MARIS STELLA HIGH SCHOOL (SECONDARY)

PRELIMINARY EXAMINATIONS 2024
SECONDARY 4 EXPRESS

PRINCIPLES OF ACCOUNTS **7087/02**
Paper 2 **22 August 2024**
2 hours

MARK SCHEME

MAXIMUM MARK: 60

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Question 1 [Total: 20]

(a)

Happiness Pte Limited

Statement of financial performance for the year ended 31 May 2024

	$	$	
Sales revenue	642 000		
Less: Sales returns	4 100		
Net sales revenue		637 900	**1**
Less: Cost of sales		448 310	
Gross profit		189 590	**1**
Other income			
Commission income (4400+600)	5 000		**1**
Discount received	1 830	6 830	**½**
Less: Other expenses			
Interest expense	2 500		
Utilities expense (7200 – 1200)	6 000		**1**
Wages and salaries (54220+1780)	56 000		**1**
Rent expense	72 000		
Discount allowed	1 900		**½**
Depreciation – Motor vehicles (0.1 X 240000)	24 000		**1**
Depreciation – Fixtures and fittings (0.2 X 57600)	11 520		**1**
Impairment loss on trade receivables *	1 550		**1**
Impairment loss on inventory	3 500	178 970	**1**
Profit for the year		17 450	

[10]

*N = 0.05 X (31400-1400) = 1500
N-(O-W) = 1500 – (1350-1400) = 1500 – (-50) = +1550

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(b)

Happiness Pte Limited

Statement of Financial Position as at 31 May 2024

	$	$	$	
Assets	Cost	Accumulated depreciation	Net book value	
Non-current assets				
Motor vehicles (48000+24000)	270 000	72 000	198 000	½
Fixtures and fittings (6400+11520)	64 000	17 920	46 080	½
			244 080	
Current assets				
Inventory (83500-3500)		80 000		**1**
Trade receivables (31400 – 1400)	30 000			½
Less: Allowance for impairment of trade receivables	1 500	28 500		½
Commission income receivable		600		**1**
Prepaid utilities expense		1 200	110 300	**1**
Total assets			354 380	
Equity and Liabilities				
Shareholders' Equity				
Share capital, 110 000 ordinary shares		220 000		½
Retained earnings (5000+**17450**-**6600**)		15 850	235 850	**1**
Non-current liabilities				
Long term borrowings			80 000	½

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Current liabilities				
Trade payables		9 150		
Bank overdraft		1 000		½
Wages and salaries payable		1 780		**1**
Current portion of long-term borrowings		20 000		½
Dividends payable		6 600	38 530	**1**
Total equity and liabilities			354 380	

[10]

Question 2 [Total: 12]

(a) Cash at bank account

Date	Particulars	Dr $	Cr $	Balance $
2024				
Apr 30	Balance b/d			1 280 Dr
	Trade receivable - Timothy	1 500 **[1]**		2 780 Dr
	Rent expense		3 000 **[1]**	220 Cr
	Inventory (error)	1 800 **[1]**		1 580 Dr
	Trade receivable – Matthew ight (dishonoured)		2 000 **[1]**	420 Cr
	Bank charges		300 **[1]**	720 Cr
May 1	Balance b/d			720 Cr

[5]

(b) Bank Reconciliation Statement as at 30 April 2023

	$
Balance as per bank statement	300
Add: Cheques not yet credited	
Max Lights	580 **[1]**
Bank's error	100 **[1]**
Less: Cheques not yet presented	
Jair Enterprise	1 700 **[1]**
Balance as per updated cash at bank account	(720) **[1]**

[4]

(c)

Adjusted profit = $8 000 - $3 000 **[1/2]** - $300 **[1/2]** = $4 700

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(d) Any two of the following **[2]**

- Segregation of duties
- Authorisation
- Custody of cash

Question 3 [Total: 12]

(a) Cost of sales on 20 January = 2400 + (3600+500) = $6500 **[1 1/2]**

Cost of sales on 30 January = $2200 **[1/2]**

Total cost of sales for January 2024 = 6500 + 2200 = $8700

(b)

Journal			
Date	Particulars	Debit	Credit
2024		$	$
Jan 10	Inventory	500	
	Trade payable – Fast Delivery		500
Jan 20	Trade receivable – Kenneth Trading	10 000	
	Sales revenue		10 000
	Cost of sales	6 500	
	Inventory		6 500

[1/2 mark each : 3]

(c)

Kaellen Trading

Statement of Financial Performance for the month ended 31 January 2024 (extract)

	$
Sales revenue (10000+4000)	14 000 **[1]**
Less : Cost of sales	8 700 CF **[1]**
Gross profit	5 300

