Name of Candidate: ..... ( ) Class: .....

BUKIT PANJANG GOVERNMENT HIGH SCHOOL

PRELIMINARY EXAMINATION 2024

SECONDARY 5

GCE 'O' LEVEL SYLLABUS

PRINCIPLES OF ACCOUNTS

Paper 1

7087/01

15 August, 2024

1 hour

0750 h – 0850 h

Candidates answer on the Question Paper

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

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Answer **all** the questions.

The businesses described in this question paper are entirely fictitious.

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

FOR EXAMINER'S USE	
Question 1	/ 16
Question 2	/ 8
Question 3	/ 16
Total:	/ 40

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1 Xin Catering specialises in food catering services.

On 1 January 2023, the business purchased a delivery van and paid the following by bank transfer.

	$
Purchase price of delivery van	120 000
Delivery cost of delivery van	6 500
Import tax	2 800
Annual road tax	1 250

REQUIRED

(a) Explain the difference between capital expenditure and revenue expenditure.

.....

.....

.....

[2]

(b) Prepare the journal entries to record the capital and revenue expenditures. Narrations are **not** required.

Journal

Date 2023	Particulars	Debit $	Credit $
Jan 1			

[4]

The financial year end of Xin Catering ends on 30 June. The following balances were extracted on 1 July 2023.

	$
Motor vehicles	275 000
Accumulated depreciation of motor vehicles	92 250

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On 1 October 2023, one of the motor vehicles was sold. The following ledger account was provided.

Sales of non-current asset account

Date 2023	Particular	Debit $	Credit $	Balance $
Oct 1	Motor vehicles	62 000		62 000 Dr
Oct 1	Accumulated depreciation of motor vehicles		32 000	?
Oct 1	Other receivable – Misty Trading		27 000	?
2024				
Jun 30	Income summary	?	?	?

It is the company's policy to depreciate motor vehicles at 20% per annum using the reducing- balance method. A full year's depreciation is charged in the year of purchase and no depreciation in the year of sale.

REQUIRED

(c) Calculate the following for the motor vehicle that was sold.

(i) Net book value

_____

_____

[1]

(ii) Gain or loss on sale of non-current asset

_____

_____

[1]

(d) Prepare the journal entries that took place on 30 June 2024. Narration is **not** required.

Journal

Date 2024	Particular	Debit $	Credit $
Jun 30			

[2]

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(e) Calculate the depreciation of motor vehicles for the year ended 30 June 2024.

[2]

(f) Using an appropriate accounting theory, explain why a business should depreciate its non-current assets.

Accounting theory

Explanation

[2]

(g) Explain why the reducing-balance method is more suitable in depreciating motor vehicles.

[2]

[Total: 16]

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2 Yee Lin runs a retail shop selling high heels. She provided the following information for the year ended 31 July 2024.

Account balances as at 1 August 2023	$
Prepaid advertising expense	7 900
Commission income receivable	1 600

The business had the following transactions.

Date		$
2024		
Feb 5	Received commission income by bank transfer	4 000
Jun 18	Paid for advertising expense by cheque	6 860

Additional information

1 Commission income of $1 500 received was meant for the month of August 2024.

2 Advertising expense of $900 has yet to be paid as at 31 July 2024.

REQUIRED

(a) Explain what is meant by *commission income receivable.*

.....

.....

.....

[1]

(b) Using an accounting theory, explain why it is necessary for Yee Lin to make adjustments for prepaid advertising expense.

.....

.....

.....

.....

.....

[2]

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(c) Analyse the effect of **not** making an adjustment for prepaid advertising expense on 1 August 2023 on:

(i) Profit for the year

[1]

(ii) Statement of financial position

[1]

Yee Lin also rents out part of the business premises. The rental income received during the year ended 31 July 2024 was $7 000. There were no amounts outstanding at 1 August 2023. The tenant owed $800 as at 31 July 2024.

REQUIRED

(d) Prepare an extract of the statement of financial performance for the year ended 31 July 2024 to show the amounts to be included for **commission income**, **rental income** and **advertising expense**.

Yee Lin

Extract of Statement of Financial Performance for the year ended 31 July 2024

[3]

[Total: 8]

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3 Wei Xun is in the business of selling cameras. He provided the following business cash at bank account for the month of May 2022.

