AHMAD IBRAHIM SECONDARY SCHOOL
GCE O-LEVEL PRELIMINARY EXAMINATION 2024

SECONDARY 4 EXPRESS & 5 NORMAL (ACADEMIC)

Name:	Class:	Register No.:

PRINCIPLES OF ACCOUNTS **7087 / 01**
Paper 1 **2024**
1 hour

Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your name, index number and class in the spaces at the top of this page.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams or graphs.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Question	Marks
1	
2	
3	
Total	40

Answer **all** questions.

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

This paper consists of **8** printed pages.
Answer **all** questions.

1 Ryan provided the following cash at bank account for May 2024.

Cash at bank

Date	Particulars	Cheque	Debit	Credit	Balance
2024			$	$	$
May 1	Balance b/d				340 Cr
2	Insurance			230	570 Cr
5	Sales revenue		300		270 Cr
7	Trade receivable, John		700		430 Dr
9	Trade payable, Arron	001002		760	330 Cr
10	Transport expense	001003		460	790 Cr
11	Inventory		810		20 Dr
15	Fixtures and fittings	001004		500	480 Cr
16	Trade receivable, Yen Xi		1 900		1420 Dr
28	Trade payable, Nelson			1 180	240 Dr
Jun 1	Balance b/d				240 Dr

The following bank statement was received on 3 June 2024.

Bank Statement

Date	Particulars	Withdrawal	Deposit	Balance
2024		$	$	$
May 1	Balance b/d			700 Dr
1	Cash		360	340 Dr
3	Standing order - insurance	230		570 Dr
7	Credit transfer - Sam		300	270 Dr
9	Cheque no. 701009		700	430 Cr
10	Standing order – rent	120		310 Cr
12	Cheque no: 412310		810	1120 Cr
13	Cheque no: 001002	670		450 Cr
16	Cheque no: 001004	500		50 Dr
20	Cheque no. 701009	700		750 Dr
21	Cheque deposit - Asthon		740	10 Dr
31	Bank charges	72		82 Dr

Additional information
The accountant of the business discovered that the entry on 9 May 2024 was wrong.

REQUIRED

(a) Prepare the adjusted cash at bank account for May 2024. Bring down the balance to the next month.

[6]

(b) Prepare the bank reconciliation statement as at 31 May 2024.

[4]

(c) State and explain one internal control over cash, other than bank reconciliation.

[2]

[Total: 12]

2 Joel is a perfume retailer and uses the First-In-First-Out (FIFO) method of inventory valuation. On 31 May 2024, the inventory of $3 000 is the total cost for 20 bottles of perfume. All transactions were carried with the following terms:

1. All sales were made on cash terms.
2. Due to annual promotion, a trade discount of 10% was given to customers for all sales made in the month of June.
3. Business found a new supplier, Pari-Defuse, and made purchases for the month of June from Pari-Defuse on credit.
4. Pari-Defuse offers business a cash discount of 5% for payment made within 5 days of credit purchases.

The following transactions took place for the month ended 30 June 2024.

	Purchases	
Date	Quantity	$
2024		
Jun 3	20	3 300
6	20	3 100
10	20	3 900
14	20	3 400

	Sales	
Date	Quantity	$ (list price)
2024		
Jun 7	20	5 500
15	40	9 700

Date of payment made to Pari-Defuse for amount owing to date

June 9

June 13

REQUIRED

(a) Calculate the cost of sales for the month of June 2024.

____ [1]

(b) Calculate the gross profit for the month of June 2024.

____ [2]

(c) Calculate the ending inventory at 30 June 2024.

____ [1]

(d) State the double entries for the transaction on 15 June 2024.

____

____

____

____

____ [4]

(e) State the amount paid to Pasi-Defuse on 9 June 2024.

____ [2]

(f) State amount owed to Pasi-Defuse at the end of June 2024.

____ [1]

(g) Explain how inventory is valued, with the support of an accounting theory.

____

____

____

____ [2]

____

Joel has provided the information about his business rate of inventory for the two years ended 30 June 2023 and 2024.

30 June 2023	30 June 2024
23.52 times	19.81 times

REQUIRED

(h) Calculate the days sales in inventory for the two years ended 30 June 2023 and 2024.

	30 June 2023	30 June 2024
Days sales in inventory		

[2]

(i) Comment on the efficiency in inventory management of the business over the two years ended 30 June 2023 and 30 June 2024.

[3]

(j) Give two examples on how Joel could improve the business's efficiency in managing inventory.

