



CHIJ ST. THERESA'S CONVENT  
PRELIMINARY EXAMINATION 2023  
SECONDARY 4 EXPRESS / 5 NORMAL ACADEMIC

CANDIDATE  
NAME

CLASS

INDEX  
NUMBER

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**PRINCIPLES OF ACCOUNTS**

**7087/01**

Paper 1

**29 August 2023**

**1 hour**

Candidates answer on the Question Paper.

No Additional Materials are required.

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**READ THESE INSTRUCTIONS FIRST**

Write your class, index number and name in the spaces at the top of this page.

Write in dark blue or black ink.

Do not use staples, paper clips, glue or correction fluid.

Answer all questions.

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

Answer **all** questions.

- 1** The following cash at bank account was extracted from the books of Ashley Trading.

Cash at bank				
		<u>Debit</u>	<u>Credit</u>	<u>Balance</u>
2023		\$	\$	\$
June 1	Balance b/d			5 280 Dr
4	Trade payable – Belle		900	4 380 Dr
10	Sales revenue	650		5 030 Dr
17	Inventory		650	4 380 Dr
19	Trade receivable – Calista	1 900		6 280 Dr
25	Cash in hand		500	5 780 Dr
30	Trade receivable – Calista		1 900	3 880 Dr
July 1	Balance b/d			3 880 Dr

### REQUIRED

- (a)** Interpret the entries on the following dates:

- (i)** 4 June

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 ..... [1]

- (ii)** 10 June

.....  
 ..... [1]

- (iii)** 19 June

.....  
 ..... [1]

- (iv)** 25 June

.....  
 ..... [1]

(v) 30 June

.....  
 ..... [1]

(b) State **two** reasons why cheques might be dishonoured.

1. ....  
 .....  
 .....  
 .....
2. ....  
 .....  
 ..... [2]

(b) Explain **two** types of internal control over cash.

.....  
 .....  
 .....  
 .....  
 .....  
 ..... [2]

**[Total: 9]**

- 2** On 1 April 2021, Dolley took a \$80 000 bank loan from Eastern Bank. The loan is repayable equally over 8 years and the interest rate on the outstanding amount is 5% per annum.

Both the repayment of the loan and the payment of interest are to be made on every 31 March starting from 2022. The financial year of Dolley's business ends on 31 December.

### REQUIRED

- (a)** Prepare the journal entries to record the borrowing on 1 April 2021 and the interest expense for the year ended 31 December 2021, including the closing entry. Narratives are not required.

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..... [4]

- (b)** Prepare an extract of the statement of financial performance for the year ended 31 December 2021, showing only the expense section.

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..... [2]

- (c) Prepare an extract of the statement of financial position as at 31 December 2021, showing only the liabilities section.

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..... [3]

**[Total: 9]**

- 3** Flora prepared her financial statements on 31 March 2023 and the profit for the year was \$16 230. After she had prepared her financial statements, she found the following errors.
- 1** Flora had paid \$2500 for a computer, \$580 for a printer and \$18 for printing papers. She had debited \$3098 to office equipment account.
  - 2** \$798 paid for insurance had been recorded as \$789 in both the insurance account and cash at bank account.
  - 3** \$455 received for commission income had been debited to commission income and credited to cash at bank account.

## REQUIRED

- (a)** Prepare journal entries to correct the errors. Narrations are not required.

[6]

(b) Prepare a statement of adjusted profit after the correction of errors.

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..... [4]

**[Total: 10]**

- 4 The following information was extracted from Ismail's accounting records for the year ended 30 April 2023:

	\$
Net sales revenue	370 470
Cost of sales	222 295
Gross profit	?
Operating expenses	52 629
Profit for the year	?

### REQUIRED

- (a) Explain the importance of being profitable.

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..... [2]

- (b) Calculate the following, rounding off your answers to one decimal place where necessary:

- (i) Gross profit margin

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..... [2]



(ii) Profit margin

..... [2]

**(c)** Jacky's business is in the same industry as Ismail's and it had the following information for the year ended 30 April 2023:

Gross profit margin	32.2%
Profit margin	28.6%

Using the information from part **(a)**, compare the performance of Ismail's business to that of Jacky's.

[4]

(d) Suggest **two** possible ways to improve Ismail's profitability.

