1 Frosty Slushies has a financial year end on 31 March 2024. The following ledger account has been prepared.

Sale of equipment				
Date	Particulars	Debit $	Credit $	Balance $
2024				
Mar 31	Equipment	20 000		20 000 Dr
	Accumulated depreciation of equipment		3 800	16 200 Dr
	Other receivable-Freezie		24 500	8 300 Cr
	Income summary	8 300		-

REQUIRED

(a) Interpret each of the following entries in the sale of equipment account.

(i) Equipment

....

....[1]

(ii) Accumulated depreciation of equipment

....

....[1]

(iii) Other receivable- Freezie

....

....[1]

(b) State the effect and amount of the sale of equipment on the following:

(i) Non-current assets

....[1]

(ii) Profit for the year

....[1]

(c) Define 'depreciation'.

....

....[1]

(d) Name and explain an accounting theory why Frosty Slushies needs to provide for depreciation on its non-current assets.

Name...

Explanation...

....

....[2]

(e) State **two** non-accounting information a business should consider when deciding to purchase a non-current asset.

....

....[2]

[Total : 10]

[Turn over

2 Evermore Gym took up a $150 000 loan from Infinity Bank at an interest rate of 2% per annum on 1 May 2022 and the amount was deposited in the business' bank account. The loan is to be repaid equally over 5 years.

The loan and interest expense are repayable every year on 30 April 2023.The financial year of Evermore Gym ends on 31 December.

REQUIRED

(a) Prepare the journal entry to record the borrowing on 1 May 2022. Narration is **not** required.

Journal

Date	Particulars	Debit $	Credit $

[2]

(b) Calculate the interest expense and the interest expense payable for the **two** years ended 31 December 2022 and 2023. Show all the workings clearly.

31 December	Interest expense	Interest expense payable
2022		
2023		

[4]

(c) State the effect on profit if interest expense was **not** adjusted on 31 December 2023.

....[1]

(d) Name **one** stakeholder other than banks and lenders, who would be interested in the financial performance of the business. Give a reason for your answer.

Stakeholder...

Reason... [2]

[Total: 9]

[Turn over

3 On 1 June 2023, Minion Private Limited provided the following information. The financial year for the business ends on every 31 May.

	$
Share capital, 150 000 ordinary shares	300 000
Retained earnings	54 000

On 20 August 2023, the business issued 20 000 ordinary shares at $2 each.

The business declared a dividend of $0.10 per share to be paid on 15 June 2024 and made a profit of $25 300 for the year ended 31 May 2024.

REQUIRED

(a) Define the following terms:

(i) Share capital

....

....[1]

(ii) Retained earnings

....

....[1]

(b) Prepare the journal entry to record the transaction on 20 August 2023. A narration is **not** required.

Journal

Date	Particulars	Debit $	Credit $

[2]

(c) Prepare the retained earnings account for the year ended 31 May 2024.

Retained earnings account

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....[3]

(d) Complete the table by placing a tick (√) to show the effect on retained earnings for the following items. When there is no effect, tick (√) the "No effect" column.

		Increase $	Decrease $	No effect $
(i)	Dividends			
(ii)	Issuance of additional shares			
(iii)	Profit for the year			

[3]

[Total: 10]

[Turn over

4 Linda runs a business selling healthy smoothies. She has provided the following information as at 31 December 2022 and 31 December 2023.

	2022	2023
	$	$
Inventory	12 500	9 200
Trade receivables	14 500	16 300
Cash at bank	5 000	-
Prepaid salaries	3 200	2 100
Long-term borrowing	5 000	4 000
Bank overdraft	-	2 000
Equipment (net book value)	35 000	10 000
Current portion of long-term borrowing		1 000
Trade payables	11 800	12 200
Current ratio	2.98	?
Quick ratio	1.65	?

REQUIRED

(a) Define 'liquidity'.

....

....[1]

(b) Calculate the current ratio as at 31 December 2023. Show your answer to **two** decimal place.

....

.... [1]

(c) Calculate the quick ratio as at 31 December 2023. Show your answer to **two** decimal place.

....

....[1]

(d) Evaluate the change in the liquidity of Linda's business between 31 December 2022 and 31 December 2023. Use the information provided and your answer to part **(b)** and **(c)**.

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....[5]

(e) Suggest **two** ways Linda could improve the liquidity of her business.

....

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....[2]

(f) Other than liquidity ratios, name **one** profitability ratio that Linda's business can use to evaluate its performance.

....

