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

CANDIDATE NAME	

CENTRE NUMBER	S					INDEX NUMBER				

PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

For examination from 2024

SPECIMEN PAPER

2 hours

Candidates answer on the Question Paper.

Additional Materials: Insert

READ THESE INSTRUCTIONS FIRST

Write your Centre number, index number and name in the spaces at the top of this page.
Write in dark blue or black pen.
Do not use staples, paper clips, glue or correction fluid.
The use of an approved calculator is allowed.
DO **NOT** WRITE ON ANY BARCODES.

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.

This document consists of **16** printed pages and **1** Insert.

Singapore Examinations and Assessment Board

Cambridge Assessment International Education

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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 July 2020.

XY Pte Limited
Statement of Financial Performance for the year ended 31 July 2020

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[10]

(b) Prepare the statement of financial position as at 31 July 2020.

XY Pte Limited
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

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..... [4]

(ii) commission income.

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(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.

1 .....

2 .....

[2]

(d) State **two** types of item paid or received directly through the bank for which a bank statement may be used as proof.

1 .....

2 .....
[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	13 125	8 100	–
	78 750	87 600	102 750
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	–	–	22 500
	21 750	30 750	54 345
Current ratio	3.62	?	?

REQUIRED

(a) Explain what is meant by the liquidity of a business.

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(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.

2019 .....

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2020 .....

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[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)**.

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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.

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..... [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.

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REQUIRED

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

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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.

Journal

Date		Debit $	Credit $

[4]

(c) Explain why a business may decide to make an allowance for impairment of trade receivables.

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..... [2]

(d) Name **one** accounting theory which is applied when making an allowance for impairment of trade receivables.

..... [1]

[Total: 14]

Additional page

Additional page

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