HILLGROVE SECONDARY SCHOOL

HILLGROVE SECONDARY SCHOOL
PRELIMINARY EXAMINATION 2024
SECONDARY FOUR (EXPRESS) / FIVE (NORMAL ACADEMIC)

CANDIDATE NAME ( ) CLASS [ ] - [ ]

CENTRE NUMBER [S] [ ] [ ] [ ] [ ] INDEX NUMBER [ ] [ ] [ ] [ ]

PRINCIPLES OF ACCOUNTS

7087/01

Paper 1

21 Aug 2024

Candidates answer on the Question Paper.

1 hour

No Additional Materials are required.

10.45 AM to 11.45 AM

READ THESE INSTRUCTIONS FIRST

Write in dark blue or black pen.
You may use an HB pencil for any rough working.
Do not use staples, paper clips, glue or correction fluid.

Answer **all** questions.

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

For Examiner's Use	
	Marks
1	
2	
3	
4	
TOTAL	

Parent's/ Guardian's Signature: _____

Setter: Mdm Grace Ang

This document consists of **10** printed pages.

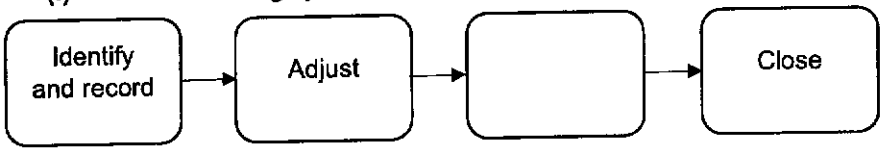
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1 Aydyn Trading implements the accounting cycle and the accounting information system.

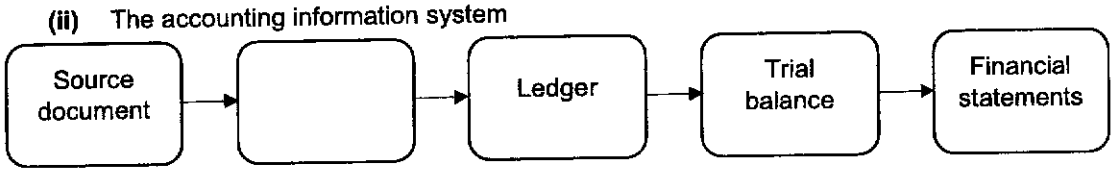
REQUIRED

(a) Fill in the blanks. [2]

(i) The accounting cycle



(ii) The accounting information system



Aydyn Trading realised that a credit customer had been undercharged.

REQUIRED

(b) State the source document that Aydyn Trading should send to the credit customer to correct the undercharge.

_____

_____ [1]

Aydyn Trading records transactions based on source documents.

REQUIRED

(c) State and explain the accounting theory that the Aydyn Trading has been applying.

Accounting theory: _____

Explanation of accounting theory: _____

_____

_____

_____ [2]

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(d) Explain the extent of liability of shareholders of a private limited company.

[2]

(e) State the role of accounting.

[1]

[Total: 8]

2 Ming Yu's business prepares bank reconciliation at the end of each month as a form of internal control over its bank account.

REQUIRED

(a) State **one** purpose of internal control.

[1]

(b) State **one** other internal control that a business can have over its bank account.

[1]

(c) Explain the purpose of preparing bank reconciliation.

[1]

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Ming Yu provided the cash at bank account in his books and the bank statement received for the month of June 2024.

Cash at Bank accout

Date 2024	Particulars	Cheque No.	Dr ($)	Cr ($)	Bal ($)
Jun 1	Bal b/d				6 000 Dr
5	Sales revenue		3 400		
8	Leya	3053		8 000	
14	Neil Trading	3054		4 280	
17	Mindy		7 200		
19	Inventory	3055		900	
27	Insurance expense	3056		2 300	
29	Josh		4 500		
30	Keagen	3057		6 100	480 Cr

Bank Statement for the month of Jun 2024

Date 2024	Transactions	Dr ($)	Cr ($)	Bal ($)
Jun 1	Balance b/d			6 150 Cr
1	Cheque no. 3052	150		
5	Standing order – Rent	1 340		
7	Cheque deposit		3 400	
9	Cheque no. 3053	8 800		
11	Direct deposit – Commission		3 650	
16	Cheque no. 3054	4 280		
19	Cheque deposit		7 200	
21	Cheque no. 3055	900		
29	Cheque no. 3056	2 300		
30	Refer to drawer (Jun 19)	7 200		4 570 Dr

Ming Yu's accountant recorded cheque number 3053 wrongly in the books of the business.

