Geylang Methodist School (Secondary)
Preliminary Examination 2021

Candidate Name			
Class		**Index Number**	

PRINCIPLES OF ACCOUNTS **7087/01**

Paper 1 **Sec 4 Express**

1 hour

No additional materials are required. **27 August 2021**

Setter: Ms Tan Kai Wei

READ THESE INSTRUCTIONS FIRST

Write your 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/tape.
The use of an approved calculator is allowed.

Answer **all** questions on the question paper.

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

The total marks for this paper is 40 marks.

/40

1 Meng runs a business which trades drones. The following information is available for the month of April 2020. There is no opening inventory.

Apr	5	Purchased goods on credit from Zane, $105 000.
	8	Sold goods costing $25 600 to Umar on credit for $81 920.
	11	Return of goods by Zane, previously bought on credit, $10 210.
	19	Sold goods and received cheque of $51 300. These goods cost $21 700.

REQUIRED

(a) Prepare the inventory account for the month of April 2020.

Inventory account

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.... [4]

(b) State the source document issued on April 8.

.... [1]

(c) Name and explain **one** accounting theory that is applied to valuation of inventory when the net realisable value of inventory falls below its cost.

Name: ....

Explanation: ....

....

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.... [3]

Elsa runs a similar business. The rate of inventory turnover for two years are shown for both businesses.

	Meng		Elsa	
	2019	2020	2019	2020
Rate of inventory turnover	5.91 times	3.48 times	7.24 times	5.62 times

REQUIRED

(d) Evaluate the rate of inventory turnover for **both** businesses for **both** years.

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.... [3]

(e) Suggest and explain **one** way to improve the rate of inventory turnover for both businesses.

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.... [2]

[Total: 13]

2 The allowance for impairment of trade receivables account in the books of Zeth Trading is shown below. The business ends its financial year on 30 June.

Allowance for impairment of trade receivables account

Date	Particulars	Dr ($)	Cr ($)	Balance ($)
2018				
July 1	Balance b/d			4 500 Cr
Oct 18	Trade receivables – Amy	800		3 700 Cr
2019				
Mar 10	Trade receivables - Jolly	150		3 550 Cr
June 30	Impairment loss on trade receivables	50		3 500 Cr
July 1	Balance b/d			3 500 Cr

REQUIRED

(a) Interpret the entries on the following dates in the allowance for impairment of trade receivables account.

(i) 1 July 2018

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(ii) 10 March 2019

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(iii) 30 June 2019

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(b) State the effect and amount after adjusting allowance for impairment of trade receivables on profit for the year ended 30 June 2019.

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The following information is provided with regards to Zeth Trading's trade receivables for the years ended 30 June 2019 to 2021.

	2019	2020	2021
Rate of trade receivables turnover	11.82 times	12.38 times	15.56 times
Trade receivables collection period	80.45 days	74.31 days	65.18 days

(c) Comment on the trend of rate of trade receivables turnover and trade receivables collection period over the three years from 2019 to 2021.

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(d) Complete the following table by placing a tick (✓) in the appropriate column, to indicate whether the statements are true or false.

		True	**False**
(i)	A trading business can only earn income from the sale of goods.		
(ii)	A service business shows gross profit in the trading portion of its statement of financial performance.		

[2]

[Total: 10]

3 On 1 January 2021, Betty set up her own business, Starz Trading, selling hand sanitizers.

As a first time business owner, she needs help with some accounting terminologies.

REQUIRED

(a) Explain **one** difference between a sole proprietorship and a private limited company.

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.... [2]

(b) State an example of a non-accounting information needed by owners and managers of a business to make decisions.

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.... [1]

(c) Explain why stakeholders are interested in the non-accounting information of a business.

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.... [1]

(d) State the difference between a current liability and a non-current liability.

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.... [2]

(e) Explain why business prepares a trial balance at the end of each financial year.

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.... [2]

(f) Explain the limitation of a trial balance.

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.... [1]

Betty provided the following balances for the month of January 2021.

	$
Cash at bank (overdraft)	2 500
Capital	35 000
Cash in hand	2 240
Inventory	8 000
Trade payables	6 000
Cost of sales	11 400
Sales returns	1 300
Sales revenue	21 350
Drawings	?
Trade receivables	42 000
Bank charges	500
Discount received	630
Rental income received in advance	240

REQUIRED

(g) Using the expanded accounting equation, calculate the amount of drawings as at 31 January 2021.

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.... [3]

[Total: 12]

4 Umar owns Best Mart, a retail shop selling groceries. He sublets a portion of his shop to earn rental income. He provides the following information for the year ended 31 December 2020.

On 1 January 2020

	$
Rental income receivable	800

The business undertook the following transactions.

Date		$
Mar 15	Received rental income by cheque	3 500
Jun 10	Received rental income via bank transfer	1 800

On 31 December 2020, rental income received in advance was $710.

REQUIRED

(a) Calculate the amount of rental income earned for the year ended 31 December 2020.

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.... [2]

(b) Prepare the journal entry to close the rental income account for the year ended 31 December 2020.

Date 2020	Particulars	Debit ($)	Credit ($)
Dec 31			

[2]

(c) Explain the accrual basis of accounting theory.

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.... [1]

[Total: 5]

END OF PAPER