Cash at bank account

Date	Particular	Cheque Number	Debit	Credit	Balance
2022			$	$	$
May 1	Balance b/d				2 100 Dr
7	Hui Loft Houses	24002		750	1 350 Dr
10	Iman Shoot Studio		1 000		2 350 Dr
14	Bern Foundation	24003		1 600	750 Dr
20	Sales revenue		950		1 700 Dr
24	Lai Leh Furnishing	24004		800	900 Dr
29	Micheal Kor Kor		780		1 680 Dr
Jun 1	Balance b/d				1 680 Dr

The bank statement received for May 2022 is as follows:

Bank statement

Date	Particular	Withdrawal	Deposit	Balance
2022		$	$	$
May 1	Balance b/d			2 800 Cr
2	Cheque no: 24001	700		2 100 Cr
21	Cash deposit		950	3 050 Cr
22	Cheque no: 24003	1 600		1 450 Cr
23	Credit transfer: Ah Tan Trading		540	1 990 Cr
26	Cheque no: 24004	900		1 090 Cr
28	Direct deposit: Rent		600	1 690 Cr
31	Interest	20		1 670 Cr

Additional information:

The bank informed Wei Xun that it made an error for cheque number 24004 and recorded a wrong amount.

REQUIRED

(a) Explain the purpose of bank reconciliation.

.....

.....

[1]

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(b) Prepare the adjusted cash at bank account for May 2022.

Cash at bank account

[3]

(c) Prepare the bank reconciliation statement as at 31 May 2022.

Bank reconciliation statement as at 31 May 2022

[5]

Downloaded from SingaKids.com

The following information was extracted from the books of Wei Xun's business as at 30 June 2022 and 2023.

	Year ended 30 June 2022	Year ended 30 June 2023
	$	$
Sales revenue	220 000	280 000
Less: Cost of sales	(89 280)	(100 560)
Gross profit	130 720	179 440

Additional information:

	$
Inventory as at 30 June 2021	20 200
Inventory as at 30 June 2022	24 570
Inventory as at 30 June 2023	25 480

REQUIRED

(d) Calculate the days sales in inventory for the two years ended 30 June 2022 and 2023. Show your answers to **two** decimal places.

	Year ended 30 June 2022	Year ended 30 June 2023
Working		

[2]

[Turn over

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(e) Evaluate the management of inventory by Wei Xun's business over the two years ended 30 June 2022 and 2023.

[3]

(f) Suggest **two** ways in which Wei Xun could improve the business's efficiency in managing inventory.

1

2

[2]

[Total: 16]

End of paper

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Name of Candidate: ..... ( ) Class: .....

BUKIT PANJANG GOVERNMENT HIGH SCHOOL

PRELIMINARY EXAMINATION 2024

SECONDARY 5

GCE 'O' LEVEL SYLLABUS

PRINCIPLES OF ACCOUNTS

Paper 2

INSERT

7087/02

21 August, 2024

2 hours

0750 h – 0950 h

READ THESE INSTRUCTIONS FIRST

This insert contains the data for Question 1.

This paper consists of 3 printed pages and 1 blank page

[Turn over

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Data for Question 1

Le-Vince Pte Ltd is a company providing legal consultancy services. The following balances were extracted on 31 March 2024.

	$
Share capital, 100 000 ordinary shares	100 000
Retained earnings at 1 April 2023	29 230
Commission income	8 000
Legal fee revenue	40 400
Trade payables	21 000
Trade receivables	32 000
Allowance for impairment of trade receivables	780
Bank loan repayable 2028	60 000
Cash at bank	35 000
Equipment at cost	150 000
Fixtures and fittings at cost	55 000
Accumulated depreciation:	
Equipment	28 500
Fixtures and fittings	15 600
Office expenses	6 200
Wages and salaries	9 310
Rent expense	15 000
Interest on bank loan	1 000

Additional information on 31 March 2024

1 Fixtures and fittings are to be depreciated using the straight-line method over a useful life of ten years. The estimated scrap value is $3 000.

2 Equipment are to be depreciated at 10% per annum using the reducing-balance method.

3 Interest is charged on bank loan at the rate of 6% per annum. The loan was taken up on 1 November 2023.

4 The rent expense of $15 000 is paid for 15 months, up to 30 June 2024.

5 Wages and salaries, $2 310, were owing and office expenses, $1 230, was prepaid.

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6 Legal fee revenue amounting to $3 200 was received in advance from a client.