REQUIRED

(d) State **one** possible reason for the transaction recorded in the bank statement on 30 June 2024.

_____

_____ [1]

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(e) Prepare the adjusted cash at bank ledger account and bring down the balance to 1 July 2024.

[5]

(f) Prepare the bank reconciliation statement for the month ended 30 June 2024.

[3]

[Total: 12]

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3 Aina provided the information about her business.

Motor Vehicles account

Date	Particulars	Dr ($)	Cr ($)	Bal ($)
2022				
Jan 1	Trade payable: Ives	60 000		60 000 Dr
2023				
Jan 1	Bal b/d			60 000 Dr
2024				
Jan 1	Bal b/d			60 000 Dr

Accumulated Depreciation: Motor Vehicles account

Date	Particulars	Dr ($)	Cr ($)	Bal ($)
2022				
Dec 31	Depreciation expense: Motor vehicles		24 000	24 000 Cr
2023				
Jan 1	Bal b/d			24 000 Cr
Dec 31	Depreciation expense: Motor vehicles		14 400	38 400 Cr
2024				
Jan 1	Bal b/d			38 400 Cr

REQUIRED

(a) Define 'accumulated depreciation'.

_____

_____ [1]

(b) State the method that Aina is using to depreciate her motor vehicles.

_____

_____ [1]

(c) Calculate the rate of depreciation that Aina is using to depreciate her motor vehicles.

_____

_____

_____

_____ [1]

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(d) State the effect on the following if Aina did not record depreciation expense for her motor vehicles in 2023.

(i) Statement of financial performance

[1]

(ii) Statement of financial position

[2]

The business recently purchased a good quality hole puncher for $20. However, Aina recorded the amount paid as stationery expense instead of office equipment even though the hole puncher can be used for a few years.

REQUIRED

(e) State and explain the accounting theory that Aina applied.

Accounting theory:

Explanation of accounting theory:

[2]

The business spent $10 000 improving the interior of its shop to attract more customers. However, Aina recorded the amount spent as revenue expenditure instead of capital expenditure.

(f) State the effect of this error on the following.

(i) Profit for the year

[1]

(ii) Non-current assets

[1]

[Total: 10]

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4 Nice Home and Chic Living are in the business of buying and selling furniture imported from Europe.

The following information regarding rate of inventory turnover is available.

Nice Home		Chic Living	
31 July 2022	31 July 2023	31 July 2022	31 July 2023
4.06 times	6.64 times	8.11 times	?

The following information about Chic Living is available.

	$
Cost of sales for the year ended 31 July 2023	860 000
Inventory as at 31 July 2023	97 000
Inventory as at 31 July 2022	90 500

REQUIRED

(a) Calculate Chic Living's rate of inventory turnover for the year ended 31 July 2023 (to **two** decimal places). Show **all** workings.

[2]

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(b) Evaluate efficiency in inventory management for **both** businesses for **both** years.

[4]

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(c) Suggest **one** reason for the trend in **(b)**.

_____

_____

_____

_____ [1]

On 31 July 2024, a fire broke out in Chic Living's warehouse and destroyed inventory costing $12 000.

On the same date, it was agreed with the insurance company that 90% of the loss was covered by insurance and Chic Living would receive compensation on 10 August 2024.

REQUIRED

(d) State the double entry with which Chic Living recorded the destruction of inventory and insurance claim on 31 July 2024

_____

_____

_____

_____

_____

_____

_____ [3]

[Total: 10]

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PRELIMINARY EXAMINATION 2024
SECONDARY FOUR (EXPRESS) / FIVE (NORMAL ACADEMIC)

CANDIDATE NAME ( ) CLASS -

CENTRE NUMBER S INDEX NUMBER

PRINCIPLES OF ACCOUNTS 7087/02

Paper 2 27 Aug 2024

Candidates answer on the Question Paper. 2 hours

Additional Materials: Insert 10.05 AM to 12.05 PM

READ THESE INSTRUCTIONS FIRST

Answer **all** questions.