[2]

[Total: 20]

3 Glenn runs a trading business that sells bedsheet. The following ledger balances were provided for the financial year ended 30 June 2024

	$
Trade receivables	700
Office equipment	5 400
Trade payables	1 500
Cash in hand	120
Rent income receivable	300
Insurance expense payable	890
Bank overdraft	450
Capital (1 July 2023)	700
Profit for the year	4 600
Drawings	??

REQUIRED

(a) Calculate the amount for drawings, show your workings clearly.

[4]

(b) State the double entry for the transfer of profit for the year ended on 30 June 2024.

[2]

(c) State two types of non-accounting information a business will consider before deciding whether to grant credit to a customer.

[2]

[Total: 8]

END OF PAPER

AHMAD IBRAHIM SECONDARY SCHOOL
GCE O-LEVEL PRELIMINARY EXAMINATION 2024

SECONDARY 4 EXPRESS & 5 NORMAL (ACADEMIC)

Name:	Class:	Register No.:

PRINCIPLES OF ACCOUNTS
Paper 2

7087 / 02
2024
2 hours

Additional Materials: Writing paper

READ THESE INSTRUCTIONS FIRST

Write your name, class and index number on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.
The use of an approved calculator is allowed.

Answer **all** questions.

The business described in this question paper are fictitious.
Start each question on a separate page.
All calculations must be shown adjacent to the answer.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This paper consists of **6** printed pages.

[Turn over

Ahmad Ibrahim 2024 Paper 2
Answer **all** questions.

1 The following balances were extracted from the books of Cape Star Limited on 30 June 2024.

	$
Share capital, 50 000 ordinary shares	170 000
Accumulated loss, 1 July 2023	6 050
Sales revenue	280 100
Cost of sales	105 900
Sales returns	5 000
Inventory	67 300
Cash at bank	35 900
Trade payables	8 600
Trade receivables	19 900
Allowance for impairment of trade receivables	1 600
Motor vehicles	242 500
Equipment	60 000
Fixtures and fittings	22 500
Accumulated depreciation:	
Motor vehicles	82 100
Equipment	21 000
Fixtures and fittings	6 600
Commission income	4 000
Interest on bank deposit	50
Insurance expense	9 000

Additional information

1 Business paid $405 by cheque to a credit supplier, after receiving a 10% cash discount. This transaction was overlooked.

2 10 000 shares at $0.70 each were issued and paid on 1 May 2024 by cheque. This transaction was not yet recorded.

3 Commission income earned for the financial year was $3 200.

4 Annual insurance of $9 000 was paid on 1 March each year.

5 A credit customer returned goods that cost $300 to the business. However, business had wrongly recorded the amount as $390.

6 During the year, a cheque of $30 000 was received from the sales of all the equipment. No entry was made in the books. No depreciation was charged in the year of sale.

7 Business will depreciate motor vehicles at 25% per annum using the reducing-balance method and fixtures and fittings at 20% per annum using the straight-line method.

8 One of the trade receivables, Rosine, was declared bankrupt. The debt of $2 960 has yet to be written off. A review of the trade receivables on 30 June 2024 showed that 5% of the balance may not be collectible.

9 A dividend of $0.15 per share was declared on 28 June 2024, payable on 12 July 2024.

REQUIRED

(a) Prepare the statement of financial performance for the year ended 30 June 2024. [10]

(b) Prepare the statement of financial position as at 30 June 2024. [10]

[Total: 20]

2 Elton runs a retail business. He has provided the following information on 30 April 2023 and 2024.

	30 April 2023	30 April 2024
	$	$
Inventory	4 270	9 710
Trade receivables	11 300	18 030
Allowance for impairment loss of trade receivables	2 780	3 230
Cash at bank	8 820	-
Prepaid expenses	860	260
Income receivable in advance	-	1 090
Trade payables	10 380	9 530
Expenses payable	560	90
Bank overdraft	-	5 970
Long term borrowing	-	20 000

Current ratio	2.05	?
Quick ratio	1.59	?

REQUIRED

(a) Explain why liquidity is important to a business. [2]

(b) Calculate to two decimal places the following ratios for the year ended 30 April 2024:
(i) Current ratio [1]
(ii) Quick ratio [1]

(c) Evaluate the change in the liquidity of the business over the two years ended 30 April 2023 and 2024, supporting your answer with appropriate ratios. [4]

Elton was considering the following proposals to improve the liquidity of the business for the year ended 30 April 2024.

Proposal 1: Pay trade payables of $9 530 using personal funds form Elton.