7 It was decided that 2% of the trade receivables were unlikely to be collectible.

8 25 000 shares at $1.00 each were issued and paid on 1 February 2024. This has not been recorded.

9 A dividend of $0.05 per share was declared on 1 March 2024, but had not been paid.

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Name of Candidate: ..... ( ) Class: .....

BUKIT PANJANG GOVERNMENT HIGH SCHOOL

PRELIMINARY EXAMINATION 2024

SECONDARY 5

GCE 'O' LEVEL SYLLABUS

PRINCIPLES OF ACCOUNTS

Paper 2

7087/02

21 August, 2024

2 hours

0750 h – 0950 h

Candidates answer on the Question Paper

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FOR EXAMINER'S USE	
Question 1	/ 20
Question 2	/ 21
Question 3	/ 8
Question 4	/ 11
Total:	/ 60

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1 Refer to the Insert for data for Question 1.

REQUIRED

(a) Prepare the statement of financial performance for the year ended 31 March 2024.

Le-Vince Pte Ltd
Statement of Financial Performance for the year ended 31 March 2024

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[10]

Downloaded from SingaKids.com

(b) Prepare the statement of financial position as at 31 March 2024.

Le-Vince Pte Ltd
Statement of Financial Position as at 31 March 2024

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[10]

[Total: 20]

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2 Tahiya runs a business of buying and selling car accessories. The business provided the following drawings account for the year ended 30 September 2024.

Drawings account

Date	Particulars	Debit	Credit	Balance
2023		$	$	$
Nov 11	Cash at bank	2 000		2 000 Dr
Dec 5	Cash at bank	500		2 500 Dr
2024				
May 6	Inventory	1 250		3 750 Dr
Sep 30	Capital		3 750	-

REQUIRED

(a) Define drawings.

.....

.....

[1]

(b) State and explain the accounting theory behind the transaction on 5 December 2023.

Accounting theory .....

Explanation .....

.....

.....

[3]

(c) Interpret the entries in the drawings account on:

(i) 6 May 2024

.....

.....

[1]

(ii) 30 September 2024

.....

.....

[1]

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The following information was extracted from the books of Tahiya's business as at 30 September 2022, 2023 and 2024.

	2022	2023	2024
Non-current assets	$	$	$
Motor vehicles, net book value	86 700	84 000	83 450
Current assets			
Inventory	15 100	29 700	37 800
Net trade receivables	9 200	14 300	15 080
Cash at bank	7 800	7 500	-
Prepaid rent expense	-	490	15 700
Total current assets	32 100	51 990	68 580
Current liabilities			
Trade payables	10 100	22 490	19 770
Salaries payable	-	3 400	1 990
Bank overdraft	-	-	19 050
Total current liabilities	10 100	25 890	40 810

REQUIRED

(d) Explain the difference between liquidity and profitability.

.....

.....

.....

[2]

(e) Calculate the following as at 30 September 2024. Show your answer to **two** decimal places.

(i) Current ratio

.....

.....

[2]

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(ii) Quick ratio

[2]

Tahiya also provided the following information relating to 30 September 2022 and 2023.

	2022	2023
Current ratio	3.18	2.01
Quick ratio	1.68	0.84

REQUIRED

(f) Taking into account the above information and your answer in part **(e)**, evaluate the liquidity of Tahiya's business over the three years.

[7]

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(g) Suggest **two** ways Tahiya can improve on the liquidity of her business.

1 .....

.....

2 .....

.....

[2]

[Total: 21]

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3 Keane runs a hair salon. When preparing the financial statements of his business for the year ended 31 December 2024, he discovered the following errors.

1 Cash payment of $450 to Shaun was recorded in Sean's account.

2 Motor vehicle maintenance fees of $670 have been recorded in the motor vehicle account.

3 Included in the rental expense was $290 paid for motor vehicle used by Keane for his personal trips.

4 Cheque of $1 000 received for commission income has been debited to the commission income account and credited to the cash at bank account.

The profit for the year before discovering the errors was $20 450.

REQUIRED

(a) Explain why the trial balance is able to balance even though there are errors.

.....

.....

.....

[2]

(b) Prepare a statement to show the adjusted profit for the year ended 31 December 2024.

