



Preliminary Examination in preparation for
the General Certificate of Education Ordinary Level 2024

CANDIDATE
NAME

ANSWER SCHEME

CLASS

REGISTER
NUMBER

PRINCIPLES OF ACCOUNTS

7087/01

Paper 1

27 August 2024

1 hour

Candidates answer on the Question Paper.
No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your name, class and register number in the spaces provided on the work you hand in.
Write in dark blue or black pen.
You may use an HP pencil for rough working.
Do not use staples, paper clips, glue, correction fluid or correction tape.

Answer **all** questions.
You may use a calculator.

Where layouts are to be completed, you may need all the lines for your answer.
The businesses mentioned in this question paper are fictitious.

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

For Examiner's Use	
1	
2	
3	
4	

Answer **all** questions.

- 1 Thomas Trading buys goods from Ashlyn.

The business provided the following information for month of February 2024.

Ashlyn account				
Date	Particulars	Dr	Cr	Bal
2024		\$	\$	\$
Feb 1	Balance b/d			2 180 Cr
4	Inventory		1 500	3 680 Cr
12	Cash at bank	1 440		2 240 Cr
12	Discount received	360		1 880 Cr
21	Inventory		6 420	8 300 Cr
23	Inventory	500		7 800 Cr

REQUIRED

- (a) Explain what a trade discount is.

A trade discount is a reduction in the list price. [1]

[1]

- (b) Interpret the entries on the following dates.

- (i) 12 February 2024

The business paid \$1440 to credit supplier, Ashlyn by cheque [1] and received a cash discount of \$360. [1]

[2]

- (ii) 23 February 2024

The business returned goods that cost \$500 to credit supplier, Ashlyn. [1]

[1]

- (c) Calculate the rate of discount on 12 February 2024.

Rate of discount received = $(360 / 1800) * 100\% = 20\%$ [1]

[1]

- (d) Identify the source document used on the following dates.

- (i) 4 February 2024

Invoice. [1]

[1]

- (ii) 23 February 2024

Credit note. [1]

[1]

(e) State **two** non-accounting information Thomas Trading should consider when deciding which supplier to buy from.

- Local or overseas supplier.
- After-sales services.
- Return policy.
- Online or physical store.
- Reputation of supplier.
- Warranty.

[Any 2 of the above, award 1m each.]

[2]

[Total: 9]

2 Zhi Heng operates a pet supplies business. He supplied the following information for the year ended 31 March 2024.

	Units	\$
Inventory as at 1 April 2023	500	2 700
Sales revenue for the year ended 31 March 2024	1 230	7 600

During the year ended 31 March 2024, the following purchases were made.

1 July 2023	200 units for \$1 450 from Ron.
15 October 2023	350 units for \$1 900 from Qi.
14 February 2024	180 units for \$1 200 from Le.
17 March 2024	100 units for \$700 from Xi.

Additional information:

1. Zhi Heng uses the First-In-First-Out (FIFO) method of inventory valuation.
2. All sales and purchases were made on credit.
3. The net realisable value of the inventory as at 31 March 2024 was \$500.

REQUIRED

(a) State how inventory is valued.

Inventory is valued at the lower of cost or net realisable value. [1]

[1]

- (b) Calculate the total cost of sales for the year ended 31 March 2024.

Total cost of sales = 2700 + 1450 + 1900 + 1200 = \$7250

[Any 2 correct amounts, award 1m.]

[2]

- (c) Prepare journal entries to adjust the ending inventory value as at 31 March 2024.

Journal

Date	Particulars	Dr	Cr
2024		\$	\$
Mar 31	Impairment loss on inventory	200	
	Inventory (700 – 500)		200

[Entry and amount must be correct to be award 1m each.]

[2]

- (d) State the effect and amount on profit for the year ended 31 March 2024 if the ending inventory was **not** adjusted.

Profit for the year will be overstated by \$200. [1]

[1]

The rate of inventory turnover for the year ended 31 March 2023 was 6 times.

REQUIRED

- (e) Calculate the rate of inventory turnover for the year ended 31 March 2024.

Rate of inventory turnover = 7250 (e.f.) [1] / [(2700 + 500) / 2] [1] = 4.53 times

[2]

- (f) Comment on rate of inventory turnover over the two years ended 31 March 2023 and 2024.