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

For Examiner's Use	
	Marks
1	
2	
3	
4	
TOTAL	

Parent's/ Guardian's Signature: _____

Setter: Mdm Grace Ang

This document consists of **15** printed pages.

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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 December 2023.

Danish Hairstyling Limited
Statement of Financial Performance for the year ended 31 December 2023

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[8]

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(b) Prepare the statement of financial position as at 31 December 2023.

Danish Hairstyling Limited
Statement of Financial Position as at 31 December 2023

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[12]

[Total: 20]

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2 Shengxin Trading is a business that sells premium Japanese watermelons and apples.

Shengxin Trading has been buying watermelons from Sean Fruits for the last 10 years and receives a 10% trade discount from Sean Fruits for being a loyal customer. The follow ledger account has been extracted from the books of Shengxin Trading.

Trade payable: Sean Fruits

Date	Particulars	Dr ($)	Cr ($)	Bal ($)
2024				
Jun 1	Bal b/d			9 000 Cr
Jun 15	Inventory		3 600	12 600 Cr
Jun 25	Cash at bank	11 970		630 Cr
Jun 25	Discount received	630		-

REQUIRED

(a) Calculate the list price of the transaction on 15 June 2024.

[1]

(b) Interpret the transaction that took place on 25 June 2024.

[2]

On 1 July 2024, there were 50 boxes of apples costing $500 in Shengxin Trading. The following transactions took place.

2024

Jul 5 Bought 50 boxes of apples at $600 on credit from Shi Tong Trading.

Jul 10 Sold 50 boxes of apples at $700 on credit to Hillgrove Secondary School.

Jul 15 Bought 50 boxes of apples at $450 and paid by cheque.

Jul 20 Sold 50 boxes of apples at $700 on credit to Zheng Yang Ltd.

REQUIRED

(c) Calculate the cost of sales for July 2024 using the FIFO method.

[1]

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Shengxin Trading occasionally conducts workshops to teach secondary school students about entrepreneurship. The following ledger account has been extracted from the books of Shengxin Trading.

Workshop income account

Date	Particulars	Dr ($)	Cr ($)	Bal ($)
2023				
Jul 1	?		200	200 Cr
2024				
Jun 30	Cash at bank		3 700	3900 Cr
Jun 30	Workshop income receivable		800	4 700 Cr

REQUIRED

(d) State the particulars for the entry on 1 July 2023.

_____

[1]

(e) Prepare an extract of the statement of financial performance for the year ended 30 June 2024 to show the amount to be included for workshop income.

Shengxin Trading
Extract of Statement of Financial Performance for the year ended 30 June 2024

_____

_____

_____

_____

_____

[2]

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At the end of each accounting year, Shengxin Trading makes adjustments for income earned but not yet received and income received but not yet earned in accordance to the revenue recognition theory and one other accounting theory.

REQUIRED

(f) State and explain the other accounting theory.

Accounting theory: _____

Explanation of accounting theory: _____

_____

_____

_____

[2]

Shengxin Trading wants to purchase a new vehicle to deliver watermelons and apples to its customers. It is considering between two models of commercial vehicle, Toyota Hiace and Nissan NV350.

REQUIRED

(g) State **two** non-accounting information that should be considered by Shengxin Trading when deciding which model of commercial vehicle to purchase.

1 _____

2 _____

[2]

[Total: 11]

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3 Hannah Trading hired an accounting intern, Justin, who unfortunately made some mistakes.

Justin changed the depreciation method for motor vehicles from reducing-balance method to straight-line method because he felt that it was less time consuming to calculate annual depreciation expense using the straight-line method.

REQUIRED

(a) State and explain the accounting theory that Justin **violated**.

Accounting theory: _____

Explanation of accounting theory: _____

_____

_____

[2]

Hannah Trading had been receiving positive reviews from customers on its products. Justin recorded the positive reviews as $1 000 of current assets.

REQUIRED

(b) State and explain the accounting theory that Justin **violated**.

Accounting theory: _____

Explanation of accounting theory: _____

_____

_____

[2]

Justin showed improvement in his performance and is now employed as a permanent accountant of Hannah Trading. Justin has been preparing financial statements at the end of each financial year in accordance to the accounting period theory and one other accounting theory.

