YUAN CHING SECONDARY SCHOOL
PRELIMINARY EXAMINATION 2022
SECONDARY FOUR EXPRESS / FIVE NORMAL ACADEMIC
PRINCIPLES OF ACCOUNTS (7087/02)

SUGGESTED MARKING SCHEME

QUESTION 1 (a)

Strike Law Firm
Statement of Financial Performance for the year ended 31 May 2022

	$	$
Lawyer Fees Revenue		136 680✓
Add: Other Income		
Rental Income (7200 – 400)		6 800✓
Less: Expenses		
Discount Allowed	1 040✓	
Utilities Expense	3 340	
Salaries Expense (29600 + 3400)	33 000✓	
Impairment Loss on Trade Receivables (360 – 100)	260✓	
Depreciation on Equipment (36000 x 0.4)	14 400✓	
Depreciation on Fixtures and Fittings ((39500 – 8500)/10)	3 100✓	(55 140)
Profit for the Year		88 340

QUESTION 1 (b)

Strike Law Firm

Statement of Financial Position as at 31 May 2022

ASSETS	$	$	$
Non-Current Assets	Cost	Acc Dep	NBV
Equipment (24000 + 14400)	60 000	(38 400)✓	21 600
Fixtures and Fittings (6200 + 3100)	39 500	(9 300)✓	30 200
Premises	96 000	–	96 000✓
			147 800
Current Assets			
Trade Receivables	12 000		
Less: Allowance for Impairment of TR (12000*0.03)	(360)✓	11 640✓	
Cash at Bank (18000 + 820)		18 820✓	
Cash in Hand (7800 – 820)		6 980✓	37 440
Total Assets			185 240
EQUITY AND LIABILITIES			
Owner's Equity			
Capital (80000 + 88340✓OF – 1900✓)			166 440
Non-Current Liabilities			
Long-Term Borrowing (15000 – 5000)			10 000✓
Current Liabilities			
Rent Income Received in Advance ($^{1200}/_{3}$)		400✓	
Salaries Expense Payable		3 400✓	
Current Portion of Long-Term Borrowing ($^{15000}/_{3}$)		5 000✓	8 800
Total Equity and Liabilities			185 240

QUESTION 2 (a)

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{28500}{9910}$ = 2.88 : 1 **[1]**

QUESTION 2 (b)

Quick Ratio = $\frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{9290+5780 \text{ [1]}}{9910}$ = 1.52 : 1 **[1]**

QUESTION 2 (c)

Any four of the following: **[4] – 1 mark each**

- Fresh Sanitizers has a better current ratio of 3.04 : 1 as compared to Clorocks Wipes at 2.88 : 1.
- Fresh Sanitizer has better ability to pay off their financial obligations using their current assets as compared to Clorocks Wipes.
- Both businesses have current ratios above the preferred norm of 2 : 1 which means that both businesses are considered liquid.
- Fresh Sanitizer has more outstanding trade receivables as compared to Clorocks Wipes. These amounts can be easily collected if the businesses need the funds to pay off their liabilities.
- However, majority of the current assets of Fresh Sanitizers is made up of inventory, which is not a quick asset. This means that Fresh Sanitizers may take a longer time to convert the inventory to cash and they may still face difficulty paying up their liabilities.
- Fresh Sanitizers has more prepaid expenses as compared to Clorocks Wipes, which is also not a quick asset. This means that Fresh Sanitizers may not be able to convert the prepaid expenses to cash and they may still face difficulty paying up their liabilities.

QUESTION 2 (d)

Any four of the following: **[4] – 1 mark each**

- Clorocks Wipes has a better quick ratio of 1.52 : 1 as compared to Fresh Sanitizer at 0.47 : 1.
- Clorocks Wipes have quick ratio above the preferred norm of 1 : 1, but Fresh Sanitizer doesn't. This means that Clorocks Wipes is considered liquid but Fresh Sanitizer is illiquid.
- Clorocks Wipes has better ability to pay off their financial obligations using their quick assets as compared to Clorocks Wipes.
- Clorocks Wipes has more quick assets as compared to Fresh Sanitizer. These amounts can be easily collected if Clorocks Wipes need the funds to pay off their liabilities.
- Fresh Sanitizer has a current portion of long-term borrowing of $8 800 to pay off, which is almost half of their current liabilities.
- Clorocks Wipes has cash in their bank account, however Fresh Sanitizer has overdrawn from their bank account and now has a bank overdraft of $2 640. This means that Fresh Sanitizer does not have funds and may face difficulty paying off their liabilities when due.

Note: Elaboration about assets and liabilities can be used in both (c) and (d) but the points should not be repeated in both parts. Also, inventory and prepaid expense should only be brought up in (c).