Keane

Statement to show adjusted profit for the year ended 31 December 2024

.....

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.....

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.....

.....

.....

.....

[4]

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(c) State the role of accounting.

.....

.....

.....

[1]

(d) Explain the going concern theory.

.....

.....

.....

[1]

[Total: 8]

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4 On 1 July 2024, FIFO Limited has a balance of $2 000 in the allowance for impairment of trade receivables account.

On 13 July 2024, Xun Trading who owed FIFO Limited $2 900, announced that it was closing its business. Xun Trading was able to pay FIFO Limited $0.25 for every dollar owed by cheque. The remaining amount was to be written off.

REQUIRED

(a) State how trade receivables should be valued in the statement of financial position.

.....

.....

[1]

(b) Prepare the journal entries to record the transaction that took place on 13 July 2024. Narration is **not** required.

Journal

.....

.....

.....

.....

.....

.....

.....

.....

[3]

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To improve his efficiency in managing trade receivables, the owner of FIFO Limited, Alpha determined that his business would offer a maximum of 30 days credit terms to its customers.

The following are information of a new customer, Raymond requesting for 30-day credit terms:

- Raymond is in the business of selling electric vehicles. It is an overseas business from China and looking to selling electric vehicles in Singapore. Raymond's business had been well-established and was reviewed to be the top-selling electric vehicle company in the ASEAN region.

- With the implementation of Singapore Green Plan 2030, the Singapore government is encouraging environmentally sustainable transportation and providing additional grants for purchase of electric vehicles.

- Alpha is expecting to sign a two-year contract with Raymond which would provide an additional other income of $6 000 every month. This would also increase Alpha's profit margin by 12%. A check on the financial statements of Raymond showed that it has a current ratio of 2.9 and a quick ratio of 0.64.

- Review on the credit repayment trend in the ASEAN region showed that businesses normally pay after 40 days, and this is likely to worsen owing to poorer economic outlook.

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REQUIRED

(c) Advise Alpha whether he should grant the 30-day credit terms to Raymond. Justify your decision with **three** reasons.

[7]

[Total: 11]

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Additional page

[Turn over

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Additional page

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BUKIT PANJANG GOVERNMENT HIGH SCHOOL

PRELIMINARY EXAMINATION 2024

SECONDARY 5

GCE 'O' LEVEL SYLLABUS

PRINCIPLES OF ACCOUNTS

Paper 1

7087/01

15 August, 2024

1 hour

0750 h – 0850 h

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MARKING SCHEME

FOR EXAMINER'S USE	
Question 1	/ 16
Question 2	/ 8
Question 3	/ 16
Total:	/ 40

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1(a) Any one of the followings: **[1 – capital expenditure, 1 – revenue expenditure]**

- Capital expenditure refers to the cost of buying and bringing the non-current assets to its intended use, while revenue expenditure refers to the costs to operate, repair and maintain the non-current asset in working condition.

- Capital expenditure provide benefits for more than 1 year, while revenue expenditure provides benefits which will be used within 1 year.

- Capital expenditure is recorded as non-current asset in the statement of financial position, while revenue expenditure is recorded as expense in the statement of financial performance.

1(b) Journal

Date 2024	Particulars	Debit $	Credit $
Jan 1	Motor vehicles (120 000 + 6 500 + 2 800)	129 300 **[1]**	
	Cash at bank		129 300 **[1]**
	Road tax expense	1 250 **[1]**	
	Cash at bank		1 250 **[1]**

1(c) **(i)** Net book value
= Cost – Accumulated depreciation
= $62 000 – $32 000
= $30 000 **[1]**

(ii) Gain/loss on sales of NCA
= Sales proceeds – NBV
= $27 000 – $30 000
= $(3 000) *loss* **[1]**

Note: Student must show whether is it a gain or loss on sales of NCA to be awarded the mark.

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1(d)

Journal

Date 2024	Particular	Debit $	Credit $
Jun 30	Income summary	3 000	
	Sales of non-current asset		3 000

1(e) Net book value of remaining motor vehicles
= $(275 000 – 92 250) – $30 000
= $152 750 **[1]**

Depreciation expense for year ended 30 June 2024
= 20% x $152 750
= $30 550 **[1]**

1(f) Accounting theory Matching theory **[1]**

Explanation The cost of using the non-current asset is recorded as depreciation expense and matched against the income earned from using the non-current assets in the same accounting period to determine the profit for that period. **[1]**

OR

Accounting theory Prudence theory **[1]**

Explanation Depreciation is charged to the non-current asset as it gets exposed to wear and tear. This will then ensure that profits and assets are not overstated. **[1]**

1(g) The choice of the method of depreciation is dependent on its usage pattern **[1]**. Motor vehicles provides more benefits in its earliest years of its useful life and hence, reducing method is used instead **[1]**.