REQUIRED

(c) State and explain the other accounting theory that Justin applied.

Accounting theory: _____

Explanation of accounting theory: _____

_____

_____

[2]

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Hannah Trading and Amirah Trading are in the same industry. The following information about both businesses have been made available.

	Hannah Trading	Amirah Trading
	$	$
Cash at bank	10 000	-
Trade receivables	3 000	2 900
Inventory	20 000	50 000
Prepaid expenses	4 000	3 900
Total current assets	37 000	56 800
Trade payables	10 000	9 700
Bank overdraft	-	400
Current portion of long-term borrowings	-	2 000
Total current liabilities	10 000	12 100
Working capital	$27 000	?
Current ratio	3.70	?
Quick ratio	1.30	?

REQUIRED

(d) Calculate the following for Amirah Trading.

(i) Working capital

[1]

(i) Current ratio (to **two** decimal places)

[1]

(i) Quick ratio (to **two** decimal places)

[1]

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(e) Evaluate the liquidity of **both** businesses using the information provided and your answers to part **(d)**.

[6]

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Amirah Trading received two proposals from her accountant.

Proposal 1	Sell an under-utilised delivery van for cash.
Proposal 2	Take up a loan from DB Bank which must be repaid in 12 months time.

REQUIRED

(f) For each proposal, explain whether the proposal would improve Amirah Trading's liquidity position.

Proposal 1: _____

_____

_____

_____ [1]

Proposal 2: _____

_____

_____

_____ [1]

[Total: 17]

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4 Ace Academy took up a loan of $60 000 from CT Bank on 1 April 2022. Loan principal is repayable equally over 6 years and interest rate is at 4% per annum. Principal repayment and interest payment is to take place every 31 March, starting 31 March 2023.

REQUIRED

(a) Prepare the journal entry to record the transfer of interest expense to income summary on 31 December 2023.

Ace Academy
Journal

[2]

(b) Prepare an extract of the statement of financial position as at 31 December 2023 showing the liabilities sections only.

Ace Academy
Extract of Statement of Financial Position as at 31 December 2023

[3]

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Ace Academy in the business of providing enrichment classes for children and youths. Instructors at the academy photocopy notes and worksheets for students on a daily basis.

Ace Academy is deciding between buying or renting a photocopier as one of its photocopiers broke down recently. The business only has $2 000 available for upfront payment unless it takes up a short-term loan.

Ace Academy needs a photocopier that allows user IDs and printing quotas to be set up so that it can track and control how much each instructor is printing.

	Buy photocopier	Rent photocopier
Cost and payment	Total cost = $8000 $5 000 to be paid as downpayment upon ordering. Remaining $3 000 to be paid over 3 months at $1 000 per month upon delivery	$600 (also the first month rental) to be paid upon contract confirmation. Contract period = 12 months and rental = $600/ month Penalty of $3 000 if contract is terminated early. Contract can be renewed at the same rate for the same model of photocopier up to a maximum of 2 renewals. Rental for a different model after initial contract period will be subjected to prevailing market rate.
Condition	Brand new	Might have been rented out to other customers before
Estimated useful life	3 years	Not applicable
Warranty and repairs	Warranty of 1 month. Must arrange own repairs after warranty period.	Rental company's service personal will be onsite within 1 hour of receiving service call throughout contract period. No extra charge for repairs as long as damage is due to normal wear and tear.
Set up of user IDs and printing quotas	No limit on the number of user IDs that can be set up. Different printing quota can be set up for different user ID. Printing quota can be changed at anytime for each user ID.	Contract includes setting up of 20 user IDs and a printing quota of 1 000 pages for each user ID for 6 months. Each request to increase number of user IDs or printing quota is chargeable at $10 per request.

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REQUIRED

(c) Recommend whether Ace Academy should buy or rent a photocopier. Justify your decision with **three** reasons.