QUESTION 2 (e)

Any one of the following: **[1]**

- Inventory may become obsolete and the business is unable to sell them to get cash.
- The business cannot pay its trade payables who may refuse to sell goods to the business. As a result, the business will not be able to operate.
- The business cannot pay rent and salaries. As a result, the business may be forced to leave the shop space and the staff may quit. etc.
- If the current portion of long-term borrowing is not paid off by the due date, the bank may seize the collateral (if any) or force the business to bankruptcy to recoup the amount owed.

QUESTION 2 (f)

Any one of the following: **[1]**

- Obtain cash contribution from owner or shareholders
- Obtain long-term loan
- Sell excess non-current assets for cash
- Reduce operating expenses
- Negotiate for better credit terms from supplier

QUESTION 3 (a)

Cost of Sales = Goods on June 1 **[1]** + Goods bought on June 5 + June 13 **[1]**
= 1600 + 1900 + 2200
= $5 700 **[1]**

QUESTION 3 (b)

Gross Profit = Sales Revenue – Cost of Sales
= (5000 + 9700) **[1]** – 5700
= $9 000 **[1]OF**

QUESTION 3 (c)

Aeki should value inventory at the lower of cost or net realizable value. **[1]**

QUESTION 3 (d)

Impairment loss on inventory = Cost price – Net realizable value
= 3900 **[1]** – 3500
= $400 **[1]**

QUESTION 3 (e)

Any one of the following: **[7] – 1 mark stand, 1 mark – reason x 3, 1 mark elaboration x 3**

- Aeki should bring in the rectangular wooden table.
  The cost price of the rectangular wooden table is $330 cheaper than the round marble table. For the same quantity of tables, the lower cost price means that Aeki do not need so much cash to pay their supplier which has a lesser toll on the cash flow of Aeki's business.
  The rectangular wooden table is easier to fix up as compared to the round marble table. It would be easier for Aeki to attract customers to purchase the rectangular wooden table as it is easier to fix. Also, Aeki would be more able to assist the customers if they have issues assembling the table since it is easier to assemble.
  The rectangular wooden table has different sizes while the round marble table only has a single size. It is easier for Aeki to meet the demands of their customers as some customers prefer bigger tables while others require smaller tables.
  The rectangular wooden table is more well-liked by younger families due to the feature of it being extendable. When they have gatherings, it is important that they can extend the table to accommodate more people to have meals together.

- Aeki should bring in the round marble table.
  Aeki is able to earn better gross profit margin by 20% if they sell the round marble table. Higher gross profit margin would improve the profitability of the business and it would be easier for Aeki to attract investors to invest in the business if they intend to expand in future.
  The round marble table can last for a long time and does not wobble easily as it is durable and sturdy. It would be easier for Aeki to attract customers as the table can last for many years and would not spoil so easily.
  The round marble table has a better appearance due to its classy look and would probably fit into the house décor more appropriately. It would be easier for Aeki to attract customers who are looking for a more classy feel to their home décor.
  The round marble table is preferred by the Chinese who are willing to pay more for the round marble table. Aeki would be able to set a higher selling price and earn better gross profits.

QUESTION 4 (a)

Any one of the following: **[2] – 1 mark for bank loan, 1 mark for bank overdraft**

- In a bank loan, the amount borrowed is a fixed amount. In a bank overdraft, the amount borrowed is NOT a fixed amount.
- In a bank loan, the amount repaid is a fixed amount. In a bank overdraft, the amount repaid is a NOT fixed amount.
- In a bank loan, cash is transferred to the business. In a bank overdraft, cash is NOT transferred to the business.
- In a bank loan, the business must pay back within a fixed period of time. In a bank overdraft, the business need NOT pay back within a fixed period of time.

QUESTION 4 (b)

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Date	Particulars	Debit $	Credit $
2020 Oct 1	Cash at Bank	40 000✓	
	Bank Loan		40 000✓

QUESTION 4 (c)

Year ended 31 December	Interest expense $	Interest expense payable $
2020	40000 x 0.05 x $^{3}/_{12}$ = $500 [1]	$500 [1]
2021	40000 x 0.05 x $^{9}/_{12}$ = $1500 [1] 30000 x 0.05 x $^{3}/_{12}$ = $375 [1] 1500 + 375 = $1 875	$375 [1]

QUESTION 4 (d)

EYS Trading
Statement of Financial Position as at 31 December 2021 (Extract)

	$	$
EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long-Term Borrowings (30000 – 10000)		20 000✓
Current Liabilities		
Current Portion of Long-Term Borrowings ($^{40000}/_{4}$)	10 000✓	
Interest Expense Payable (30000 x 0.05 x $^{3}/_{12}$)	375✓	10 375

---END OF MARK SCHEME---