[1]**. Even if the account is wrong or amount is wrong **[1]**, trial balance will still balance.

3(b)

Keane

Statement to show adjusted profit for the year ended 31 December 2024

	$
Unadjusted profit for the year	20 450
Add: Commission income – was understated (1 000 x 2)	2 000 **[1]**
Rental expense – was overstated	290 **[1]**
Less: Motor vehicle maintenance fees – was understated	(670) **[1]**
Adjusted profit for the year	22 070 **[1]**

3(c) Accounting is an information system that provides accounting information for stakeholders to make informed decisions regarding the management of resources and performance of business. **[1]**

3(d) Business is assumed to run indefinitely unless there is credible evidence that it may close down. **[1]**

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4(a) Trade receivables should be valued at trade receivables *less* allowance for impairment of trade receivables (net trade receivable). **[1]**

4(b) Journal

Date	Particular	Debit	Credit
2024		$	$
Jul 13	Cash at bank (0.25 x 2 900)	725 **[1]**	
	Allowance for impairment of trade receivables (0.75 x 2 900)	2 175 **[1]**	
	Trade receivable – Xun Trading		2 900 **[1]**

4(c) *Both options are acceptable so long as students provide the following reasonable evidence and explanation to support their choice.*

Marks allocation:

- *1 mark for decision*
- *3 pieces of evidence to be provided (1 mark for each evidence)*
- *3 corresponding explanations to be provided (1 mark for each explanation)*

Decision: I would advise Alpha to grant the 30-day credit to Raymond. **[1]**

Evidence	**Explanation**
Raymond is well-established and leading in selling electric vehicles in the European market. **[1]**	With its good track record, it would likely to be able to establish its brand in Singapore and generate sufficient sales to continue to operate. Alpha can be assured of a continued business with Raymond. **[1]**
Singapore is encouraging the purchase of electric vehicles in the country by providing additional grants for purchase of electric vehicles. **[1]**	This will encourage more customers to buy electric vehicles hence increasing revenue for Raymond. Alpha can be more assured that Raymond would be able to pay for its debts. **[1]**
Alpha can earn additional other income of $6 000 from Raymond per month and increase its profit margin by 12%. **[1]**	This would further secure income and enable Alpha to derive more profit from his revenue earned and improving the profitability of the business. **[1]**

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Decision: I would advise Alpha not to grant the 30-day credit to Raymond. **[1]**

Evidence	Explanation
Raymond's business is an overseas business and had not establish an office in Singapore. **[1]**	It would be difficult for Alpha to collect the amount due from overseas if Raymond failed to pay on time. **[1]**
Although current ratio of 2.9 is above acceptable norm of 2, its quick ratio of 0.64 is below acceptable norm of 1. **[1]**	This suggests that Raymond had insufficient readily available cash to pay its supplier and expenses. Alpha may face difficulties in getting payment from Raymond on time. **[1]**
The normal repayment period in the ASEAN region is after 40 days and the economic outlook seems pessimistic too. **[1]**	There is uncertainty whether Raymond would be able to pay on time and Alpha may run a risk of an uncollectible trade receivable if Raymond default on its payment. **[1]**

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