[7]

[Total: 12]

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Hillgrove Secondary School
Preliminary Examination 2024
4E/5NA Principles of Accounts Paper 1 (7087/01)
Suggested answers and marking scheme

Q1
(a)
(i) Report [1m]
(ii) Journal [1m]

(b) Debit note [1m]

(c)
Accounting theory: Objectivity theory [1m]
Explanation of accounting theory: Accounting information recorded must be supported by reliable and verifiable evidence so that financial statements will be free from opinions and biases. [1m]

(d)
When a private limited company incurs debts and losses, shareholders are not obliged to pay them using their personal assets, i.e. not personally liable. [1m]
In the worst-case scenario, shareholders will only need to forfeit their investments. [1m]

(e)
To provide accounting information for stakeholders for decision-making. [1m]

[Q1 Total: 8m]

Q2
(a) Anyone one of the following: [1m]
- Safeguard assets of the business
- Ensure business transactions are recorded accurately
- Comply with laws and regulations

(b) Any one of the following: [1m]
- Segregation of duties
- Authorisation of payments

(c) Compare the business' records with the bank's records to identify items that caused the differences between the ending balances in the business cash at bank account and the bank statement. [1m]
And check that these items arose out of legitimate timing differences and/ or errors in recording.

(d) Any one of the following: [1m]
- Cheque has expired.
- Cheque is post-dated.
- Information on the cheque is not consistent e.g. amount written in numbers does not match amount written in words (or signature is different from the authorised version in the bank's records)
- Information on cheque is not complete. For example, there is no date (or no amount to be paid or no signature)
- Payer's bank account does not have enough funds (or is closed or frozen)

(e)

In the books of Ming Yu's business

Cash at Bank

Date	Particulars	Dr ($)	Cr ($)	Bal ($)
2024				
Jun 30	Bal b/d			480 Cr (1)
	Rent expense		1 340 (1)	
	Leya (correction of error)		800 (1)	
	Commission income	3550 (1)		
	Mindy (dishonoured cheque)		7200 (1)	6170 Cr
Jul 1	Bal b/d			6170 Cr

[5m]
-1m if wrong date

(f)
Ming Yu's business
Bank Reconciliation Statement as at 30 June 2024

		$	
Balance as per bank statement		(4570)	(1)
Add: Deposits in transit	(1)		
Josh		4500	
Less: Cheques not yet presented	(1)		
Keagen (cheque no. 3067)		(6100)	
Balance as per adjusted cash at bank account		(6170)	

[3m]

[Q2 Total: 12m]

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Q3

(a) Apportionment of the reduction in economic value of a non-current asset. [1m]

(b) Reducing-balance method [1m]

(c)
$24 000 / $60 000 = 40%
Net book value as at end of 31 Dec 2022 = $60 000 - $24 000 = $36 000
$14 400 / $36 000 = 40%

Thus, rate of depreciation = 40% [1m]

(d) (i) Profit for the year will be overstated by $14 400. [1m]
(Since expenses understated by $14 400)

(ii) Total non-current assets will be overstated by $14 400. [1m]
(Since Accumulated Depreciation understated by $14 400
and thus Net Book Value overstated by $14 400)

Capital will be overstated by $14 400. [1m]
(Since profit for the year overstated by $14 400)

(e)
Accounting theory: Materiality theory [1m]
Explanation of accounting theory: A transaction is considered material if it makes a difference to the decision-making process. [1m]

(f) (i) Profit for the year understated by $10 000. [1m]
(ii) Non-current assets understated by $10 000. [1m]

[Q3 Total: 10m]

Q4

(a) Average inventory = (Beginning inventory + Ending inventory) / 2
= ($90 500 + $97 000) / 2
= $93 750 [1m]

Rate of inventory turnover = Cost of sales / Average inventory
= $869 000 / $93 750 = 9.17 times [1m]

(b) 1m each. Award up to maximum 4m.

Point	
1	Nice Home's (NH) rate of inventory turnover *improved* from 4.06 times in 2022 to 6.64 times in 2023. Chic Living's (CL) rate of inventory turnover *improved* from 8.11 times in 2022 to 9.17 times in 2023.
2	Thus, *both* businesses sold out and replenished its inventory *more times* in 2023 as compared to 2022.
3	Hence, there was *improvement* in efficiency in inventory management for *both* businesses over the two years.
4	Nonetheless, CL's rate of inventory turnover was *better* than NH's for *both* years.
5	Thus, CL sold out and replenished its inventory *more times* than NH for *both* years.
6	Hence, CL was *more efficient* in inventory management as compared to NH for *both* years.