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2(a) Commission income receivable refers to the commission income earned as services are provided but the amount have yet to be received. **[1]**

2(b) According to accrual basis of accounting theory, expenses should be recorded in the period where services have been used, regardless of whether they have been paid or not **[1]**.

Hence, prepaid advertising expense should be deducted from the other expenses from the current period and the services used in the business later should be recorded as current assets **[1]**.

2(c) **(i)** Profit for the year will be overstated by $7 900. **[1]**

Note: Mark will still be awarded if the value is omitted

(ii) Current assets will be overstated by $7 900. **[1]**

Note: Mark will only be awarded if students specify current assets. General answer like 'assets' will not be awarded.

2(d)

Yee Lin

Extract of Statement of Financial Performance for the year ended 31 July 2024

	$
Add: Other income	
Commission income (–1 600 + 4 000 – 1 500)	900 **[1]**
Rental income (7 000 + 800)	7 800 **[1]**
Less: Other expenses	
Advertising expense (7 900 + 6 860 + 900)	15 660 **[1]**

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3(a) The purpose is to check the business' records (cash at bank account) against the bank's record (bank statement) so as to deter fraud. **[1]**

3(b)

Cash at bank

Date	Particular	Debit	Credit	Balance
2022		$	$	$
May 31	Balance b/d			1 680 Dr
31	Trade receivable – Ah Tan Trading **[1]**	540		2 220 Dr
31	Rent income **[1]**	600		2 820 Dr
31	Interest expense **[1]**		20	2 800 Dr
Jun 1	Balance b/d			2 800 Dr

3(c)

Bank reconciliation statement as at 31 May 2022

	$
Balance as per bank statement	1 670
Add: Deposits in transit	
Trade receivable – Iman Shoot Studio **[1]**	1 000
Trade receivable – Micheal Kor Kor **[1]**	780
Bank error (900 – 800) **[1]**	100
Less: Cheques not yet presented	
Trade payable – Hui Loft Houses (Cheque no: 24002) **[1]**	(750)
Adjusted balance as per cash at bank account **[1]**	2 800

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3(d)

	Year ended 30 June 2022	Year ended 30 June 2023
Workings	Average inventory = (20 200 + 24 570) / 2 = $22 385 $Days\ sales\ in\ inventory$ $= \frac{Average\ inventory}{Cost\ of\ sales} \times 365\ days$ $= \frac{22\ 385}{89\ 280} \times 365\ days$ = 91.52 days **[1]**	Average inventory = (24 570 + 25 480) / 2 = $25 025 $Days\ sales\ in\ inventory$ $= \frac{Average\ inventory}{Cost\ of\ sales} \times 365\ days$ $= \frac{25\ 025}{100\ 560} \times 365\ days$ = 90.83 days **[1]**

3(e)

- The days sales in inventory of Wei Xun's business has improved from 91.52 days to 90.83 days from 2022 to 2023 respectively. **[1]**
- This means that on average, Wei Xun takes 90.83 days to sells its inventory in a year which was an improvement from 91.52 days by 0.69 days. **[1]**
- This suggests that in 2023, Wei Xun's business takes a shorter time now to sell its inventory. Hence, it is becoming more efficient in managing its inventory. **[1]**

3(f) Any *two* of the followings: **[1 – per point]**

- 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.

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Name of Candidate: ..... ( ) Class: .....

