



**QUEENSWAY SECONDARY SCHOOL  
PRELIM EXAMINATION 2022**

**PRINCIPLES OF ACCOUNTS  
PAPER 1 and 2 (7087)**

**Sec 4 Express/ 5 Normal Academic**

**Mark Scheme**

**7087 Sec 4 Express Prelim PAPER 1**
**Table of Specifications**

Topic	P1 AO1 (15%)		P1 AO2 (10%)		P1 AO3 (10%)		P1 AO4 (5%)		Total Marks
	Qn	Marks	Qn	Marks	Qn	Marks	Qn	Marks	
Introduction to Accounting									0
Accounting Information System									0
Elements of financial statements and the accounting equation									0
Double entry recording									0
Trial balance and financial statements									0
Revenue and other income			3a	8	3d	1			9
Cost of sales and other expenses			3b, 3c	5	3d	1			6
Cash									0
Inventories									0
Trade receivables	2b	2	2a	6					8
Non-current assets									0
Trade payables									0
Long-term borrowings									0
Equities									0
Correction of errors			1a	6	1b, 1c	5			11
Financial statement analysis	4b	2					4a	4	6
<b>Total</b>		<b>4</b>		<b>25</b>		<b>7</b>		<b>4</b>	<b>40</b>

**7087 Sec 4 Express Prelim PAPER 2**
**Table of Specifications**

Topic	P1 AO1 (10%)		P1 AO2 (15%)		P1 AO3 (20%)		P1 AO4 (15%)		Total Marks
	Qn	Marks	Qn	Marks	Qn	Marks	Qn	Marks	
Introduction to Accounting									0
Accounting Information System									0
Elements of financial statements and the accounting equation									0
Double entry recording									0
Trial balance and financial statements					1a, 1b	20			20
Revenue and other income									0
Cost of sales and other expenses									0
Cash									0
Inventories									0
Trade receivables									0
Non-current assets			4a, 4b, 4c	6			4d	7	13
Trade payables									0
Long-term borrowings									0
Equities	3e	2	3a, 3b	11	3c, 3d	2			15
Correction of errors									0
Financial statement analysis	2c	4	2a	2			2b	6	12
<b>Total</b>		<b>6</b>		<b>19</b>		<b>22</b>		<b>13</b>	<b>60</b>

**PAPER 1 Q1, Total 11 marks**

**(a) Total 6 marks; 1 mark for each correct entry**

Journal

	Date	Particulars	Debit	Credit	
	2022		\$	\$	
1	Sep-30	Maintenance expense	300		1
		Fixtures and fittings		300	1
2	30	Trade payable - Angie (\$250 x 2)	500		1
		Cash at bank		500	1
3	30	Cash in hand	20		1
		Interest income		20	1

**(b) Total 3 marks**

	No effect	Overstated \$	Understated \$	
Error 1		300		1
Error 2	✓			1
Error 3			20	1

**c) Total 2 marks; accept any 2 stated**

When a trial balance is balanced, errors can exist when:

- A transaction is not recorded at all.
- The wrong amount is recorded in the correct side of the correct accounts.
- Transaction is recorded in the wrong account of a different accounting element.
- Transaction is recorded in the wrong account of a same accounting element.
- The correct amount is recorded in the wrong sides of the correct accounts involved.

**Paper 1 Q2, Total 8 marks**

**a) Total 6 marks**

- ai) On 1 August, Kimly owed \$20 000 to Rashid. 1
- aii) On 6 August, Rashid received a cheque of \$19 500 from Kimly in full settlement of amount owing (on 1 August). [1] A cash discount/ discount allowed of \$500 was given. [1] 2
- aiii) On 10 August, Rashid provided services to Kimly at \$12 000 on credit. 1
- aiv) On 20 August, Rashid received a cheque, \$10 000 from Kimly [1] and the outstanding amount owing of \$7 000 was written off as uncollectible. [1] 2

**b) Total 2 marks**

An allowance for impairment of trade receivables is an estimate of the amount of debts likely to be uncollectible. [1] This will ensure that the trade receivables balance reflects the amount that is collectible and is not overstated. [1] 2

**PAPER 1 Q3 Total 15 marks**

**(a) Total 8 marks; 1 mark for each correct entry**

Journal				
Date	Particulars	Dr	Cr	
2021		\$	\$	
Jul-01	Consultancy fee revenue received in advance	3 000		1
	Consultancy fee revenue		3 000	1
2022				
Jun-30	Cash at bank	100 000		1
	Consultancy fee revenue		100 000	1
Jun-30	Trade receivable/ Consultancy fee receivable	5 000		1
	Consultancy fee revenue		5 000	1
Jun-30	Consultancy fee revenue	108 000		1
	Income summary		108 000	1

