

GCE O-LEVEL PRELIMINARY EXAMINATION 2024

SECONDARY 4 EXPRESS & 5 NORMAL (ACADEMIC)

Name:	Class:	Register No.:
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PRINCIPLES OF ACCOUNTS

Paper 2

7087 / 02

2024

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.

Answer **all** questions.

- 1 The following balances were extracted from the books of Cape Star Limited on 30 June 2024.

	\$
Share capital, 50 000 ordinary shares	170 000
Accumulated loss, 1 July 2023	6 050
Sales revenue	280 100
Cost of sales	105 900
Sales returns	5 000
Inventory	67 300
Cash at bank	35 900
Trade payables	8 600
Trade receivables	19 900
Allowance for impairment of trade receivables	1 600
Motor vehicles	242 500
Equipment	60 000
Fixtures and fittings	22 500
Accumulated depreciation:	
Motor vehicles	82 100
Equipment	21 000
Fixtures and fittings	6 600
Commission income	4 000
Interest on bank deposit	50
Insurance expense	9 000

Additional information

- 1 Business paid \$405 by cheque to a credit supplier, after receiving a 10% cash discount. This transaction was overlooked.
- 2 10 000 shares at \$0.70 each were issued and paid on 1 May 2024 by cheque. This transaction was not yet recorded.
- 3 Commission income earned for the financial year was \$3 200.
- 4 Annual insurance of \$9 000 was paid on 1 March each year.
- 5 A credit customer returned goods that cost \$300 to the business. However, business had wrongly recorded the amount as \$390.
- 6 During the year, a cheque of \$30 000 was received from the sales of all the equipment. No entry was made in the books. No depreciation was charged in the year of sale.
- 7 Business will depreciate motor vehicles at 25% per annum using the reducing-balance method and fixtures and fittings at 20% per annum using the straight-line method.

- 8 One of the trade receivables, Rosine, was declared bankrupt. The debt of \$2 960 has yet to be written off. A review of the trade receivables on 30 June 2024 showed that 5% of the balance may not be collectible.
- 9 A dividend of \$0.15 per share was declared on 28 June 2024, payable on 12 July 2024.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 30 June 2024. [10]
- (b) Prepare the statement of financial position as at 30 June 2024. [10]

[Total: 20]

- 2 Elton runs a retail business. He has provided the following information on 30 April 2023 and 2024.

	30 April 2023	30 April 2024
	\$	\$
Inventory	4 270	9 710
Trade receivables	11 300	18 030
Allowance for impairment loss of trade receivables	2 780	3 230
Cash at bank	8 820	-
Prepaid expenses	860	260
Income receivable in advance	-	1 090
Trade payables	10 380	9 530
Expenses payable	560	90
Bank overdraft	-	5 970
Long term borrowing	-	20 000

Current ratio	2.05	?
Quick ratio	1.59	?

REQUIRED

- (a) Explain why liquidity is important to a business. [2]
- (b) Calculate to two decimal places the following ratios for the year ended 30 April 2024:
- (i) Current ratio [1]
 - (ii) Quick ratio [1]
- (c) Evaluate the change in the liquidity of the business over the two years ended 30 April 2023 and 2024, supporting your answer with appropriate ratios. [4]

Elton was considering the following proposals to improve the liquidity of the business for the year ended 30 April 2024.

Proposal 1: Pay trade payables of \$9 530 using personal funds from Elton.

Proposal 2: Sell inventory worth \$5 000 on credit for \$7000.

REQUIRED

- (d) Copy the table and state the effects of current assets and current liabilities from each of the proposal by filling in the table below.

	Effect on current assets	Effect on current liabilities
Proposal 1		
Proposal 2		

[4]

[Total: 12]

- 3 The Fives Ltd runs an ice-cream shop.

On 1 March 2022, the business obtained a 5-year bank loan of \$90 000 to purchase a motor vehicle at 10% interest per annum. The partial principal sum of the loan and interest are paid every six months on 31 August and 28 February.

The financial year end of the business is 31 December.

REQUIRED

- (a) Prepare the bank loan account for the year ended 31 December 2023. [3]
- (b) Prepare journal entries to record interest expense for the year ended 31 December 2022, including the closing entry. Narrations are not required. [5]
- (c) Calculate the interest expense incurred for the year ended 31 December 2023. [3]
- (d) State and explain the accounting theory involved in adjusting expenses incurred at the end of each financial period. [2]

[Total: 13]

- 4 Helen operates a bakery called Helen Bakery.

On 1 October 2023, her business acquired a motor vehicle valued at \$80 000 on credit from Motor Ltd. On 1 May 2024, this vehicle was sold on credit to her cousin, Pete, for \$60 000.

Business provides depreciation at a rate of 10% per annum on net book value. No depreciation is charged in the year of sale.

Pete paid the business by cheque on 8 May 2024, receiving a cash discount of 5%.

REQUIRED

- (a) Explain the valuation method of non-current asset. [1]
- (b) State the double entries to record the sale of the motor vehicle including the closing entry. Narrations are not required. [3]
- (c) Comment on and explain the suitability of the depreciation method used for the motor vehicle by the business. [1]
- (d) State the double entry for the transaction on 8 May 2024. [3]

Helen has seen an increase in her outdoor sales over the years. She is considering adding another motor vehicle to help manage the delivery of goods to her customers. However, she is uncertain about whether to purchase or lease the vehicle.

Below are some factors to consider when making her decision.

	Buy motor vehicle	Rent motor vehicle
Initial cost	• Cost = \$100 000 • Cash down payment: 10%	Deposit: \$3 000. This amount will be returned at the end of the contract.
Other costs	• Business took 5% \$90 000 loan for 10 years. • Annual servicing: \$2 000 • Annual insurance: \$1 500	Monthly rental for \$2 500 for 10 years.
Condition	New	Has been rented out for the previous year.
Other information	• Source and pay for own servicing and maintenance. • Source for own insurance. • Call insurer in event of accidents. • Possible for modification and printing company name on	• Servicing and maintenance will be arranged by the rental company. • Insurance is included and rental company will handle claims. • Call the rental company's hotline to take care of the motor vehicle in times of accidents.

motor vehicle.

- No modification is allowed.

Contact
flexibility

- Ownership of motor vehicles.
- Vehicle can be sold at any time but may incur losses due to depreciation.
- Contract a renew after 3 years. Minimum rental period of 3 years and \$4 000 deposit will be forfeited if motor vehicles is returned in less than 3 years.

REQUIRED

- (e) If you are Helen, would you choose to buy or rent a motor vehicle? Justify your decision with **three** reasons.

[7]

[Total: 15]

End of Paper

Setter: Mr Teo CS