BUKIT PANJANG GOVERNMENT HIGH SCHOOL

PRELIMINARY EXAMINATION 2024

SECONDARY 5

GCE 'O' LEVEL SYLLABUS

PRINCIPLES OF ACCOUNTS **7087/02**

Paper 2 **21 August, 2024**

2 hours

0750 h – 0950 h

Candidates answer on the Question Paper

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Question 1	/ 20
Question 2	/ 21
Question 3	/ 8
Question 4	/ 11
Total:	/ 60

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1(a)

Le-Vince Pte Ltd

Statement of financial performance for the year ended 31 March 2024

	$	$	
Legal fee revenue (40 400 - 3 200)		37 200	[1]
Add: Other incomes			
Commission income		8 000	[1]
		45 200	
Less: Other expenses			
Office expenses (6 200 - 1 230)	4 970		[1]
Wages and salaries (9 310 + 2 310)	11 620		[1]
Rent expense (15 000 / 15 x 12)	12 000		[1]
Interest on bank loan (6% x 60 000 x 5/12)	1 500		[1]
Depreciation of fixtures and fittings ([55 000 - 3 000] / 10)	5 200		[1]
Depreciation of equipment (10% x [150 000 - 28 500])	12 150		[1]
Reversal of impairment loss on trade receivable (780 – 640)	(140) [1]	(47 300)	
Loss for the year		(2 100)	[1]

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1(b)

Le-Vince Pte Ltd
Statement of financial position as at 31 March 2024

	$ Cost	$ Accumulated depreciation	$ Net book value	
Assets				
Non-current assets				
Equipment (AD: 28 500 + 12 150)	150 000	40 650	109 350	
Fixtures and fittings (AD: 15 600 + 5 200)	55 000	20 800	34 200	
			143 550	**[1]**
Current assets				
Trade receivables	32 000			
Less: Allowance for impairment of trade receivables (2% x 32 000)	(640)			
Net trade receivables		31 360		**[1]**
Prepaid rent expense (15 000 / 15 x 3)		3 000		**[1]**
Prepaid office expenses		1 230		**[1]**
Cash at bank (35 000 + [1 x 25 000])		60 000		**[1]**
			95 590	
Total assets			239 140	
Equity and Liabilities				
Shareholders' equity				
Share capital, 125 000 ordinary shares		125 000		**[1]**
Retained earnings (29 230 - 2 100 - [125 000 x 0.05])		20 880		**[1 – OF]**
			145 880	
Non-current liabilities				
Long-term borrowings			60 000	
Current liabilities				
Trade payables		21 000		
Legal fee revenue received in advance		3 200		**[1]**
Interest on bank loan payable (2 500 – 1 000)		500		**[1]**
Dividends payable		6 250		**[1]**
Wages and salaries payable		2 310		
			33 260	
Total equity and liabilities			239 140	

**OF – Students will still be awarded this mark as long as the right formula is applied even if the profit/loss for the year figure used from part (a) is calculated wrongly to avoid double-penalisation.*

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2(a) Drawings are assets taken from the business by the owner for personal use. **[1]**

2(b) **Accounting theory**: Accounting entity theory **[1]**

Explanation: Business and owner are treated as separate entities **[1]**. Hence, the amount of $500 was taken out from the business bank account for personal use is to be recorded as drawings. **[1]**

2(c) **(i)** On 6 May 2024, the owner / Tahiya took out goods costing $1 250 for personal use. **[1]**

(ii) On 30 September 2024, the total drawings of $3 750 was transferred to the capital account at the end of the financial year.

2(d) Liquidity is the ability of the business to convert its current assets into cash to pay its current liabilities **[1]** whereas profitability is the ability of the business to generate excess income to cover its expenses. **[1]**

2(e) **(i)** $$Current\ ratio = \frac{Current\ assets}{Current\ liabilities}$$ **[1]**

$$Current\ ratio = \frac{68\ 580}{40\ 810}$$

= 1.68 **[1]**

(ii) $$Quick\ ratio = \frac{Current\ assets - Inventory - Prepayments}{Current\ liabilities}$$ **[1]**

$$Quick\ ratio = \frac{15\ 080}{40\ 810}$$

= 0.37 **[1]**

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2(f) Evaluation of current ratio

- Current ratio has worsened each year from 3.18 in 2022 to 2.01 in 2023 to 1.68 in 2024. **[1]**
- This means that for every $1 of short-term debts, the company has $3.18, $2.01 and $1.68 of net current assets to cover its debts in 2022, 2023 and 2024 respectively. **[1]**

Evaluation of quick ratio

- Quick ratio has worsened each year from 1.68 in 2022 to 0.84 in 2023 to 0.37 in 2024. **[1]**
- This means that for every $1 of short-term debts, the company has $1.68, $0.84 and $0.37 of quick assets to cover its debts in 2022, 2023 and 2024 respectively. **[1]**

Reason for the decline in liquidity *(Any two of the following)* **[1 – per reason]**

- The reason was the increasing inventory of the business from $15 100 in 2022 to $37 800 in 2023 which suggests that the company is overstocking or have difficulties in selling its goods which worsens its liquidity of the business.