Proposal 2: Sell inventory worth $5 000 on credit for $7000.

REQUIRED

(d) Copy the table and state the effects of current assets and current liabilities from each of the proposal by filling in the table below.

	Effect on current assets	Effect on current liabilities
Proposal 1		
Proposal 2		

[4]

[Total: 12]

3 The Fives Ltd runs an ice-cream shop.

On 1 March 2022, the business obtained a 5-year bank loan of $90 000 to purchase a motor vehicle at 10% interest per annum. The partial principal sum of the loan and interest are paid every six months on 31 August and 28 February.

The financial year end of the business is 31 December.

REQUIRED

(a) Prepare the bank loan account for the year ended 31 December 2023. [3]

(b) Prepare journal entries to record interest expense for the year ended 31 December 2022, including the closing entry. Narrations are not required. [5]

(c) Calculate the interest expense incurred for the year ended 31 December 2023. [3]

(d) State and explain the accounting theory involved in adjusting expenses incurred at the end of each financial period. [2]

[Total: 13]

4 Helen operates a bakery called Helen Bakery.

On 1 October 2023, her business acquired a motor vehicle valued at $80 000 on credit from Motor Ltd. On 1 May 2024, this vehicle was sold on credit to her cousin, Pete, for $60 000.

Business provides depreciation at a rate of 10% per annum on net book value. No depreciation is charged in the year of sale.

Pete paid the business by cheque on 8 May 2024, receiving a cash discount of 5%.

REQUIRED

(a) Explain the valuation method of non-current asset. [1]

(b) State the double entries to record the sale of the motor vehicle including the closing entry. Narrations are not required. [3]

(c) Comment on and explain the suitability of the depreciation method used for the motor vehicle by the business. [1]

(d) State the double entry for the transaction on 8 May 2024. [3]

Helen has seen an increase in her outdoor sales over the years. She is considering adding another motor vehicle to help manage the delivery of goods to her customers. However, she is uncertain about whether to purchase or lease the vehicle.

Below are some factors to consider when making her decision.

	Buy motor vehicle	Rent motor vehicle
Initial cost	• Cost = \$100 000 • Cash down payment:10%	Deposit: \$3 000. This amount will be returned at the end of the contract.
Other costs	• Business took 5% \$90 000 loan for 10 years. • Annual servicing: \$2 000 • Annual insurance: \$1 500	Monthly rental for \$2 500 for 10 years.
Condition	New	Has been rented out for the previous year.
Other information	• Source and pay for own. servicing and maintenance. • Source for own insurance. • Call insurer in event of accidents. • Possible for modification and printing company name on	• Servicing and maintenance will be arranged by the rental company. • Insurance is included and rental company will handle claims. • Call the rental company's hotline to take care of the motor vehicle in times of accidents.

	motor vehicle.	• No modification is allowed.
Contact flexibility	• Ownership of motor vehicles. • Vehicle can be sold at any time but may incur losses due to depreciation.	• Contract a renew after 3 years. Minimum rental period of 3 years and $4 000 deposit will be forfeited if motor vehicles is returned in less than 3 years.

REQUIRED

(e) If you are Helen, would you choose to buy or rent a motor vehicle? Justify your decision with **three** reasons. [7]

[Total: 15]

End of Paper

POA 7087/01/2024/Answer

Q1a

Cash at bank

Date 2024	Partcular	Dr ($)	Cr ($)	Bal ($)		
May-31	Bal b/d			240	Dr	[1]
	Rent		120	120	Cr	[1]
	trsde receivable, John (dishonoured cheque)		700	580	Cr	[1]
	bank charges		72	652	Cr	[1]
	trade receivable, Asthon	740		88	Dr	[1]
	trade payable, Arron (error)	90		178	Dr	[1]
Jun-01	Bal b/d			178	Dr	

Q1b Bank reconcilation statement as at 31 May 2024

Bal as per bank statement		-82	[1]
Add deposit in transit			
Trade receivable, Yen Xi		1900	[1]
		1818	
less cheque not yet presented			
Transport expense	460		[1]
trade payable, Nelson	1180	1640	[1]
Bal as per cash at bank		178	

Q1c

Segregation of duties	Separate cash handling and cash recording duties among different employees so that no single person has control over the entrie cash process.
Custody of cash	Secure cash and cheques in a locked storage.
Authorisation	Obtain proper approvals for all payments from authorised personnel by having at least two persons to review and approve all payments.
Bank reconciliation	Compare the business' records with the bank's records to identify items that caused the difference between the ending balances in the cash at bank account and the bank statement.