- The inventory turnover rate has worsened over the two years from 6 times in 2023 to 4.53 times in 2024. **[1]**
- This would imply that the number of times the business has sold and replaced its inventory is slower over the two years. **[1]**
- Hence, the business is less efficient in managing its inventory over the two years. **[1]**

[3]

[Total: 11]

- 3 Chloe runs a minimart. The business rents out a part of the minimart to Jude for \$1 200 per month.

Chloe provided the following information for the year ended 30 June 2024.

Account balances at 1 July 2023	\$
Salaries expense payable	600

On 28 June 2024, the business paid \$8 000 salaries through an electronic bank transfer. On this date, the business also received rental income by cheque.

Account balances at 30 June 2024	\$
Rental income received in advance from Jude	400
Salaries expense payable	200

REQUIRED

- (a) Calculate the amount of rental income to be shown in the statement of financial performance for the year ended 30 June 2024.

Rental income = \$1200 * 12 = \$14400. [1] [1]

- (b) Calculate the amount of rental income received by cheque on 28 June 2024.

Rental income received by cheque = \$14400 (e.f.) [1] + 400 [1] = \$14800. [2]

- (c) Prepare journal entries to record the salaries owing as at 30 June 2024 and the closing entries at the end of the financial year.

Journal

Date	Particulars	Dr	Cr
2024		\$	\$
Jun 30	Salaries expense	200	
	Salaries expense payable		200
Jun 30	Income summary (8000 + 200 – 600)	7 600	
	Salaries expense		7 600

[Entry and amount must be correct to be awarded 1m each.] [4]

- (d) State the accounting theory that is being applied when accounting for salaries expense.

Matching theory [1] / Accrual basis of accounting theory. [1] [1]

- (e) State the effects and amounts on the profit for the year and liabilities if the rental income at the end of the financial year was **not** adjusted.

Profit for the year will be overstated by \$400. [1]

Liabilities will be understated by \$400. [1]

[2]

- (f) State **two** internal control measures a business may use to safeguard cash.

- Segregation of duties.
- Custody of cash.
- Authorisation.
- Bank reconciliation.

[Any 2 of the above, award 1m each.]

[2]

[Total: 12]

- 4 Benton, a sole proprietor, discovered the following errors on 31 December 2023, after the financial statements were prepared.

- 1 The return of goods worth \$560 by Larry, a credit customer, was debited to Larry's account and credited to sales returns account.
- 2 A purchase of a printer worth \$300 by cheque has been recorded in the office supplies expense account.

The profit for the year ended 31 December 2023 before the errors were discovered was \$800.

REQUIRED

- (a) Complete the table to show how error 1 should be corrected.

Error	Account to be debited	Account to be credited	Amount (\$)
1	Sales returns [1]	Trade receivable – Larry [1]	1 120 [1]

[3]

- (b) Calculate the adjusted profit or loss for the year ended 31 December 2023.

Adjusted loss for the year = \$800 – 1120 [e.f.] [1] + 300 [1] = \$20 (Loss)

[2]

- (c) State the accounting theory which must be applied when accounting for the sale and delivery of goods.p

Revenue recognition theory. [1]

[1]

- (d) Explain the limitation of a balanced trial balance.

A balanced trial balance does not prove that all transactions have been recorded and is error-free [1] as there may be errors not revealed by a trial balance. [1]

[2]

[Total: 8]

[END OF PAPER]

2024 4E5N Prelim Mark Scheme (P2)

Q1(a)

PQR Pte Limited

Statement of financial performance for the year ended 30 June 2024

	\$	\$	
Sales revenue	278,710		
Less: Sales returns	(15,200)		
Net sales revenue		263,510	
Less: Cost of sales		(185,300)	
Gross profit		78,210	[1]
Add: Other income			
Commission income (-1750)		18,000	[1]
Less: Other expenses			
Wages and salaries (+940)	54,940		[1]
General expenses	6,700		
Rent expense (-1000)	10,250		[1]
Interest expense (3% x 20 000)	600		[1]
Depreciation of office equipment [(95 000 - 5 000) X 10%]	9,000		[1]
Depreciation of motor vehicles [(145 000 - 73 950) X 30%]	21,315		[1]
Impairment loss on trade receivables [(5% X 24 780) - 860]	379	(103,184)	[1]
Loss for the year		(6,974)	[1] OF
			(Own Figure)

