Hillgrove Secondary School
Preliminary Examination 202
4E/5NA Principles of Accounts Paper 1 (7087/01)
Suggested answers and marking scheme

Q1
(a) Accounting information recorded must be supported by reliable and verifiable evidence so that financial statements will be free from opinions and biases. **[1m]**

(b) Transactions should be recorded at their original cost. **[1m]**

(c) To inform credit customer of the amount owed after the business sold goods on credit. **[1m]**

(d) 1m each
(i) Remittance advice
(ii) Payment voucher **[1m]**
Note: Both answers must be correct to be awarded 1m.

(e)
(i) Adjust
(ii) Ledgers **[1m]**
Note: Both answers must be correct to be awarded 1m.

(f) Only business transactions that can be measured in monetary terms are recorded. **[1m]**

(g) The life of a business is divided into regular time intervals. **[1m]**

[Q1 Total: 7m]

Q2
(a) Any one of the following:
- Nature of product
- Types of storage
- Customers' preference **[1m]**

(b)
Average inventory = (Beginning inventory + Ending inventory) / 2
= ($94 150 + $92 120) / 2 = $93 135 **[1m]**

Rate of inventory turnover = Cost of sales / Average inventory
= $850 000 / $93 135 = 9.13 times **[1m]**

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

Point	
1	Good Fit's (GF) rate of inventory turnover improved from 4.06 times in 2021 to 6.64 times in 2022. Quick Step's (QS) rate of inventory turnover improved from 8.11 times in 2021 to 9.13 times in 2022.
2	Thus, ***both*** businesses sold out and replenished its inventory more times in 2022 as compared to 2021.
3	Hence, there was improvement in efficiency in inventory management for ***both*** businesses over the two years.
4	Nonetheless, QS's rate of inventory turnover was better than GF's for ***both*** years.
5	Thus, QS sold out and replenished its inventory more times than GF for ***both*** years.
6	Hence, QS was more efficient in inventory management as compared to GF for ***both*** years.

[4m]

(d) Quick Step (QS) probably has a persistent advantage over Good Fit (GF). For example, the quality of safety boots that QS is selling might be of a significantly better quality than the ones that GF is selling. Thus, there is a persistently higher demand for QS's inventory leading to it being able to sell its inventory faster than GF. **[1m]**

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

(e) The matching theory states that expenses incurred must be matched against income earned in the same period to determine the profit for that period. **[1m]**

Thus, the business records the change in the amount of debts estimated to be uncollectible (i.e. change in allowance for impairment of trade receivables) as impairment loss on trade receivables (expense) to match against the credit sales (income) earned in the same financial period. **[1m]**

(f)

In the books of Quick Step			
Journal			
Date	Particulars	Dr ($)	Cr ($)
2021			
Jul 7	Allowance for impairment of trade receivables	2800 **(1)**	
	Trade receivable: Great Construction		2800 **(1)**

[2m]

(g)

In the books of Quick Step				
Journal				
Date	Particulars	Dr ($)	Cr ($)	
2022				
Mar 31	Impairment loss on trade receivables [(6% x $30 000) – ($4 000 - $2 800)] **(1)**	600		**(1)**
	Allowance for impairment of trade receivables		600	

[2m]

[Q2 Total: 14m]

Q3

(a) A portion of retained earnings that was distributed to shareholders. **[1m]**
OR: The return on shareholders' interests in the business.

(b) Accumulation of profits and losses that has not been distributed to shareholders yet since operation. **[1m]**
OR: Accumulation of past profit/ loss less declared dividends

(c) Quest Pte Ltd made a profit of $90000 for the year ended 31 December 2021 and this amount was transferred to the retained earnings account on 31 December 2021. **[1m]**

(d) Quest Pte Ltd declared dividends totaling $78500 for the year ended 31 December 2021 and this amount was transferred to the retained earnings account on 31 December 2021. **[1m]**

(e) Shareholders' equity on 1 January 2022
= Shareholders' equity on 31 December 2022
= Share capital on 31 December 2021 + Retained earnings on 31 December 2021
= $535000 **[1m]** + $911500 **[1m]** = $1446500

(f) Stakeholder: Employees
Decision: Whether to continue working at Quest Pte Ltd **[1m]**
Note: 1m for both stakeholder and decision

(g) Profit for the year to see if Quest Pte Ltd is likely to pay out bonus **[1m]**
OR: Cash at bank balance to see if Quest Pte Ltd will pay salary on time.

Note: Accept any other reasonable answer for (f) and (g).

[Q3 Total: 8m]

Q4

(a) Any one of the following:
- Segregation of duties
- Custody of cash
- Authorisation of payments **[1m]**

(b)

In the books of Oliver's business

Cash at Bank

Date	Particulars	Dr ($)	Cr ($)	Bal ($)
2022				
May 31	Bal b/d			280 Cr **[1m]**
	Rent		1 340 **[1m]**	
	Lee Yan Ltd (correction of error)		800 **[1m]**	
	Commission income	3650 **[1m]**		
	Mina Enterprise (dishonoured cheque)		7200 **[1m]**	5970 Cr
Jun 1	Bal b/d			5970 Cr **[1m]**

-1m if wrong date

(c)

Oliver's business
Bank Reconciliation Statement as at 31 May 2022

	$	
Balance as per bank statement	(4370)	**(1)**
Add: Deposits in transit **(1)**		
Jaylyn Ltd	4500	
Less: Cheques not yet presented **(1)**		
Keng Trading (cheque no. 1057)	(6100)	
Balance as per adjusted cash at bank account	(5970)	

[3m]

(d) Profit for the year = Income – Expense = + $3650 - $1340 = +$2310
Profit <u>increased</u> by <u>$2310</u> **[1m]**
Note: Both effect and amount must be correct to be awarded 1m.

[Q4 Total: 11m]