NAME:		( )
CLASS:	TEACHING GROUP:	MARK S /40

PEI HWA SECONDARY SCHOOL

PRELIMINARY EXAMINATIONS 2022

Secondary Four Express / Five Normal Academic

Principles of Accounts **7087/01**

Paper 1 **13 September 2022**

Additional Materials: - **1 hour**

READ THESE INSTRUCTIONS FIRST

1. Write your name, class, teaching group and index number on all question papers and answer scripts.

   Write all answers in dark blue or black ink.

   You may use a soft pencil for any diagrams or rough working.

   Do not use staples, paper clips, highlighters, glue or correction fluid.

2. Answer **all** questions.

3. Write all answers in the question booklet.

4. The use of an approved calculator is expected, where appropriate.

5. You are reminded of the need for clear presentation in your answers.

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

This question paper consists of **9** printed pages.

1 Cassandra is the owner of Jazz Ezz, a business that specialises in Chinese activity sets for children. On 1 July 2022, there were 20 sets costing $110 each in the shop.

2022	
Jul 4	Credit purchase of 30 activity sets from TB Trading with 10% off the list price of $100 each.
Jul 9	Returned the 10 activity sets purchased on 4 July 2022 due to defects.
Jul 15	Credit sales of 20 activity sets to B Kindy at $200 less 5% discount.
Jul 21	A fire broke out in the neighbouring shop. All the activity sets were damaged and could no longer be sold. The insurance company agreed to a claim of $600 which will be paid out on 10 August 2022.

REQUIRED

(a) Prepare the inventory account for July 2022. [6]

(b) Describe how businesses manage inventories. [3]

(c) Suggest **one** possible problem a business may face if it holds on to too much inventory on hand. [1]

[Total: 10 marks]

2 Lori is the sole proprietor of Arwen Archery School. Lori has hired an inexperienced bookkeeper for the business. She discovered the following errors at the financial year ended 30 April 2022.

(i) A cheque of $2 900 received from Matthew in full settlement of the $3 000 debt has not been recorded.

(ii) $420 cash paid to credit supplier, SLA has been recorded as LSA.

(iii) A gain on the sale of non-current asset of $360 has been wrongly transferred to capital at year end.

(iv) A cheque of $1 280 used to pay for office rent was recorded as a debit to cash at bank and a credit to rent expense.

REQUIRED

(a) Prepare the journal entries to correct the above errors. Narrations are **not** required. [5]

(b) State the effect and value of the effect of errors on the profit and total assets. Complete the table below.
[4]

Error	Effects of error on	
	Profit	Total Assets
(i)		
(ii)		
(iii)		
(iv)		

(c) State **one** purpose of source documents in a business.
[1]

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[Total: 10 marks]

3 BGN Medical is a clinic that provides paediatric care. The financial year of the business ends on 31 May each year. The following shows information about the medical equipment in the clinic on 1 June 2021:

Medical equipment	$380 000
Accumulated depreciation of medical equipment	$100 500

On 1 January 2022, one of the medical equipment purchased on 15 September 2019 for $25 000, was sold for $11 650 which was banked into the owner's personal bank account.

It is the business' policy to charge a full year's depreciation in the year of purchase and none in the year of sale. The business depreciates medical equipment at 20% per annum using the reducing balance method.

REQUIRED

(a) Define accumulated depreciation.
[1]

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(b) State the valuation method for non-current assets in the financial statements of a business.
[1]

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(c) Explain why the reducing balance method is a suitable method of calculating depreciation of medical equipment.
[1]

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(d) Prepare the journal entry to record the proceeds on the sale of non-current asset on 1 January 2022. Narrations are **not** required.
[2]

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(e) Prepare an extract of the statement of financial performance for the year ended 31 May 2022, showing the relevant portions.
[2]

[Total: 7 marks]

4 Deborah is the owner of Seah Coffee, a business that supplies coffee beans to cafes and restaurants. All sales and purchases are done on credit terms. The financial year of the business ends on 31 July of every year. The following information were extracted from the books of Seah Coffee:

	31 July 2021 $	31 July 2022 $
Trade receivables	14 100	12 200
Net sales revenue	423 800	457 140

(i) The business estimates about 5% of all trade receivables to be uncollectible at each year end.

(ii) On 7 June 2021, a credit customer, J&N Trading owing $500 was declared bankrupt and the debt was written off.

REQUIRED

(a) Prepare the journal entry for the transaction on 7 June 2021. Narrations **are** required. [2]

(b) Explain the effect and the value of the effect of the impairment loss on trade receivables on the profit for the year ended 31 July 2022. [2]

(c) Given that the trade receivables balance on 1 August 2020 is $11 700, calculate the trade receivables collection period for the years ended 31 July 2021 and 2022. [4]

	Year ended	
	31 July 2021	31 July 2022
Trade receivables collection period		

(d) Comment on the efficiency of trade receivables management of Seah Coffee for the two years ended 31 July 2021 and 2022.
[2]

(e) Suggest **two** possible ways to improve the efficiency of trade receivables management of a business.
[2]

(f) State **one** non-accounting information a business would consider when deciding if they should grant credit terms to customers.
[1]

[Total: 13 marks]

END OF PAPER