[4m]

(c) Chic Living (CL) probably has a persistent advantage over Nice Home (NH). For example, the quality of furniture CL is selling might be of a significantly better quality than the ones that NH is selling. Thus, there is a persistently higher demand for CL's inventory leading to it being able to sell its inventory faster than NH. [1m]

Accept any other reasonable answer that explains why CL might be able to persistently sell its inventory faster or was persistently more able to keep sufficient inventory on hand.

Or Accept any other reasonable answer that explains why both CL and NH are able to improve efficiency in inventory management.

(d)
Dr Impairment loss on inventory $1 200 [1m]
(10% x $12000)

Dr Insurance claim receivable $10 800 [1m]
(90% x $12000)

Cr Inventory $12 000 [1m]

[Q4 Total: 10m]

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Hillgrove Secondary School
4E/6NA Preliminary Examination 2024
Principles of Accounts Paper 2 (7867/02)
Suggested answers and marking scheme

Q1
(a)

Danish Hairstyling Ltd
Statement of Financial Performance for the year ended 31 December 2023

	$	$
Hairstyling revenue		126000 (1)
Less: Other expenses		
Hairstyling supplies expense	12500	
Salaries expense	24000 } (1)	
Rent expense	38000 (1)	
Utilities expense (+$590)	11590 (1)	
Depreciation expense:		
Fixtures and fittings [10% x ($50000 - $2000)]	4800 (1)	
Hairstyling equipment [30% x ($14000 - $4200)]	2940 (1)	
Impairment loss on trade receivables {(2% x ($8400 - $400)] - ($500 - $400)}	60 (1)	
Total other expenses		91880
Profit for the year		33110 (1)

[8m]

(b)

Danish Hairstyling Ltd
Statement of Financial Position as at 31 December 2023

	Cost	Accumulated depreciation	Net book value
Assets			
Non-current assets			
Fixtures and fittings	50000	24000	26000 (1)
Hairstyling equipment	14000	7140	6860 (1)
Total non-current assets			32860
Current assets			
Cash in hand		17600	
Prepaid rent expense ($37000 - $36000)		1000 (1)	
Trade receivables (-$400)	8000 (1)		
Less: Allowance for impairment of trade receivables (2% x $8000)	(160) (1)		
Net trade receivables		7840 (1)*	
Total current assets			26440
Total assets			59300
Equity and Liabilities			
Shareholders' equity			
Share capital, 10 000 ordinary shares		20000 (1)	
Retained earnings ($4900 + $33110 (1)* - $1000 (1)*)		37010	
Total equity			57010
Current liabilities			
Bank overdraft		700 (1)	
Utilities expense payable		590 (1)	
Dividends payable (10000 x $0.10)		1000 (1)	
Total current liabilities			2290
Total equity and liabilities			59300

*OF
[12m]

[Q1 Total: 20m]

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Q2

(a) List price = ($3600/ 90) x 100 = $4000 [1m]

(b)

On 25 June 2024, Shengxin Trading paid credit supplier Sean Fruits $11970 by cheque [1m] after deducting cash discount of $630 [1m].

(c) Cost of sales = $500 + $600 = $1100 [1m]

(d) Workshop income received in advance [1m]

(e)

Shengxin Trading

Extract of Statement of Financial Performance for the year ended 30 June 2024

		$
Add: Other income		
Workshop income	(1)	4 700 (1)

[2m]

(f)

Accounting theory: Accrual basis of accounting theory [1m]

Explanation of accounting theory: Business activities that have occurred, regardless of whether cash is paid or received, should be recorded in the relevant accounting period. [1m]

(g)

Any two of the following: 1m each

- Customers' reviews of non-current assets
- Duration of warranty
- Purpose of non-current assets
- Features of non-current assets [2m]

[Q2 Total: 11m]

Q3

(a)

Accounting theory: Consistency theory [1m]

Explanation of accounting theory: Once an accounting method is chosen, this method should be applied to all future accounting periods to enable meaningful comparison of accounting information over time. [1m]

(b)

Accounting theory: Monetary theory [1m]

Explanation of accounting theory: Only business transactions that can be measured in monetary terms are recorded. [1m]

(c)

Accounting theory: Going concern theory [1m]

Explanation of accounting theory: A business is assumed to have an indefinite economic life unless there is credible evidence that it may close down. [1m]

(d)

(i) Working capital = Current assets – Current liabilities = $56 800 - $12 100 = $44 700 [1m]

(ii) Current ratio = Current assets / Current liabilities = $56 800 / $12 100 = 4.69 [1m]

(iii) Quick assets = Current assets excluding inventory and prepaid expense = $2 900

Quick ratio = Quick assets / Current liabilities =$2 900 / $12 100 = 0.24 [1m]

(e) 1m for each point. Award up to 6m.