1. ....
- .....
- .....
2. ....
- .....
- ..... [2]

[Total: 12]

**END OF PAPER 1**

**CHIJ ST. THERESA'S CONVENT  
SECONDARY FOUR EXPRESS / FIVE NORMAL ACADEMIC  
2023 PRELIMINARY EXAMINATION  
PRINCIPLES OF ACCOUNTS PAPER 1  
MARK SCHEME**

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**1(a) (i)** Ashley Trading paid Belle, a credit supplier, \$900 by cheque. **[1]**

**(ii)** Ashley Trading sold goods at \$900 and received a cheque

OR

Cash sales of \$650 banked in. **[1]**

**(iii)** Ashley Trading received a cheque of \$1900 from Calista, a credit customer. **[1]**

**(iv)** Ashley Trading withdrew \$500 from the business bank account for office use. **[1]**

**(v)** The cheque of \$1900 received from Calista on 19 June has been dishonoured / rejected by the bank. **[1]**

**(b)**

- The cheque has expired as it was issued more than six months ago.
- The cheque is post-dated (written for a future date).
- The information on the cheque is incomplete, eg. no date, no signature, etc.
- The amount written in numbers does not match the amount written in words.
- The signature is different from the bank's records.
- The party who issued the cheque does not have sufficient money in his bank account or his bank account is closed.

***Any two, [1] each***

**(c)**

- **segregation of duties**
  - separate cash handling and cash recording duties among different employees
- **custody of cash**
  - secure cash and cheques in a locked storage
- **authorisation**
  - obtain proper approvals for all payments from authorised personnel
- **bank reconciliation**
  - 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

***Any two, [1] each***

2(a)

Journal			
		Debit	Credit
		\$	\$
2021			
Apr 1	Cash at bank	80 000	
	Loan from Eastern Bank		80 000 <b>[1]</b>
Dec 31	Interest expense (9/12 x 5% x 80 000)	3 000	
	Interest expense payable <b>[1]</b>		3 000 <b>[1]</b>
31	Income summary	3 000	
	Interest expense		3 000 <b>[1] OF</b>

(b)

Dolley	
Statement of Financial Performance for the year ended 31 December 2021 (extract)	
	\$
Less: Other expenses <b>[1]</b>	
Interest expense	3 000 <b>[1] OF</b>

(c)

Dolley	
Statement of Financial Position as at 31 December 2021 (extract)	
	\$
<u>Non-current liabilities</u>	
Long-term borrowing	70 000 <b>[1]</b>
<u>Current liabilities</u>	
Current portion of long-term borrowing	10 000 <b>[1]</b>
Interest expense payable	3 000 <b>[1]</b>

3(a)

Journal			<u>Debit</u>	<u>Credit</u>
2023			\$	\$
Mar 31	1	Office expense / Stationery Office equipment	18 [1]	18 [1]
	2	Insurance expense Cash at bank	9 [1]	9 [1]
	3	Cash at bank Commission income	910 [1]	910 [1]

(b)

Statement of adjusted profit for the year ended 31 March 2023		\$
Unadjusted profit for the year		16 230
Add: 3	Commission income was understated	910 [1]
Less: 1	Office expense / Stationery was understated	(18) [1]
2	Insurance was understated	(9) [1]
Adjusted profit for the year		<u>17 113 [1]</u>

## 4(a)

- Profits can be distributed to the owners, as a reward for their contributions to the business. This also serves to attract other investors.
- Being profitable means the products or services are in demand, hence the business can expand its operations to a bigger store or add more stores.
- A business that continues to suffer losses is likely to close down eventually.
- A profitable business can better reward and retain its employees.

**Any two, [1] each**

(b)	(i)	Gross profit	=	370 470 – 222 295
			=	\$ 148 175 <b>[1]</b>
		Gross profit margin	=	148 175 / 370 470 x 100%
			=	40.0% <b>[1] OF</b>
	(ii)	Profit for the year	=	148 175 – 52 629
			=	\$ 95 546 <b>[1] OF</b>
		Profit margin	=	95 546 / 370 470 x 100%
			=	25.8% <b>[1] OF</b>

## (c)

- Ismail's gross profit margin of 40.0% is **better than** Jacky's 32.2%.
- This shows that Ismail's **sales are more profitable than** Jacky's, as Ismail may be buying goods at a lower price or selling goods at a higher price as compared with Jacky.
- However, Ismail's profit margin of 25.8% is **worse than** Jacky's 28.6%.
- Ismail is **not able to manage his operating expenses** as well as Jacky.
- In conclusion, Jacky's business is **more profitable** than Ismail's.

**Any four, [1] each**

## (d)

- Ismail can reduce his operating expenses by
  - Renting a smaller office or an office space in a less expensive location
  - Reducing wastage, eg. utilities
  - Paying off bank loans to reduce interest expense
  - Paying his creditors on time to earn discounts
- Ismail can increase his other income by renting out excess non-current assets.

**Any two, [1] each**