PQR Pte Limited

Q1(b)

Statement of financial position as at 30 June 2024

Assets:	\$	\$	\$	
	Cost	Accumulated depreciation	Net book value	
Non-current assets:				
Office equipment	95,000	27,000	68,000	[1]
Motor vehicles	145,000	95,265	49,735	[1]
			117,735	
Current assets:				
Trade receivables	24,780			
Less: Allowance for impairment of trade receivables	(1,239)			[1]
Net trade receivables		23,541		[1]
Prepaid rent expense		1,000		[1]
Cash at bank		13,300		
Inventory		31,800	69,641	
Total assets			187,376	
Equity and liabilities:				
Shareholders' equity:				
Share capital, 125 000 ordinary shares		125,000		
Retained earnings (29 960 - 6 974 - 10 000)		12,986	137,986	[1]
Non-current liabilities:				
Long term borrowing			20,000	[1]
Current liabilities:				
Trade payables		16,100		
Commission income received in advance		1,750		[1]
Wages and salaries payable		940		[1]
Interest expense payable		600		[1]
Dividends payable (0.08 X 125 000)		10,000	29,390	[1]
Total equity and liabilities			187,376	

Q2

(a)	Particulars	Debit (\$)	Credit (\$)	
	Income summary	23,900		[1]
	Capital		23,900	[1]

- (b) Owner's equity increased from \$24 000 to \$52 900 during the year ended 31 December 2022. [1]
 The increase is caused by \$10 000 capital contribution by the owner, drawings of \$5 000 by owner [1]
 and a profit for the year of \$23 900.

OR

The additional capital contribution of \$10 000 and profit of \$23 900 are more than the drawings of \$5 000. Therefore, there is a net increase of \$28 900 in owner's equity for the year ended 31 December 2022. [1]

- (c) Capital fell from \$45 900 to \$30 200, it was a loss for the year of \$15 700. (45900 - 30200) [2]

- (d) Drawings refers to the assets or resources that are taken out of the business by the owner for personal use. [1]

(e)	Drawings account				
	Date	Particulars	Dr (\$)	Cr (\$)	Bal (\$)
	2023				
	Jul 5	Cash at bank	10,000		10,000 Dr [1]
	Nov 10	Cash in hand	1,000		11,000 Dr [1]
	Dec 31	Capital		11,000	- [1]

- (f) Accounting entity theory states that the owner and the business are separate entities and the business has to record transactions that affect the business and are related to the owner. [1]
 Since drawings by the owner will affect the business, it has to be recorded by the business. [1]

OR

Accounting entity theory states that owner and business are separate entities and all transactions that are recorded should be from the point of view of the business. Drawings by the owner removes business resources from the business and therefore needs to be recorded in the books of the business, from the business point of view. [1]

Q3**(a)** Quick ratio = Quick assets / Current liabilities

Quick assets = 25 900

Current liabilities = 7 000 + 21 600 + 10 000 = \$38 600

Quick ratio = 25 900 / 38 600 = 0.67

[1]**[1]****(b)**

	Brickhouse	Woodzone
Current	2.55	1.73
Quick	1.74	0.67

Brickhouse has a better current ratio of 2.55 as compared to Woodzone's 1.73.

[1]

Only Brickhouse has met the general benchmark of 2 for current ratio.

This shows that Brickhouse has sufficient current assets to repay its immediate debts for the year ahead.

[1]

Brickhouse has a better quick ratio of 1.74 when compared to Woodzone's 0.67.

[1]

Only Brickhouse has met the general benchmark of 1 for quick ratio.

This shows that Brickhouse has sufficient quick assets to repay its immediate debts for the year ahead.

[1]

Both businesses have sufficient current assets to repay immediate debts (current ratio greater than 1), however, Brickhouse has more excess current assets to meet its day-to-day expenses as well.

[1]

Brickhouse has better liquidity as it has a better cash balance of \$10 200 whereas Woodzone has a negative cash balance (bank overdraft of \$7 000).

[1]

Woodzone suffers from insufficient cash as a lot of its cash is tied up in its inventory holdings of \$36 100 as compared to Brickhouse who is only holding \$12 500 worth of inventory.

