MARIS STELLA HIGH SCHOOL (SECONDARY)

PRELIMINARY EXAMINATIONS 2024
SECONDARY FOUR EXPRESS

PRINCIPLES OF ACCOUNTS **7087/01**
Paper 1 **15 August 2024**
1 hour

MARK SCHEME

MAXIMUM MARK: 40

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Question 1 [Total: 7]

(a)

Transaction	Source document
1	Invoice
2	Debit note
3	Receipt

[1 mark each, 3]

(b) Any one of the following. **[2]**

Integrity – to be straightforward and **honest** in all professional and business relationships

Objectivity – to be **unbiased** when making a professional judgement in the accounting process and not be influenced by threats and rewards

(c) Ledger **[1]**
(d) Going concern theory **[1]**

Question 2 [Total: 11]

(a) Drawings has no effect on the profit for the year. **[1]**
Drawings will decrease the equity. **[1]**

(b)

Drawings

		Debit	Credit	Balance	
		$	$	$	
2023					
Jun 14	Inventory	500 **[1]**		500	Dr
2024					
Feb 16	Cash at bank	2 500 **[1]**		3 000	Dr
31	Capital		3 000 **[1] OF**	-	

(c)

Capital

		Debit	Credit	Balance	
		$	$	$	
2023					
Apr 1	Balance b/d			50 000	Cr **[1/2]**
Aug 13	Cash at bank		10 000 **[1]**	60 000	Cr
Dec 25	Motor vehicles		40 000 **[1]**	100 000	Cr
2024					
Mar 31	Income summary		28 000 **[1]**	128 000	Cr
31	Drawings	3 000 **[1] OF**		125 000	Cr
Apr 1	Balance b/d			125 000	Cr **[1/2]**

(d) Stewardship – Accountant being the agent of the organization is given the responsibility to **manage the resources [1/2]** of the business and has a moral duty to present accounts that do not misled users of accounting information **[1/2]**.

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Question 3 [Total: 10]

(a)

	WOW	**Joy Eatery**
Current ratio =*Current assets ÷ Current liabilities*	(65000+60000+35000+1000) ÷ (50000+30000) = 161000 ÷ 80000 **= 2.01 [1]**	(53000+10000+36000+2000) ÷ (54000+22000) = 101000 ÷ 76000 **= 1.33**
Quick ratio *[Current assets – (inventory + prepayment)] ÷ Current liabilities*	(161000 – 60000 - 35000) ÷ 80000) = 66000 ÷ 80000 **= 0.83 [1]**	(101000 – 10000) ÷ 76000 = 91000 ÷ 76000 = **1.20**

(b)

- WOW's current ratio of 2.01 was better than Joy Eatery's current ratio of 1.33.
- WOW's current ratio was above the general benchmark of 2 [1/2] while Joy Eatery falls below the general benchmark of 2 [1/2].
- This means that WOW is more able to pay its current liabilities using **current** assets than Joy Eatery.
- WOW's quick ratio of 0.83 was worse than Joy Eatery's quick ratio of 1.20.
- WOW's quick ratio of 0.83 was below the general benchmark of 1 [1/2] while Joy Eatery was above the general benchmark of 1 [1/2].
- This means that WOW is less able to pay its current liabilities using quick assets than Joy Eatery. / This indicate that WOW may face difficulties in paying its immediate debts using its quick assets.
- These could be because WOW has a bank overdraft of $30000,
- and has a high inventory of $60000. A lot of funds are tied up in inventory. These could have worsened WOW's liquidity position.
- In conclusion, WOW is in a worst off liquidity position than Joy Eatery.

(Any 5 points + Conclusion, 1 mark each)

(c) (Any 2, max 2 marks)

- Cash contribution from owner
- Obtain long-term borrowings
- Sale of excess non-current assets for cash

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Question 4 [Total: 12]

(a) It refers to service fee revenue received last month but earned this month **[1/2]**. Thus the amount of $6000 that was adjusted last year is reversed **[1/2]** and added to this year service fee revenue on 1 June 2024.

(b) On 20 June, Ethans Vans provided $2000 **[1/2]** worth of services for Shawn but did not receive any amount from Shawn for the services provided. **[1/2]**.

(c) It refers to services fee revenue of $5000 received this month **[1/2]** but Ethan Vans had not provide the service yet **[1/2]**.

(d) Service fee revenue and profit would be overstated **[1/2]** by $5000. **[1/2]**

Current liability (Service fee revenue received in advance) would be understated **[1/2]** by $5000 **[1/2]**

(e) Any one of the following. **[2]**

Revenue Recognition – Revenue is recognised when goods are sold and delivered or when services have been performed

Accrual - Revenue is recognised when it is earned and not on amount of cash received.

(f) Revenue is the main source of income for the business, it is the amount earned when a business sells goods or provides services to customers. **[1]**

Other income is the amount earned from other business activities, discount received, commission income **[1]**

(g)

Journal

Date	Particulars	Debit ($)	Credit ($)
2024			
Jun 30	Cleaning expense	1200	
	Cash at bank		1200
Jun 30	Cleaning expense	200	
	Cleaning expense payable		200
Jun 30	Income summary	1400	
	Cleaning expense		1400

[1/2 mark each, 3]

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