YUAN CHING SECONDARY SCHOOL
Secondary Four Express / Five Normal Academic Course
Preliminary Examination 2025

CANDIDATE NAME

CLASS

INDEX NUMBER

PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

29 August 2025

Candidates answer on the Question Paper.

2 hours

Additional Materials : Insert

READ THESE INSTRUCTIONS FIRST

Write your name, class and index number in the spaces at the top of this page.
Write in dark blue or black ink.
Do not use staples, paper clips, glue or correction fluid.
The use of an approved calculator is allowed.

Answer all questions.

The businesses described in this question paper are fictitious.

The number of marks is given in brackets [ ] at the end of each question or part question.
The total number of marks for this paper is 60.

	MARKS
Total	/60

This paper consists of 15 printed pages.

[Turn over

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 2025.

Woody Limited
Statement of financial performance for the year ended 31 July 2025

(b) Prepare the statement of financial position as at 31 July 2025.

Woody Limited
Statement of financial position as at 31 July 2025

2 George runs a business, Gui Trading, buying and selling guitars. Gui Trading has a financial year end on 30 June every year. The following information was extracted from the books of Gui Trading:

	2023	2024	2025
	$	$	$
Trade payables	49 320	53 200	71 400
Trade receivables	45 000	24 600	21 060
Inventory	58 300	60 800	70 960
Cash at bank	49 860	33 000	–
Bank overdraft	–	–	18 000
Current ratio	3.19	2.23	1.02
Quick ratio	1.92	1.08	0.24

REQUIRED

(a) Explain why it is important for businesses to have good liquidity.

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.... [1]

(b) Comment on the trend in liquidity of Gui Trading over the three years at 30 June 2023, 2024 and 2025. Use the information provided to support your answer.

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.... [3]

(c) Suggest **two** possible causes for the trend above.

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.... [2]

Gui Trading's cost of sales for the year ended 30 June 2025 is $300 000.

REQUIRED

(d) Calculate the day sales in inventory for Gui Trading for the year ended 30 June 2025. Round off your answers to **one** decimal place.

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.... [2]

Gui Trading has a day sales in inventory of 70.4 days for the year ended 30 June 2023 and 75.8 days for the year ended 30 June 2024.

REQUIRED

(e) Comment on Gui Trading's efficiency in inventory management for the **three** years ending 30 June 2023, 2024 and 2025.

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.... [3]

(f) Suggest **one** way in which George could improve Gui Trading's day sales in inventory.

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.... [1]

[Total: 12]

3 Smarty Limited is a business that provides hairstyling services to customers. All hairstyling services are provided on cash basis only.

REQUIRED

(a) State **one** difference between a trading business and a service business.

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.... [2]

(b) Explain revenue recognition theory.

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.... [1]

(c) State the double entry to record the hairstyling services provided.

Account debited	Account credited

[2]

[Turn over

Smarty Limited also rents out part of their premises to earn rental income. The business has a financial year-end on 30 September.

On 1 October 2023, rental income received in advance amounts to $3 600

During the year, Smarty Limited received $50 000 for rental income via a bank transfer. At 30 September 2024, Smarty Limited has yet to receive rental income amounting to $4 000.

REQUIRED

(d) State the double entry to adjust the rental income on 1 October 2023.

Account debited	Account credited

[2]

(e) State the double entry to adjust the rental income on 30 September 2024.

Account debited	Account credited

[2]

(f) Calculate the rental income earned for the year ended 30 September 2024.

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.... [1]

(g) State the effect on profit for the year if Smarty Limited did not adjust for rental income on 30 September 2024.

.... [2]

(h) State the effect on the statement of financial position if Smarty Limited did not adjust for rental income on 30 September 2024.

.... [2]

[Total: 14]

4 Healthy Trading sells fruits. Below are some of the information extracted from their books.

Diligence Traders account

2025		Dr $	Cr $	Balance $
Mar 1	Balance b/d			6 400 Dr
7	Sales revenue	4 300		10 700 Dr
13	Sales returns		700	10 000 Dr
25	Cash at bank		9 600	400 Dr
25	Discount allowed		400	–

REQUIRED

(a) State whether Diligence Traders is a trade payable or trade receivable of Healthy Trading.

.... [1]

(b) Calculate the percentage of cash discount offered by Healthy Trading.

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.... [1]

(c) Explain the purpose of a trade discount.

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.... [1]

(d) State the source document used to record the transaction on 13 March 2025.

.... [1]

(e) Name the accounting theory behind the use source document to record transactions.

.... [1]

(f) Explain the transaction that took place on 25 March 2025.

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.... [2]

[Turn over

Yummy Limited and Juicy Trading are new customers of Healthy Trading. Due to the economic situation, both companies approached Healthy Trading to negotiate for credit terms.

Below are some of the information relating to the trading condition of both companies.

	Yummy Limited	Juicy Trading
Area of operations and source of goods	Local company selling fruits and frozen goods. Source for their supplies internationally.	Overseas company selling fruits only. Have their own orchards and able to source for more exotic fruits from Asia.
History of repayment	Within 30 days	Within 35 days
Average sales amount sold to customer	$130 000	$70 000
Number of times trade receivables are overdue	5 times	1 time
Number of years in operation	8 years	20 years
Reputation of business	Reviews from customers were mostly very good in terms of quality of the fruits. However, there are many complaints from customers about delayed delivery.	Reviews from customers were mostly excellent especially on the careful wrapping and storage of fruits.

REQUIRED

(g) Recommend whether Healthy Trading should grant credit to Yummy Limited or Juicy Trading. Justify your decision with **three** reasons.

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Data for Question 1

The following balances were extracted from the books of Woody Limited on 31 July 2025.

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Motor vehicles	85 000
Fixtures & fittings	39 800
Accumulated depreciation on motor vehicles	9 700
Accumulated depreciation on fixtures & fittings	7 560
Commission income	5 000
Discount allowed	4 520
Discount received	7 700
Share capital, 40 000 ordinary shares	100 000
Retained earnings	25 730
Trade receivables	19 500
Allowance for impairment of trade receivables	400
Trade payables	7 430
Cash at bank	30 250
Cash in hand	11 000
Inventory	10 250
Sales revenue	110 660
Sales returns	16 790
Cost of sales	41 740
Rental expense	8 810
Salaries expense	16 520
Bank loan	10 000

Additional information

1 Motor vehicles is to be depreciated at 10% per annum using the reducing-balance method. Fixtures & fittings is to be depreciated at 5% per annum using the straight-line method.

2 Commission income earned for the year amounted to $5 700.

3 The allowance for impairment of trade receivables is to be maintained at 4% of trade receivables.

4 The net realizable value of the inventory at 31 July 2024 is $10 000.

5 Rental expense, $1 000, were owed and salaries expense, $2 300, was prepaid at 31 July 2024.

6 The company declared a dividend of $0.05 per share. This will be paid on 10 August 2025.

--- END OF PAPER ---