ZHONGHUA SECONDARY SCHOOL
PRELIMINARY EXAMINATION 2024
SECONDARY 5 NORMAL ACADEMIC

Candidate's Name	Class	Register Number
Suggested Marking Scheme		

PRINCIPLES OF ACCOUNTS 7087/02

9 September 2024
2 hours

READ THESE INSTRUCTIONS FIRST

Write your name, class and register number on all the work you hand in.

Write in dark blue or black pen on both sides of the paper.

You may use a soft pencil for any rough working.
Do not use paper clips, glue or correction fluid.

Answer **all** questions.

You may use a calculator.
The businesses mentioned in this question paper are entirely fictitious.
Where the columnar format is used, the running balance column should be updated for the first and last entries. Where applicable, the balance should be brought down to the next financial year.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

Question	Score
1	**/ 20**
2	**/ 14**
3	**/ 15**
4	**/ 11**
Total	**/ 60**

Setter: M Mr John Kok

Vetter: Ms Teo Jing Zhi & Ms Destiny See

This question paper consists of 6 printed pages (including this cover page)

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1 (a) Desire Diamonds

Statement of financial performance for the year ended 30 June 2024

	$	$
Sales revenue (170270 + 0.95x1000)	171 220 [1]	
Less: sales return	9 000	
Net sales revenue		162 220
Less: Cost of sales		60 700
Gross profit		101 520
Add: Other income		
Rent income (12/18 x 18000)	12 000 [1]	
Discount received	1 440	13 440
		114 960
Less: Other expenses		
Advertising	22 700	
Salaries and wages (12 x 5 000)	60 000 [1]	
Loan interest (8% x 50000 x 6/12)	2 000 [1]	
General expenses	10 380	
Discount allowed	4 800	
Depreciation of fixtures and fittings (10% x 72000)	7 200 [1]	
Depreciation of plant and equipment (5% x [288000-50900])	11 855 [1]	
Impairment loss on inventory	2 564 [1]	
(0.3 x 10300 x 0.6 +([0.7 x 10300]-6500)) [1]		
Reversal of impairment loss on trade receivables	(505) [1]	
(5% x ([31950 + 0.95 X 1000 - 3000])-5000+3000) [1]		
		120 994
Loss for the year		(6 034)

(b) Desire Diamonds

Statement of financial position as at 30 June 2024

Assets			
Non-Current assets	Cost	Accum depn	NBV
Fixtures and fittings (12000+7200)	72 000	19 200 [1]	52 800
Plant and equipment (50900+11855)	288 000	62 755 [1]	225 245
	360 000	81 955	278 045
Current assets			
Trade receivables (31950+0.95x1000-3000)	29 900 [1]		
Less: Allowance for impairment on tr	1 495 [1]		
(5% x [31950+0.95x1000-3000])		28 405	
Cash at bank (15700+0.4 x 0.3 x 10300		16 936 [1]	
Inventory		6 500	51 841
Total assets			329 886
Equity and liabilities			
Owner's equity			
Capital (249520 – 6034)		243 486	
Non-current liabilities			
Long term borrowings (50000 x 4/5)		40 000 [1]	
Current liabilities			
Trade payables	20 650		
Rent income received in advance (6/18 x 18000)	6 000 [1]		
Salaries and wages payable (12 x 5000 – 51050)	8 950 [1]		
Interest payable (2000-1200)	800 [1]		
Current portion of long term borrowing (1/5 x 50000)	[1] 10 000	46 400	
			329 886

[Total: 20]

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

Any one of the following: [1]

1. Safeguard assets of the business
2. Ensure business transactions are recorded accurately
3. Comply with laws and regulations

(b) State **two** methods of internal control over cash other than bank reconciliation.

1. Segregation of duties. [1]
2. Custody of cash. [1]
3. Authorisation. [1]

[Any 2 points]

(c) Update the cash at bank account on 31 July 2024.

Cash at bank				
Date	Particulars	Dr	Cr	Bal
2024		$	$	$
Jul 31	Balance b/d			5 728 Dr
	Jack Supplies		345 [1]	
	Utilities		2 200 [1]	
	Sinking Shop		4 120 [1]	
	Interest income	12 [1]		
	Bank charges		20 [1]	945 Cr
Aug 1	Balance b/d			945 Cr [1]
				[6]

(d) Prepare the bank reconciliation statement as at 31 July 2024.