Q2a	Cost of sales = $3000 + $6400 =		$9,400	[1]
Q2b	Gross profit = $5500 (0.9)+ $9700(0.9) - $9400			
	= $13680 [1] - $9400			
	= $4280 [1]			
Q2c	Endng Inventory =	$7,300		[1]
Q2d	Dr	Cash at bank	8730	[1] - DE
	Cr	Sales revenue	8730	[1] - amt
	Dr	Cost of sales	6400	[1] - DE
	Cr	inventory	6400	[1] - amt
Q2e	$3300 + 95%($3100) =		6245	[2]
Q2f	$3 400			[1]
Q2g	Inventory is valued at the lower of cost or net realisable value [1] in line with the Prudence theory [1] states that the accounting treatment chosen should be the one that least overstates assets and profits and least understates liabilities and losses.			
Q2h	30/6/2023 =	15.52 days		[1]
	30/6/2024 =	18.43 days		[1]
Q2i	The rate of inventory turnover has worsened from 23.52 times in 2023 to 19.81 times in 2024[1]. This means that the business is managing inventory less efficiently over the two years[1]. This can also be seen from the worsening days-sales-in-inventory. It has increased from 15.52 days in 2023 to 18.43 days in 2024.			
Q2j	- Decrease selling price for slow moving inventory			
	- Offer trade discounts to encourage customers to buy in bulk			
	- Improve marketing strategies in boast the sales			
	- Use of technolgoy to help business to predict demand of inventory to prevent over and under-stock of goods.			

Q3a			
	Total asset = 700+5 400 + 120+300 =	6520	[1]
	Total liabilties = 1500+890+450 =	2840	[1]
	Equity = 6520 -2840	3680	[1]
	Equity = 700 + 4600 - Drawings = 3680		
	Drawings = 700 + 4600 - 3680 =	1620	[1]
3b	Dr Income summary 4600		[1]
	Cr Capital 4600		[1]
3c	· specific industry outlook of the customer is in.		
	· economic outlook		
	· reputation of customers		
	· new customers' history of repayment		
	any two [2]		

POA 7087/02/2024/Answers

Question 1

Cape Star

Statement of financial performance for the year ended

Sales revenue		280100	
less sales returns		5000	
Net sales revenue		275100	
less cost of sales (+90)		105990	[1]
Gross profit		169110	
add other income			
commission income	3200		[1]
interest on bank deposit	50		[1]
discount received	45	3295	[1]
Less expenses			
Insurance expenses	3000		[1]
Depreciation of motor vehicles	40100		[1]
Depreciation of fixtures and fittings	4500		[1]
impairment loss on Trade receivables	2207		[1]
loss on sales of non-curent asset	9000	58807	[1]
Profit for the year		113598	

Cape Star

Statement of financial position for the year ended

Asset	$	$	$	
Non-current asset	Cost	Acc dep	NBV	
Motor vehicles	242500	122200	120300	
Fixtures and filting	22500	11100	11400	
			131700	[1]
current asset				
trade receivables (-2960)	16940			[1]
less allownce for imp of TR	847	16093		

Inventory (-90)		67210		[1]
Cash at bank (-405+7000+30000)		72495		[3]
prepaid insurance		6000	161798	
			293498	
Equity and liabilities				
Shareholder's Equity				
Share capital(60 000 Ordinary shares)(+7000)		177000		
Add retained earning (- 6050-9000+113598)		98548	275548	[2] (for -6090, -9000)
Current liabilities				
Trade payables (-450)		8150		[1]
commission income received in advance		800		[1]
dividend payable		9000	17950	[1]
			293498	

2a. A business needs to be liquid so that it can pay its current liabilities and operating expenses **[1]** to ensure that the business can continue its operations smoothly.**[1]**

2b.	Current asset (2024) =	24770	
	Crrent liabilties (2024) =	16,680	
	quick asset (2024) =	14800	
	current ratio =	1.49	[1]
	quick ratio =	0.89	[1]

2c Current ratio has worsened from 2.05 in 2023 to 1.49 in 2024.
Current ratio in 2024 is below the general benchmark of 2 indicating that the business has insufficient current assets to pay short-term debts in 2024. [1]

Quick ratio has worsened from 1.59 in 2023 to 0.89 in 2024.
Quick ratio in 2024 is below the general benchmark of 1 indicating that the business has insufficient quick assets to pay short-term debts. [1]
The worsening in current ratio in 2024 is due to the cash at bank $8820 in 2023 becoming an overdraft of $5 970 in 2024. [1]
One reason that has contributed to the worsening quick ratio is the increase in inventory from $4 270 in 2023 to $9 710 in 2024. [1]

In conclusion the liquidity of the business has worsen in 2024 compared to 2023.