[1]

[Total: 11]

END OF PAPER

O

DEYI SECONDARY SCHOOL
Preliminary Examination 2024
Secondary 4 Express / 5 Normal (Academic)

Name:	
Class:	Index No.:

PRINCIPLES OF ACCOUNTS **7087/02**

Paper 2
INSERT

5 August 2024
1150 – 1350h
2 hours

READ THESE INSTRUCTIONS FIRST

This insert contains the data for Question 1

Data for Question 1

1 The following balances were extracted from the books of Clifford Legal Pte Limited on 31 March 2024.

	$
Office equipment	96 000
Motor vehicles	248 000
Accumulated depreciation:	
Office equipment	28 000
Motor vehicles	140 000
Trade receivables	80 300
Trade payables	8 000
Allowance for impairment of trade receivables	2 140
Rent expense	12 000
Service fee revenue	35 800
Wages and salaries	18 600
General expense	1 200
Commission income	6 200
Cash at bank	8 000
Cash in hand	3 200
10% bank loan repayable on 31 March 2027	105 000
Interest paid on 10% bank loan	8 000
Share capital, 100 000 ordinary shares	100 000
Retained earnings at 1 April 2023	50 160

Additional information

1 Commission income, $600, had been received in advance.

2 The amount for rent expense covers the period from 1 April 2023 to 30 June 2024.

3 Gain on sale of a motor vehicle, $500 was recorded in service fee revenue account.

4 Office equipment, which has a scrap value of $26 000 and is estimated to last 5 years, is to be depreciated using the straight-line method. Motor vehicles are to be depreciated at 15% per annum using the reducing-balance method.

5 One-fifth of the bank loan is to be paid on 31 March 2025. Interest on the bank loan for the year to 31 March 2024 is not yet fully paid.

6 An amount of $2 000 owing by a bankrupt credit customer has not been written off.

7 A review of the trade receivables at year-end indicated that 5% of the balance is likely to become uncollectible.

8 A dividend of $0.03 per share had been declared and will be paid on 28 August 2024.

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DEYI SECONDARY SCHOOL
Preliminary Examination 2024
Secondary 4 Express / 5 Normal (Academic)

Name:	
Class:	Index No.:

PRINCIPLES OF ACCOUNTS **7087/02**

Paper 2

5 August 2024
1150 – 1350h
2 hours

Candidates answer on the Question Paper

Additional Material: Insert

READ THESE INSTRUCTIONS FIRST

Write your name, class and index number in the spaces at the top of this page.
Write in dark blue or black pen.
Do not use staples, paper clips, glue or correction fluid.
The use of an approved calculator is allowed.

Answer **all** questions.

The businesses described in this question paper are entirely fictitious.

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

60

Answer **all** questions

1. **Refer to the Insert for data for Question 1**

REQUIRED

(a) Prepare the statement of financial performance for the year ended 31 March 2024.

Clifford Legal Pte Limited
Statement of Financial Performance for the year ended 31 March 2024

[10]

[Turn over

(b) Prepare the statement of financial position as at 31 March 2024.

Clifford Legal Pte Limited
Statement of Financial Position as at 31 March 2024

[10]

[Total: 20]

[Turn over

2 Luv Car Polish has a financial year end on 30 September. The following ledger account has been provided as at 30 September 2023.

Service Fee revenue account

Date	Particulars	Dr $	Cr $	Balance $
2022 Oct 1	Service fee revenue received in advance		3 000	3 000 Cr
Nov 30	Trade receivables		21 000	24 000 Cr
2023 Jan 28	Cash at bank		60 000	84 000 Cr
Sep 30	Service fee revenue received in advance	1 000		83 000 Cr
Sep 30	Income summary	83 000		-

REQUIRED

(a) Interpret the entries in the above service fee revenue account on:

(i) 30 November 2022

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....

....[1]

(ii) **Both** entries on 30 September 2023

....

....

....

....

....[2]

(b) Name and explain the accounting theory which must be applied when accounting for the provision of services or sale of goods.

Name: ....

Explanation: ....

....

....

[2]

After preparing the trial balance for the year ended 30 September 2023, the business discovered that adjustments in the ledger accounts have **not** been done for the following errors.

1 Discount received of $50 had been debited to the discount received account and credited to Raja's account

2 Loan interest expense of $5 000 had been incorrectly recorded as loan repayment.

3 Additional capital of $3 000 in cash was omitted in the books.

The profit for the year had been calculated as $8 700 **before** the correction of the errors.

REQUIRED

(c) Prepare the journal entries to correct errors **1, 2 and 3.** Narrations are **not** required.

Journal

Date		Debit $	Credit $

[6]

(d) Analyse the effect of **each** error on profit for the year. State whether profit for the period is overstated or understated, and the amount involved. If there is no effect, state "no effect".

Error 1 ....

Error 2 ....

Error 3 ....

[3]

(e) Calculate the adjusted profit figure **after** correcting all errors.