Trusty Trading Bank Reconciliation Statement as at 31 July 2024	
	$
Dr balance as per bank statement	(1 027) [1]
Add: Deposits in transit	
Cheque No: 5304 (error)	55 [1]
Luke	2 915 [1]
Less: Cheques not yet presented	
Claire	2 888 [1]
Cr balance as per updated cash at bank account	(945) [1]
	[5]

[Total: 14]

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3 (a) According to the **materiality theory** [1], relevant information should be reported in the financial statements if it is likely to make a difference to the decision-making process and since the amount spent on measuring cup is **insignificant**, it can be reported as an expense instead of a non-current asset. [1]

(b) Depreciation for the year ended 31 December 2023

= 20% x (90000-18000-14400) + 20% x (90000+7200+2800) [1] = 11520 + 20000

= $21520 [1]

(c)

General Journal			
Date	**Particulars**	**Dr**	**Cr**
2023		$	$
Aug 9	Sale of non-current asset	90 000	
	Motor Vehicle		90 000
	Accumulated depreciation of motor vehicle	32 400	
	Sale of non-current asset		32 400
	Cash at bank	60 000	
	Sale of non-current asset		60 000
	Sale of non-current asset	2 400	
	Income Summary		2 400

1 mark per double entry [4]

(d) Decision **[1]:** Alodia should extend credit to Linus Party

Evidence **[1]:** Linus Party has a repayment history averaging 33 days which is within the 45 days requested.

Explanation**[1]:** This will allow Alodia to reduce the time and cost needed to process late payments and would free her up to focus on other aspect of the business.

Evidence **[1]:** Linus Party credit sales revenue is $26 900 more than Marcus Meal or average trade receivables balance is $13 000 more.

Explanation**[1]:** This means it is more important to keep Linus Party as a customer by extending credit since losing them would means a big reduction in revenue and therefore lower potential profit

Evidence **[1]:** Linus Party has garnered attention for offering unique and innovative services.

Explanation**[1]:** This means that Linus Party has the ability to attract more unique customers through their innovation and thus has a potential to have a larger demand of goods and therefore by offering credit extension and keeping Linus Party as a customer, Alodia has the potential of early higher profit.

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OR

Decision **[1]:** Alodia should extend credit to Marcus Meal

Evidence **[1]:** Marcus Meal is centrally located with a regular customer base who like Alodia's cakes.

Explanation**[1]:** This means that Marcus Meal has a steady flow of business and is unlikely to close. As a result, Alodia would be unlikely to experience expense due to Marcus Meal inability to pay up.

Evidence **[1]:** Marcus Meal has a repayment history averaging 42 days which is within the 45 days requested.

Explanation**[1]:** This will allow Alodia to reduce the time and cost needed to process late payments and would free her up to focus on other aspect of the business.

Evidence **[1]:** Marcus Meal has been operating for 10 years and had been featured in both local and overseas media.

Explanation**[1]:** This means that Marcus Meal has an attractive business with strong customer loyalty and is therefore unlikely to close. Therefore, Alodia would be unlikely to experience expense due to Marcus Meal inability to pay up.

Evidence **[1]:** Marcus Meal business has been growing after Covid.

Explanation**[1]:** This means that Marcus Meal may be demanding more of the goods and therefore by offering credit extension and keeping Marcus Meal as a customer, Alodia has the potential of early higher profit

[Total: 15]

4 (a) Liquidity is important to a business in order to: *(any **one** answer)* [1]

1. ensure **sufficient cash flow** to maintain the day-to-day operations;
2. meet its **short-term obligations** or **loans**;
3. take advantage of **cash discounts** as the business is able to pay promptly; and take advantage of **good investment opportunities** using existing funds.

(b) (i) Current ratio, South Pac Live = (32760+20100+1200+14600)/(15800+900)

= 4.11 [1]

Current ration, Alaska Fresh = (153800+14200+6500)/(11800+1200+4200+10000)

= 6.41 [1]

(ii) Quick ratio, South Pac Live = (20100+14600)/(15800+900)

= 2.08 [1]

Quick ratio, Alaska Fresh = (14200)/(11800+1200+4200+10000)

= 0.52 [1]

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(c) *(Any 6 points, 1m each)*

- The current ratio of Alaska Fresh **at 6.41** is **better than that of** South Pac Live at **4.11**. [1]
- The current ratios of both businesses are above the general benchmark of 2 which indicates that both businesses have sufficient current assets to pay for its immediate debts. [1]
- However, the quick ratio of Alaska Fresh at **0.52** is **worse than that of** South Pac Live at **2.08**. [1]
- While the quick ratio of South Pac Live is above the general benchmark of 1, the quick ratio of Alaska Fresh is below the general benchmark. This suggests that Alaska Fresh has insufficient **quick** assets to pay for its immediate debts [1] while South Pac Live has sufficient quick assets to pay for its immediate debts.. [1]
- This is evident/further supported from the bank overdraft position of Alaska Fresh as at 30 June 2024. [1]
- This may be due to Alaska Fresh having its funds tied up in inventory as its inventory balance of $153 800 is significantly much higher than that of South Pac Live at $32 760. [1]
- Moreover, Alaska Fresh has higher current liabilities due to its current portion of long-term borrowings of $10 000 as compared to South Pac Live which has none. [1]
- Therefore, Alaska Fresh is less liquid than South Pac Live.

[Total: 11]

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