

**Hillgrove Secondary School**  
**Preliminary Examination 2024**  
**4E/5NA Principles of Accounts Paper 1 (7087/01)**  
**Suggested answers and marking scheme**

**Q1**

(a)

(i) Report [1m]

(ii) Journal [1m]

(b) Debit note [1m]

(c)

Accounting theory: Objectivity theory [1m]

Explanation of accounting theory: Accounting information recorded must be supported by reliable and verifiable evidence so that financial statements will be free from opinions and biases. [1m]

(d)

When a private limited company incurs debts and losses, shareholders are not obliged to pay them using their personal assets, i.e. not personally liable. [1m]

In the worst-case scenario, shareholders will only need to forfeit their investments. [1m]

(e)

To provide accounting information for stakeholders for decision-making. [1m]

[Q1 Total: 8m]

**Q2**

(a) Anyone one of the following: [1m]

- Safeguard assets of the business
- Ensure business transactions are recorded accurately
- Comply with laws and regulations

(b) Any one of the following: [1m]

- Segregation of duties
- Authorisation of payments

(c) Compare the business' records with the bank's records to identify items that caused the differences between the ending balances in the business cash at bank account and the bank statement. [1m]

And check that these items arose out of legitimate timing differences and/ or errors in recording.

(d) Any, one of the following: [1m]

- Cheque has expired.
- Cheque is post-dated.
- Information on the cheque is not consistent e.g. amount written in numbers does not match amount written in words (or signature is different from the authorised version in the bank's records)
- Information on cheque is not complete. For example, there is no date (or no amount to be paid or no signature)
- Payer's bank account does not have enough funds (or is closed or frozen)

(e)

In the books of Ming Yu's business

Cash at Bank				
Date	Particulars	Dr (\$)	Cr (\$)	Bal (\$)
2024				
Jun 30	Bal b/d			480 Cr (1)
	Rent expense		1 340 (1)	
	Leya (correction of error)		800 (1)	
	Commission income	3650 (1)		
	Mindy (dishonoured cheque)		7200 (1)	6170 Cr
Jul 1	Bal b/d			6170 Cr

[5m]

-1m if wrong date

(f)

Ming Yu's business

Bank Reconciliation Statement as at 30 June 2024

		\$
Balance as per bank statement		(4570) (1)
Add: Deposits in transit	(1)	
Josh		4500
Less: Cheques not yet presented	(1)	
Keagen (cheque no. 3057)		(6100)
Balance as per adjusted cash at bank account		(6170)

[3m]

[Q2 Total: 12m]

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**Q3**

(a) Approximation of the reduction in economic value of a non-current asset. [1m]

(b) Reducing-balance method [1m]

(c)

$$\$24\,000 / \$60\,000 = 40\%$$

$$\text{Net book value as at end of 31 Dec 2022} = \$60\,000 - \$24\,000 = \$36\,000$$

$$\$14\,400 / \$36\,000 = 40\%$$

Thus, rate of depreciation = 40% [1m]

(d) (i) Profit for the year will be overstated by \$14 400. [1m]  
(Since expenses understated by \$14 400)

(ii) Total non-current assets will be overstated by \$14 400. [1m]  
(Since Accumulated Depreciation understated by \$14 400  
and thus Net Book Value overstated by \$14 400)

Capital will be overstated by \$14 400. [1m]  
(Since profit for the year overstated by \$14 400)

(e)

Accounting theory: Materiality theory [1m]

Explanation of accounting theory: A transaction is considered material if it makes a difference to the decision-making process. [1m]

(f) (i) Profit for the year understated by \$10 000. [1m]

(ii) Non-current assets understated by \$10 000. [1m]

[Q3 Total: 10m]

**Q4**

$$\begin{aligned} \text{(a) Average inventory} &= (\text{Beginning inventory} + \text{Ending inventory}) / 2 \\ &= (\$90\,500 + \$97\,000) / 2 \\ &= \$93\,750 \text{ [1m]} \end{aligned}$$

$$\begin{aligned} \text{Rate of inventory turnover} &= \text{Cost of sales} / \text{Average inventory} \\ &= \$860\,000 / \$93\,750 = 9.17 \text{ times [1m]} \end{aligned}$$

(b) 1m each. Award up to maximum 4m.

Point	
1	Nice Home's (NH) rate of inventory turnover <u>improved</u> from 4.06 times in 2022 to 6.64 times in 2023. Chic Living's (CL) rate of inventory turnover <u>improved</u> from 8.11 times in 2022 to 9.17 times in 2023.
2	Thus, <u>both</u> businesses sold out and replenished its inventory <u>more times</u> in 2023 as compared to 2022.
3	Hence, there was <u>improvement</u> in efficiency in inventory management for <u>both</u> businesses over the two years.
4	Nonetheless, CL's rate of inventory turnover was <u>better</u> than NH's for <u>both</u> years.
5	Thus, CL sold out and replenished its inventory <u>more times</u> than NH for <u>both</u> years.
6	Hence, CL was <u>more efficient</u> in inventory management as compared to NH for <u>both</u> years.

[4m]

(c) Chic Living (CL) probably has a persistent advantage over Nice Home (NH). For example, the quality of furniture CL is selling might be of a significantly better quality than the ones that NH is selling. Thus, there is a persistently higher demand for CL's inventory leading to it being able to sell its inventory faster than NH. [1m]

Accept any other reasonable answer that explains why CL might be able to persistently sell its inventory faster or was persistently more able to keep sufficient inventory on hand.

Or Accept any other reasonable answer that explains why both CL and NH are able to improve efficiency in inventory management.

(d)

Dr Impairment loss on inventory \$1 200 [1m]  
(10% x \$12000)

Dr Insurance claim receivable \$10 800 [1m]  
(90% x \$12000)

Cr Inventory \$12 000 [1m]

[Q4 Total: 10m]