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....[1]

[Total: 15]

[Turn over

3 Jade is a customer of Adam. On 1 July 2024, Jade owed Adam $500. They exchanged the following documents in July 2024.

2024

July	4	Cheque to settle account less 2% cash discount.
	12	Invoice for goods, $800, less 25 % trade discount.
	13	Debit note relating to some goods supplied on 12 July, list price $120.

REQUIRED

(a) Prepare Jade's account in the books of Adam for the month of July 2024.

Jade account

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....[5]

(b) Explain **one** reason why Adam's trade payables want to know the level of his business' trade receivables.

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....[1]

The business has financial year that ends on 31 December. It provided the following information:

	31 December 2022 $	31 December 2023 $
Inventory	12 000	5 000
Cost of sales	110 000	145 000

REQUIRED

(c) Calculate the rate of inventory turnover for the year ended 31 December 2023. Show your answer in **two** decimal places.

....

....

....[1]

Adam also provided information about the business' rate of inventory turnover for the two years ended 31 December 2021 and 2022.

	31 December 2021	31 December 2022	31 December 2023
Rate of inventory turnover	22.67 times	12.22 times	refer to Part (c)

REQUIRED

(d) Comment on the trend of rate of inventory turnover over the **three** years ended 31 December 2021, 2022 and 2023.

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Adam is considering the following suggestions from his accountant.

Suggestion 1: Offer trade discount to <u>all</u> customers.

Suggestion 2: Sell goods on credit only.

REQUIRED

(e) Advise Adam whether **each** of these suggestions would improve the efficiency in managing the inventory of the business. Justify your answer.

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....[3]

[Total: 15]

4 Shona Trading buys and sells vacuum cleaners. The financial year ends on 30 April.

On 30 April 2024, the business had inventory balance of $15 500. This included vacuum cleaners costing $4 800 that needed repairs. After repairs costing $800, these vacuum cleaners could be sold for $3 000.

REQUIRED

(a) Calculate the value of inventory which should be included in the statement of financial position as at 30 April 2024.

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....[2]

On 15 May 2024, a fire happened in the warehouse and destroyed vacuum cleaners that had cost $1 900. Upon checking with the insurance company, Shona was informed that the business will receive payment in full for the loss in value from the insurance company on 1 May 2025.

REQUIRED

(b) State the double entry required to record the insurance claim.

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....[1]

Shona wants to introduce a new type of vacuum cleaner to stay competitive. She is considering selling Power X6 or Slim Xtra.

Shona discovered the following in its research:

1 The store is situated in a neighbourhood of residents with high income.

2 Majority of the families have young children.

The information about the two types of vacuum cleaners is shown below:

	Power X6	**Slim Xtra**
Nature of product	Corded Weight: 5 kg Powerful suction Has an adaptor to reach space under furniture and corners for greater versatility.	Cordless Weight: 3.1kg Moderate suction power. Dust brush is only moderately effective. Its floor head is too bulky to reach narrow spaces
Types of storage	Requires more spacious storage space	Can be wall-mounted or be on a slim charging stand.
Cost price	$1 800	$1 200
Estimated selling price	$3 500	$ 2 400

REQUIRED

(c) Advise Shona on which type of vacuum cleaner to buy for the store. Justify your decision with **three** reasons.

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..........[7]

[Total: 10]

[Turn over

Additional page

Additional page

END OF PAPER

Deyi Secondary School
Secondary 4E/5NA Prelim
Paper 1
MARK SCHEME

1 Frosty Slushies has a financial year end on 31 March 2024. The following ledger account has been prepared.

Sale of equipment				
Date	Particulars	Debit $	Credit $	Balance $
2024				
Mar 31	Equipment	20 000		20 000 Dr
	Accumulated depreciation of equipment		3 800	16 200 Dr
	Other receivable-Freezie		24 500	8 300 Cr
	Income summary	8 300		-

REQUIRED

(a) Interpret each of the entries in the sale of equipment account.

(i) Equipment

On 31 March 2024, the original cost of the equipment sold is $20 000. [1]/
On 3 March 2024, the business sold an equipment that cost $20 000. [1].

(ii) Accumulated depreciation of equipment

The equipment being sold on 1 January 2024, had a total depreciation of $3 800 to date. [1]

(iii) Other receivables- Freezie

The disposal proceeds of the equipment sold on credit to Freezie was $24 500. [1] OR
The equipment sold to Freezie on credit was for $24 500. [1]

(b) State the effect and amount of the sale of equipment on the following:

(i) The net book value of the non-current assets will decrease by $16 200. [1]

(ii) Profit will increase by $8 300. [1]

(c) Define 'depreciation'.

Depreciation is the allocation of cost of a non-current asset over its estimated useful life. [1]

(d) Name and explain an accounting theory why Frosty Slushies needs to provide for depreciation on its non-current assets.