**b) Total 3 marks**

Wages = \$8000 [1] - \$4 500 [1] + \$600 [1] = \$4 100 3

**(c) Total 2 marks**

According to the accrual basis of accounting [1], wages expenses must be recognised in the period the employees has provided their services, regardless of whether they have been paid for or not. [1] 2

OR

According to the matching theory [1], wages expense incurred must be matched against income earned in the same accounting period to determine the profit for that period. [1]

**(d) Total 2 marks; 1 mark for each correct entry**

Statement of financial performance for the year ended 30 June 2022

	\$	
<u>Income</u>		
consultancy fee revenue	108 000	1
<u>Less expenses</u>		
Wages expense	4 100	1

**Paper 1 Q4, Total 6 marks**

**(a) Total 4 marks; 1 mark per suitable comment to a maximum of 4 marks**

The rate of inventory turnover worsened from 9.43 times in 2020 to 8.33 times in 2021 to 7.28 times in 2022. **1**

The days sales in inventory have also increased from 20.63 days in 2020 to 25.80 days in 2021 to 32.51 days in 2022. **1**

This suggests that Atiqah is taking longer to sell her inventory, which may lead to higher storage costs and inventory obsolescence. **1**

This means that Atiqah is becoming less efficient in managing the inventory from 2020 to 2022 **1**

**(b) Total 2 marks; accept any 2 stated**

Sell inventory faster **2**

By reducing selling price for slow moving goods

By providing trade discounts to encourage customers to buy in bulk

By attracting more customers through advertising and marketing

Keep sufficient inventory on hand by using technology to implement inventory monitoring systems to replace inventory on a timely basis and predicting customer demand.

**Paper 2 Q1 Total 20 marks, 1 mark each unless otherwise stated**

**(a) Total 10 marks; 1 mark for each correct entry as indicated**

**Cozy Pte Ltd**  
**Statement of Financial Performance for the year ended 31**  
**December 2021**

	\$	\$	
Design fee revenue (\$25 800 - \$5 000)		20 800	1
Other income			
Discount received		800	1
Less: Other Expenses			
Interest expense	1 200		1
Discount allowed	500		1
Rent expense (12/13 x 15 600)	14 400		1
Salaries expense	17 000		1
Depreciation of equipment (5% x 54 000)	2 700		1
Depreciation of fixtures and fittings [10% x 40 000]	4 000		1
Reversal on Impairment loss on trade receivables [(2000-800) - (4% x 14 200)]	(632)	39 168	1
Loss for the year		<u>(17 568)</u>	1

**(b) Total 10 marks; 1 mark for each correct entry as indicated**

**Cozy Pte Ltd**  
**Statement of Financial Position as at 31 December 2021**

	\$	\$	\$	
	Cost	Accumulated depreciation	Net book value	
<b>ASSETS</b>				
<u>Non-current assets</u>				
Equipment	60 000	8 700	51 300	1
Fixtures and fittings	40 000	8 000	32 000	1
	100 000	16 700	83 300	
<u>Current assets</u>				
Trade receivables (15 000 - 800)	14 200			
Less: Allowance for impairment of trade receivables (4% x 14 200)	(568)	13 632		1
Cash at bank		32 000		
Prepaid rent expense (1/13 x 15 600)		1 200		1
			46 832	
Total assets			130 132	
<b>EQUITY AND LIABILITIES</b>				
<u>Shareholder's equity</u>				
Share capital, 20 000 ordinary shares		50 000		1
Retained earnings (28 100 - 17 568 - 1000)		9 532		1
			59 532	
<u>Non-current liabilities</u>				
Long-term borrowing (50 000 - 8 000)			42 000	1
<u>Current liabilities</u>				
Trade payables		14 600		
Design fee revenue received in advance		5 000		1
Dividends payable (0.05 x 20 000)		1 000		1
Current portion of long-term borrowing		8 000		1
			28 600	
Total equity and liabilities			130 132	



## PAPER 2 Q2 Total 12 marks

### (a) Total 2 marks

(i) Current ratio

$$= (9\,800 + 2\,500 + 4\,000 + 11\,000 + 2\,000 + 25\,000) / (17\,000 + 10\,000) \\ = 2.01$$

1

(ii) Quick ratio

$$= (9\,800 + 11\,000 + 2\,000) / (17\,000 + 10\,000) \\ = 0.84$$

1

### (b) Total 6 marks; 1 mark per suitable comment to a maximum of 6 marks

Lim Pte Ltd's current ratio has **worsened** from 2.45 in 2020 to 2.23 in 2021 to 2.01 in 2022.

Current assets are greater than current liabilities for each of the three years.

Current liabilities have increased to a greater extent than current assets over the period.

Inventory holdings have increased from \$10 700 in 2020 to \$11 500 in 2021 to \$25 000 in 2022.

Increasing inventory may mean funds are tied up.