Point	
1	Amirah Trading's (AT) working capital of $44 700 was better than Hannah Trading's (HT) $27 000.
2	This seemingly implied that AT was in a better liquidity position as compared to HT.
3	AT's current ratio of 4.69 was better than HT's 3.70. However, AT's quick ratio of 0.24 was worse than HT's 1.30.
4	Since quick ratio is a stricter indicator of liquidity as compared to current ratio, AT's liquidity position was worse than HT's.
5	Moreover, AT's quick ratio was less than 1. This indicated that AT had insufficient quick assets to settle its current liabilities and was probably having cashflow problems.
6	AT's inventory holdings of $50 000 was 2.50 times that of HT's $20 000. Thus, a significantly higher amount of AT's funds was tied up in unsold inventory.
7	AT lacked cash. AT had bank overdraft of $400 while HT had cash at bank balance of $10 000, yet both businesses owed almost the same amount to credit suppliers.
8	AT's liquidity position was further aggravated by $2 000 of long-term borrowings becoming current as the status changed from being due in over 1 year to falling due within the next 12 months.

[6m]

(f)

Proposal 1

Proposal 1 will improve Amirah Trading's liquidity position since the cash received from selling the under-utilised delivery van will increase the amount of current assets and quick assets. [1m]

Proposal 2

This proposal will not improve Amirah Trading's liquidity position because the increase in current assets and quick assets due to increase in cash at bank balance will be offset by an increase in current liabilities as the loan needs to be repaid within 12 months. [1m]

[Q3 Total: 17m]

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Q4

(a)

	Ace Academy		
	Journal		
Date	Particulars	Dr($)	Cr ($)
2023			
Dec 31	Income summary	2 100	
	Interest expense		2 100

Workings

(3/12 x 4% x $60 000) + (9/12 x 4% x $50 000) = $2 100

[2m]

1m for correct accounts and 1m for correct amount

(b)

Ace Academy

Extract of Statement of Financial Position as at 31 December 2023

	$
Non-current liabilities	
Long-term borrowings	40 000 (1)
Current liabilities	
Current portion of long-term borrowings	10 000 (1)
Interest expense payable (9/12 x 4% x $50 000)	1 500 (1)

[3m]

(c)

1m each for each point.

Decision	Ace Academy should buy a photocopier.
Reason 1	Ace Academy will save $13 800 over three years if it buys a photocopier. Workings 3 x 12 x $600 = $21 600 $21 600 - $8 000 = $13 600
Elaboration 1	Amount saved can be used to pay for Ace Academy's operating expenses.
Reason 2	Ace Academy will be acquiring a photocopier that has not been used before if it buys a photocopier.
Elaboration 2	Hence, the photocopier should be in excellent condition and is less likely to break down, and thus less likely to cause disruptions to Ace Academy's operations.
Reason 3	Buying a photocopier provides Ace Academy flexibility over configuration of user IDs and printing quotas at no extra cost.
Elaboration 3	Ace Academy can customise the configuration of user IDs and printing quota to suit its operations.

or

Decision	Ace Academy should rent a photocopier.
Reason 1	Upfront payment for renting a photocopier is $4 400 lower as compared to buying and is within the amount that Ace Academy is able to spend on upfront payment. Workings $5 000 - $600 = $4 400
Elaboration 1	There will be less strain on Ace Academy's cash flow and there is no need for it to take up a short-term loan and incur interest expense.
Reason 2	Repairs is fully taken care of by the rental company as long as the damage is caused by routine usage.
Elaboration 2	Hence, Ace Academy need not concern itself with the maintenance of the photocopier and can better focus on business operations.
Reason 3	Contract period of 1 year is not an onerously long period of time.
Elaboration 3	Ace Academy can easily switch to a different or better model of photocopier or switch to a different rental company after the contract period and need not concern itself with the removal of the photocopier or finding a buyer for the used photocopier.

[7m]

[Q4 Total: 12m]

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