- The increase of net trade receivables from $9 200 in 2022 to $15 080 in 2024 which suggests that the business has difficulties in collecting payment from its credit customer.

- The decrease of cash at bank of $7 800 in 2022 to a bank overdraft of $19 050 in 2024 suggests that the business will have less fund to make its payment / obligation when it is due.

Conclusion

- Overall, the liquidity of Tahiya's business is in a worsening/declining trend as the quick ratio fell below 1. **[1]**

2(g) *Any **two** of the following* **[2]**:

(1) Increase cash by obtaining long-term loan.
(2) Increase cash by selling excess non-current assets.
(3) Increase cash by obtaining cash contribution from owners.
(4) Decrease cash outflow by negotiating better credit terms from supplier.
(5) Decrease cash outflow by reducing operating expenses.

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3(a) Trial balance will balance as long as there is a debit and credit entry of the same amount **[1]**. Even if the account is wrong or amount is wrong **[1]**, trial balance will still balance.

3(b)

Keane

Statement to show adjusted profit for the year ended 31 December 2024

	$
Unadjusted profit for the year	20 450
Add: Commission income – was understated (1 000 x 2)	2 000 **[1]**
Rental expense – was overstated	290 **[1]**
Less: Motor vehicle maintenance fees – was understated	(670) **[1]**
Adjusted profit for the year	22 070 **[1]**

3(c) Accounting is an information system that provides accounting information for stakeholders to make informed decisions regarding the management of resources and performance of business. **[1]**

3(d) Business is assumed to run indefinitely unless there is credible evidence that it may close down. **[1]**

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4(a) Trade receivables should be valued at trade receivables *less* allowance for impairment of trade receivables (net trade receivable). **[1]**

4(b)

Journal

Date	Particular	Debit	Credit
2024		$	$
Jul 13	Cash at bank (0.25 x 2 900)	725 **[1]**	
	Allowance for impairment of trade receivables (0.75 x 2 900)	2 175 **[1]**	
	Trade receivable – Xun Trading		2 900 **[1]**

4(c) *Both options are acceptable so long as students provide the following reasonable evidence and explanation to support their choice.*

Marks allocation:

- *1 mark for decision*
- *3 pieces of evidence to be provided (1 mark for each evidence)*
- *3 corresponding explanations to be provided (1 mark for each explanation)*

Decision: I would advise Alpha to grant the 30-day credit to Raymond. **[1]**

Evidence	Explanation
Raymond is well-established and leading in selling electric vehicles in the European market. **[1]**	With its good track record, it would likely to be able to establish its brand in Singapore and generate sufficient sales to continue to operate. Alpha can be assured of a continued business with Raymond. **[1]**
Singapore is encouraging the purchase of electric vehicles in the country by providing additional grants for purchase of electric vehicles. **[1]**	This will encourage more customers to buy electric vehicles hence increasing revenue for Raymond. Alpha can be more assured that Raymond would be able to pay for its debts. **[1]**
Alpha can earn additional other income of $6 000 from Raymond per month and increase its profit margin by 12%. **[1]**	This would further secure income and enable Alpha to derive more profit from his revenue earned and improving the profitability of the business. **[1]**

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Decision: I would advise Alpha not to grant the 30-day credit to Raymond. **[1]**

Evidence	Explanation
Raymond's business is an overseas business and had not establish an office in Singapore. **[1]**	It would be difficult for Alpha to collect the amount due from overseas if Raymond failed to pay on time. **[1]**
Although current ratio of 2.9 is above acceptable norm of 2, its quick ratio of 0.64 is below acceptable norm of 1. **[1]**	This suggests that Raymond had insufficient readily available cash to pay its supplier and expenses. Alpha may face difficulties in getting payment from Raymond on time. **[1]**
The normal repayment period in the ASEAN region is after 40 days and the economic outlook seems pessimistic too. **[1]**	There is uncertainty whether Raymond would be able to pay on time and Alpha may run a risk of an uncollectible trade receivable if Raymond default on its payment. **[1]**

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