



MINISTRY OF EDUCATION, SINGAPORE
in collaboration with
CAMBRIDGE ASSESSMENT INTERNATIONAL EDUCATION
General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

For examination from 2021

SPECIMEN PAPER

2 hours

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

An answer booklet will be provided with this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Answer **all** questions.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of 7 printed pages and 1 blank page.



Singapore Examinations and Assessment Board



Cambridge Assessment
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Answer **all** questions.

- 1 The following balances were extracted from the books of XY Pte Limited on 31 July 2020.

	\$
Equipment at cost	196 000
Motor vehicles at cost	84 000
Accumulated depreciation:	
Equipment	98 000
Motor vehicles	30 240
Sales revenue	325 000
Sales returns	2 400
Cost of sales	94 300
Wages and salaries	78 960
Equipment repairs	5 600
General expenses	39 700
Rent received	1 000
Trade receivables	20 000
Trade payables	13 480
Cash at bank (debit balance)	24 300
Allowance for impairment of trade receivables	600
Inventory	41 320
Share capital, 100 000 ordinary shares	100 000
Retained earnings at 1 August 2019	18 260

Additional information

- 1 General expenses, \$350, were prepaid and wages and salaries, \$560, were owing.
- 2 Rent owing to the company was \$500.
- 3 Equipment repairs, \$3000, had been incorrectly debited to the equipment account.
- 4 Equipment is depreciated at 25% per annum using the straight-line method.
Motor vehicles are depreciated at 20% per annum using the reducing-balance method.
- 5 The allowance for impairment of trade receivables is to be maintained at 4% of trade receivables.
- 6 The company declared a dividend of \$0.12 per share. The dividend will be paid on 1 September 2020.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 31 July 2020. [10]
- (b) Prepare the statement of financial position as at 31 July 2020. [10]

[Total: 20]

- 2 Xavier runs an advertising agency. His business has a financial year end of 31 July. The following information has been provided.

	\$
Account balances at 1 August 2019	
Utilities payable	682
Commission income receivable	500
During the year ended 31 July 2020	
Payments made for utilities	8500
Commission received	9000

Additional information

- 1 Included in the payments for utilities was the sum of \$284 in respect of August 2020.
- 2 Commission income, \$800, had not been received on 31 July 2020.

REQUIRED

- (a) Calculate the amounts (showing all workings) to be included in the statement of financial performance of the business for the year ended 31 July 2020 for:
- (i) utilities expense [4]
 - (ii) commission income [4]
- (b) State the accounting theory which is being applied when calculating the amounts for utilities expense and commission income for the year ended 31 July 2020. [1]
- (c) State **two** ways of internal control a business may use to safeguard cash balances. [2]
- (d) State **two** types of item paid or received directly through the bank for which a bank statement may be used as proof. [2]

[Total: 13]

3 The following information relates to Kim's business at 30 September 2018, 2019 and 2020.

	2018	2019	2020
	\$	\$	\$
Current assets			
Inventory	38 625	43 800	59 850
Trade receivables	27 000	35 700	42 900
Cash at bank	<u>13 125</u>	<u>8 100</u>	<u>—</u>
	<u>78 750</u>	<u>87 600</u>	<u>102 750</u>
Current liabilities			
Trade payables	18 000	25 950	27 750
Cash at bank	—	—	1 050
Accrued expenses	3 750	4 800	3 045
Current portion of long-term borrowings	<u>—</u>	<u>—</u>	<u>22 500</u>
	<u>21 750</u>	<u>30 750</u>	<u>54 345</u>
Current ratio	3.62	?	?

REQUIRED

- (a) Explain what is meant by the liquidity of a business. [2]
- (b) Calculate the current ratio of the business for each of the two years ended 30 September 2019 and 2020. Show your answer to **two** decimal places. [2]
- (c) Evaluate the trend in liquidity of the business over the three years ended 30 September 2018, 2019 and 2020. Use the given information and your answer to (b). [6]

The business profit has remained the same over the three years ended 30 September 2018, 2019 and 2020.

REQUIRED

- (d) Advise Kim why the liquidity of the business has changed even though profit has remained the same over the three years. [2]

Kim is considering comparing the profitability of her business with that of a competitor.

REQUIRED

- (e) Name **one** profitability ratio which Kim could use. [1]

[Total: 13]

PLEASE TURN OVER

4 Lim runs a trading business. He has provided the following information.

- 1 All sales are made on credit.
- 2 The business's terms of trade with customers are for payment in full within 30 days.
- 3 No discount is offered for early settlement.
- 4 The business's trade receivables collection period is 34 days on average.

Jennifer is a prospective new customer. The following information has been made available about Jennifer's business.

- 1 Jennifer operates her business overseas.
- 2 Jennifer opened her business selling electronic items nine months ago. As a successful business, she expects to double her sales revenue within one year.
- 3 Jennifer's business pays its suppliers on average within 35 days.
- 4 Jennifer can provide details of two of her current suppliers who are willing to give a reference as to her reliability and payment history.

REQUIRED

- (a) Recommend whether or not Lim should agree to make sales on credit to Jennifer. Justify your decision with **three** reasons. [7]

Additional information

The following transactions took place during May 2020 with a credit customer, Tan.

2020

May

- | | |
|----|---|
| 8 | Goods, \$800, were supplied to Tan |
| 15 | Tan returned faulty goods, cost \$200 |
| 18 | Tan paid Lim \$250 |
| 25 | Tan paid Lim the outstanding balance on his account by cheque |
| 29 | The bank returned Tan's cheque due to insufficient funds |

The balance on Tan's account was still outstanding at the end of Lim's business financial year on 30 September 2020. Lim decided to write this balance off in full.

REQUIRED

- (b) Prepare the journal entry to write off the outstanding balance at 30 September 2020. A narration **is** required. [4]
- (c) Explain why a business may decide to make an allowance for impairment of trade receivables. [2]
- (d) Name **one** accounting theory which is applied when making an allowance for impairment of trade receivables. [1]

[Total: 14]

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