The quick ratio has **deteriorated** over the three years from 1.75 to 1.48 to 0.84.

This is because the amount of inventory as a proportion of current assets has increased over the years.

The trade receivables position has **worsened** as trade receivables have increased from \$9 400 in 2020 to \$11 000 in 2022 after improving slightly to \$8 800 in 2021.

Increasing trade receivables runs the risk of a possible loss on impairment of trade receivables

Increasing trade receivables may mean that funds are less readily available.

The bank balance has **deteriorated** each year from \$19 425 in 2020 to \$15 680 in 2021 to \$9 800 in 2022.

A portion of long-term borrowings has now become current as the status has changed from being due in over 1 year to falling due within the next 12 months.

Cash may have been used over the period to purchase or place a deposit on non-current assets.

**c) Total 4 marks;**

Profit refers to the ability of the business to generate excess income to cover its expenses [1] while liquidity refers to the ability of the business to convert its current assets to cash to repay its current liabilities. [1]

**2**

**Any 2 stated; 1 mark per suitable comment to a maximum of 2 marks**

The liquidity may have changed due to long-term loan becoming current.

**1**

The owner might have withdrawn cash for personal use.

**1**

The business might have purchased non-current assets for cash.

**1**

**Not accepted:** Comments related to inventory and Trade payable as they do not cause any changes to liquidity

**PAPER 2 Q3 Total 15 marks**

**a) Total 6 marks; 1 mark for each correct entry**

Journal			
Date	Particulars	Dr	Cr
2021		\$	\$
Jun-01	Cash at bank	10 000	
	Capital		10 000
Dec-31	Capital	7 400	
	Income summary		7 400
Dec-31	Capital	6 400	
	Drawings		6 400

1

1

1

1

1

1

**(b) Total 5 marks; 1 mark for each correct entry**

Capital Account				
Date	Particulars	Dr (\$)	Cr (\$)	Balance (\$)
2021				
Jan-01	Balance b/d			50 000 Cr
Jun-01	Cash at bank		10 000	60 000 Cr
Dec-31	Drawings (\$500 x12 + \$400)	6 400		53 600 Cr
	Income summary	7 400		46 200 Cr
2022 Jan 1	Balance b/d			46 200 Cr

1

1

1

1

1

**c) Total 1 mark**

\$46 200

1

**(d) Total 1 mark**

No effect since drawings affect only capital.

1

**(e) Total 2 marks. Any 2 stated.**

- A sole proprietor is the only owner of the business and has absolute control over it.
- The sole owner can easily update the particulars of the new owner to notify the corporate regulatory authority of the transfer of ownership.
- The sole proprietorship has minimal administrative duties to adhere to.
- The sole owner is entitled and has access to all business profits.

2

**Paper 2 Q4, Total 13 marks**

**a) Total 2 marks**

Depreciation expense (2020) =  $10\% \times \$80\,000 = \$8\,000$  1  
Depreciation expense (2021) =  $10\% \times (\$80\,000 - \$8\,000) = \$7\,200$  1

**b) Total 2 marks**

Net book value =  $\$80\,000 - \$8\,000 - \$7\,200 = \$64\,800$  1  
Gain on sale of machinery =  $\$74\,000 - \$64\,800 = \$9\,200$  1

**(c) Total 2 marks; 1 mark for each correct entry**

Date		Dr (\$)	Cr (\$)	
2022				
Dec-31	Sale of non-current asset	9 200		1
	Income summary		9 200	1

**(d) Total 7 marks; max 1 mark for decision; 1 mark for stating the reason and additional 1 mark for developing it; max 3 reasons**

**Decision:** Purchase the shop 1

**Evidence:** The monthly loan repayment is \$2 000 compared to \$2 500 monthly rental. 1

**Explanation:** He can save on the monthly expenses if he buys the place and use the money on other business expenses. 1

**Evidence:** The annual cleaning will only take 3 days compared to 7 days if he were to rent the place. 1

**Explanation:** As he only needs to close his shop for 3 days, this will not affect his business too much. He will not lose too much business and revenue. 1

**Evidence:** The shop is located at a popular tourist location. 1

**Explanation:** This will ensure that he has a constant flow of customers and there will be a strong demand for his coffee. 1

OR

**Decision:** Rent the shop 1

**Evidence:** He can terminate the rental contract by giving 3 months' notice. 1

**Explanation:** If he finds the location not so ideal, he has the choice of moving to another location instead of staying there. 1

Evidence:	He does not need to decorate the shop as it is well-decorated	1
Explanation:	This will save him some costs since he does not need to spend money decorating his shop. He can also start running his business immediately.	1
Evidence:	The location is conveniently located near the MRT station.	1
Explanation:	This will ensure that he has a constant flow of customers and there will be a strong demand for his coffee.	1