(d)

Kaellen Trading

Statement of Financial Position as at 31 January 2024 (extract)

	$
Current assets	
Inventory	2 600 **[1]**

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(e)

- The rate of inventory turnover of has **decreased and worsened** from 8.9 times in 2022 to 6.4 times in 2023. **[1]**
- This shows that Kaellen Trading has become **less efficient** in its inventory management. **[1]**
- This may be due to lack of popularity of its product / overstocking in inventory / increased competition from other suppliers **[1]**

(f) Any one of the following **[1]**

- Sell more goods through online platforms
- Reducing selling price for slow-moving goods (unpopular products).
- Provide trade discount to customers to encourage bulk purchase.
- Attract more customers through marketing campaign.
- Use technology to improve accuracy prediction about customer demand so that business can know when and how much inventory to buy.

Question 4 [Total: 16]

(a) Any one of the pair **[2]**

	TRADE DISCOUNT	**CASH DISCOUNT**
1	A deduction off the list price	A deduction off the net invoice price
2	Given to encourage **b**ulk **p**urchases	Given to encourage **p**rompt **p**ayment
3	Not recorded in the general ledger	Recorded in the general ledger as discount allowed or discount received

(b) Percentage discount = 130 / (2470+130) X100% = 130 / 2600 X 100% = 5% **[1]**

(c) (i) **Jonas Trading** returned goods of $100 previously bought from the business. **[1]**

(ii) The cheque of $2470 received on 22 August from Jonas Trading was dishonoured **[1]** and the discount allowed of $130 was withdrawn **[1]**.

(iii) The business wrote off the outstanding debts amounting to $4500 owed by Jonas Trading. **[1]**

(d) Profit would be understated **[1/2]** by $130 **[1/2]**

Trade receivables would be understated [**1/2]** by $130 **[1/2]**

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(e)

Decision	[1]	I would advise James Trading to extend credit to Jerrick Firm
Evidence #1	[1]	Jerrick Firm has been in business for 10 years, 7 more years than Joel Trading of 3 years.
Explanation for Evidence #1	[1]	Since it has been in operation for 10 years, it should be more stable and would have built up a reputation for the quality of products it supplies in addition to the goodwill it gives to its customers. It will be less likely to close down and more likely to be able to repay its debt.
Evidence #2	[1]	Jerrick Firm paid late twice compared to Joel Trading who paid late 5 times.
Explanation for Evidence #2	[1]	Jerrik Firm is more reliable, and James Trading can be more assured of collecting money from Jerrick Firm than from Joel Trading.
Evidence #3	[1]	Jerrick Firm has 3 physical outlets in major shopping districts in Singapore, while Joel Trading operates online.
Explanation for Evidence #3	[1]	Since Jerrick Firm physical outlets are conveniently located in major shopping districts, it will have easy access to customers, and will also attract customers who would prefer to see and touch the clothing before buying. Jerrick Firm can generate consistent sales revenue to pay James Trading on time.
Evidence #4	[1]	Jerrick Firm is popular with affluent working professionals with high purchasing power (wealthy).
Explanation for Evidence #4	[1]	Jerrick Firm is likely to generate high sales revenue and more likely to pay on time.

OR

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Decision	[1]	I would advise James Trading to extend credit to Joel Trading
Evidence #1	[1]	Joel Trading has a better repayment history. It has collection days of 35 days as compared to Jerrick Firm of 37 days.
Explanation for Evidence #1	[1]	Joel Trading is more prompt in payment and James Trading will be able to obtain cash earlier which can be used for other purposes.
Evidence #2	[1]	Joel Trading operates online whereas Jerrick Firm only has physical outlets.
Explanation for Evidence #2	[1]	Selling online will enable Joel Trading to have a wider reach of customers across many countries, which can lead to increase in global demand for its goods. With higher global demand, Joel Trading can generate consistent sales and buy more from James Trading. This will lead to increase in sales and profit for James Trading.
Evidence #3	[1]	Joel Trading sells athleisure which has gained significant popularity in recent years.
Explanation for Evidence #3	[1]	Athleisure is a choice for individuals who value both active lifestyles and fashion-forward looks. The customer base will be wider, and this will mean that Joel Trading will buy more from James Trading. This will lead to increase in sales and profit for James Trading.
Evidence #4	[1]	Joel Trading's average trade receivables balance is $25 000, which is $7 000 lower than Jerrick Firm's trade receivables balance of $32 000.
Explanation for Evidence #4	[1]	The amount owed by Joel Trading is generally lesser, and in the event that both businesses are unable to pay their debts, lesser debts will be written off for Joel Trading

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