2d

	Effect on current asset	Effect on current liabilities	
Proposal 1	no effect	decrease by $9530	[2]
Proposal 2	increased by $2000	no effect	[2]

3a

Bank loan

Date	Partcular	Dr ($)	Cr ($)	Bal ($)		
2023						
Jan-01	Bal b/d			81000	Cr	[1]
Feb-28	Cash at bank	9000		72000	Cr	[1]
Aug-31	Cash at bank	9000		63000	Cr	[1]
2024						
Jan-01	Bal b/d			63000	Cr	

3b

Journal

Date	Particular	Dr ($)	Cr ($)	
2022				
Aug-31	interest expnese (10% x 90000 x 6/12)	4500		[1]
	cash at bank		4500	[1] DE
Dec-31	interest expenses (10% x 81000 x 4/12)	2700		[1]
	interest expenses payable		2700	[1] DE
Dec-31	income summary	7200		
	interest expenses		7200	[1] OF

3c

interest for year 2023

1 jan to 28 Feb = 10%(81000) x 2/12	1350	[1]
1 Mar to 31 Aug = 10%(72000) x 6/12	3600	[1]
1 Sep to 31 Dec = 10%(63000) x 4/12	2100	[1]

3d

Accourding to accrual basis of accounting [1], income earned and expenses incurred should be recognized and recorded regardless of whether money is received or paid.[1]

4a	non-current asset is valued at cost less accumulated depreciation.	[1]
4b	Dr Sales of non-current asset $8 0000 Cr motor vehicles $80 000	[1]
	Dr Other receivable, Pete $60 000 Cr Sales of non-current asset $60 000	[1]
	Dr Income summary $20 000 Cr Sales of non-current asset $20 000	[1]
4c	Yes, it is suitable to use reducing balance method to depreciation the motor vehicles because it is used more in its earlier years and less as the non-current asset get older as it becomes less efficient.	[1]
4d	Dr Cash at bank 57000	[1]
	Dr Discount allowed 3000	[1]
	Cr Other receivable, Pete 60000	[1]
4b		
Decision	**Buy** motor vehicles [1]	
Evidence 1	The annual spending on loan repayment, interest, servicing and insurance of $17 000 (= $90 000/10 + $4 500 + $3 500) is $13 000 lesser when buying a MV than renting one at $30 000 per year. Or Total cost for five years Buying = $90 000 + $45 000(interest) + 10 x (3500) = $170 000 Renting = $2 500 x 12 months x 5 years = $300 000 $30000 - $170 000 = $130 000 The business will save $130 000 over ten years if it buys the van.	

Support 1	The cost savings can be used to pay for other operating expenses e.g. utilities and salaries.	
Evidence 2	Buying a delivery van will enable the business to use a brand new delivery van.	
Support 2	A new delivery van is less likely to break down or need major repair and is likely to come with warranty, enabling business to save on repair cost. OR As a new delivery van is less likely to break down, there would be minimal disruption to business operations due to the van's breakdown.	
Evidence 3	There is flexibility for the business to include its name on the van.	
Support 3	This serves as a form of advertisement and enables the business to promote its brand, potentially reducing advertisement expenses on other modes of advertisement.	
Decision	**Rent** motor van [1]	
Evidence 1	There will be $8 000 less upfront payment/ deposit when renting a van as compared to buying it. Upfront payment Buying = $10 000 Renting = $3 000	
Support 1	This will free up cash for the business to pay for its day-to-day expenses. Hence, renting puts less strain on the business' cash flow and it need not take up short-term loan.	
Evidence 2	It will be possible for business to switch to other newer models of van when renewing the contract.	
Support 2	This provides more flexibility for the business to choose a motor vehicle that suits its changing needs in generating income.	

Evidence 3	The motor vehicle will be managed by the rental company in times of accident.	
Support 3	This will spare the business from the need to spend time going through the administrative procedures when accidents happen and the business can focus on its operations.	
Evidence 4	Servicing and maintenance will be arranged by the rental company.	
Support 4	Hence, the business need not be concerned about the upkeep of the van and can focus on its business operations. It can be assured that there will be no additional cash outflow on the repairs and maintenance of the van.	