[1]

Woodzone also has higher current liabilities due to its upcoming repayment of the current portion of long-term borrowing (\$10 000). This would worsen its quick ratio and liquidity.

[1]

In conclusion, Brickhouse has better liquidity than Woodzone.

[1]**Up to 6 marks.****(c)** If a business is not liquid, it would not have sufficient cash to repay its creditors and face bankruptcy. It might have insufficient cash to pay for operational expenses and may have to wind up.**[1]****[1]****Any one of the above.****(d)** Obtain cash contribution from the owner or shareholders**[1]**

Obtain a long-term loan

[1]

Sell excess non-current assets for cash

[1]

Reduce operating expenses

[1]

Negotiate for better credit terms from supplier

[1]**Any two of the above.****(e)** A profitable business may have difficulty collecting payment from customers or It may have used most of its cash to purchase non-current assets.**[1]****[1]**

Q4

- (a)
- | Particulars | Debit (\$) | Credit (\$) |
|---|------------|-------------|
| Allowance for impairment of trade receivables | 1,500 | |
| Trade receivable - Joy | | 1,500 |
- [1]
[1]
- (b) Extract of Statement of Financial Performance for the year ended 31 December 2023
- \$
- Less: Other expenses
- Reversal of impairment loss on trade receivables (300) [2]
- (c) Current assets would be understated by \$300. [1]
Profit for the year would be understated by \$300. [1]
- (d) The **prudence theory states that the accounting treatment chosen should be the one that least overstates assets** and profits. Since allowance for impairment of trade receivables is a contra-asset that **reduces the value of our trade receivables**, a business accounts for it so that it does **not overstate its trade receivables and current assets**. [1]
[1]
- (e) **SBQ - Option Technologic**
- Decision**
I would advice Megan to grant a longer repayment period to Technologic. [1]
- Reason 1**
Technologic sells a wide range of electronic products and not just handphones like Gizmoles. [1]
- Explanation 1**
This means that Technologic's business is diversified and will be able to maintain its sales during the year, even if the sales of handphones is suddenly affected. Technologic would still be able to repay Megan even if a longer repayment period was granted to them. [1]
- Reason 2**
Technologic has a better repayment history with collection days of 33 while only repaying late twice. [1]
This is better than Gizmoles who takes 41 days to make payment and has repaid late 7 times.
- Explanation 2**
Extending a longer repayment period to Technologic would be less risky as they are more prompt and conscientious when it comes to repayment of trade receivables. Technologic currently takes 33 days and extending a longer repayment period of 40 days would be safer for Megan. [1]
- Reason 3**
Technologic is a very popular brand among the masses which shows that it caters to a wide range of customers. [1]
- Explanation 3**
Megan's business could stand to gain more business by extending a longer repayment period to Technologic as they are a popular brand. Even though they have only done 1 year of business with Megan, extending them a longer repayment period could boost their business relationship and bring about more sales and profits. [1]
- Accept any other reasonable answers for Technologic.**
- SBQ - Option Gizmoles**
- Decision**
I would advice Megan to grant a longer repayment period to Gizmoles. [1]
- Reason 1**
Gizmoles is a bigger customer of Megan's, with a much higher average trade receivables balance of \$80 000 than Technologic's \$25 000. [1]
- Explanation 1**
Since Gizmoles is a bigger customer, granting them a longer repayment period could boost the business relationship between Megan and Gizmoles. This would bring out greater trust between them and lead to more sales and profits for Megan's business. [1]
- Reason 2**
Gizmoles has many good online ratings which shows that the quality of their products and services are of high standards. [1]
- Explanation 2**
Besides already having done business with Gizmoles for 10 years, Gizmoles also has been known for the quality of its products and services. Extending a longer repayment period to Gizmoles would not be hasty or risky for Megan as they have known each other a long time and Gizmoles is a reputable business. [1]
- Reason 3**
Personal devices are still very important with significant growth predicted for the future. [1]
- Explanation 3**
This means that Gizmoles' business will pick up in the future and will continue to grow. By extending a longer repayment period to Gizmoles, Megan's business will benefit from more business from Gizmoles as they continue to buy more handphones from Megan to meet the strong demand for personal devices in the future. [1]
- Accept any other reasonable answers for Gizmoles.**