According to the matching theory [1], expenses incurred must be matched against the income earned in the same period to determine the profit for the period (Definition). As the non-current assets are being used to generate income, a portion of the cost of using the non-current asset (depreciation expense) should be matched to the income earned in the same financial period to determine the profit for the period(Link). [1]

OR

According to prudence theory [1], the business should not overstate the value of its assets and profits (Definition), hence the business should record the loss in value of the assets by providing for depreciation (Link). [1]

(e) State **two** non-accounting information a business should consider when deciding to purchase a non-current asset.

Purpose of non-current assets [1]
Features of non-current assets [1]
Customer reviews of the non-current assets [1]
Warranty of non-current assets [1]

Any 2 of the above.

[Total : 10]

2 Evermore Gym took up a $150 000 loan from Infinity Bank at an interest rate of 2% per annum on 1 May 2022 and the amount was deposited in the business' bank account. The loan is to be repaid equally over 5 years.

The loan and interest expense are repayable every year on 30 April 2023.The financial year of Evermore Gym ends on 31 December.

REQUIRED

(a) Prepare the journal entry to record the borrowing on 1 May 2022.Narration is **not** required.

Journal

Date 2022	Particulars	Debit $	Credit $
May 1	Cash at bank	150 000 [1]	
	Long term borrowing/ Bank loan- Infinity Bank		150 000 [1]

[2]

(b) Calculate the interest expense and the interest expense payable for the **two** years ended 31 December 2022 and 2023. Show all the workings clearly.

31 December	Interest expense	Interest expense payable
2022	1 May 2022 to 31 Dec 2022: 2% X $150 000X 8/12=$2 000 [1]	1 May 2022 to 31 Dec 2022: $2 000 [1]
2023	1 Jan 2023 to 30 Apr 2023: 2% X $150 000X 4/12=$1 000 1 May 2023 to 31 Dec 2023: 2% X $(150 000- 30 000)X 8/12 =$1 600 $1 600 + $1 000= $2 600 [1]	1 May 2023 to 31 Dec 2023: 2% X $(150 000- 30 000)X 8/12 =$1 600 [1]

[4]

(c) State the effect on profit if interest expense was **not** adjusted on 31 December 2023.

Interest expense will be understated by $1 600.
Profit will be overstated by $1 600 [1]

(d) Name **one** stakeholder other than banks and lenders, who would be interested in the financial performance of the business. Give a reason for your answer.

Stakeholder: Investors/Shareholders [1]

Reason:
They would want to know how well the business manages its borrowing practices as it will affect its returns (such as dividends). [1]
Stakeholder: Suppliers [1]

Reason: They need to assess the business' ability to pay the goods purchased on credit and not to have defaults in payment. [1]

Stakeholder: Employees [1]

Reason: They need to know how well the business manages its borrowing practices as excessive borrowing could have an impact such as delayed salaries/ reduced employment benefits.[1]

Stakeholder: Customers [1]

Reason: They need to know how well the business manages its borrowing practices as excessive borrowing affect the quality/ delay of the goods/services from the business.[1]

Any 1 of the above. [2]

[Total: 9]

3 On 1 June 2023, Minion Private Limited provided the following information. The financial year for the business ends on every 31 May.

	$
Share capital,150 000 ordinary shares	300 000
Retained earnings	54 000

On 20 August 2023, the business issued 20 000 ordinary shares at $2 each.

The business declared a dividend of $0.10 per share to be paid on 15 June 2024 and made a profit of $25 300 for the year ended 31 May 2024.

REQUIRED

(a) Define the following terms:

(i) Share Capital

Cash raised by issuing shares to shareholders. [1]

(ii) Retained earnings

It is the accumulation of profits and losses that have not been distributed to shareholders since the business started operation. [1]

(b) Prepare the journal entry to record the transaction on 20 August 2023. A narration is not required.

Journal

Date 2023	Particulars	Debit $	Credit $
Aug 20	Cash at bank	40 000 [1]	
	Share Capital		40 000 [1]

[2]

(c) Prepare the retained earnings account for the year ended 31 May 2024.

Retained earnings account				
Date	Particulars	Dr ($)	Cr ($)	Bal ($)
2023				
Jun 1	Balance b/d			54 000Cr [1]
2024				
May 31	Income summary (Profit)		25 300 [1]	79 300Cr
	Dividends ($0.10 * 170 000)	17 000 [1]		62 300 Cr
Jun 1	Balance b/d			62 300 Cr

[3]

(d) Complete the table by placing a tick (√) to show the effect on retained earnings for the following items. When there is no effect, tick (√) the "No effect" column.

		Increase $	Decrease $	No effect $
(i)	Dividends		√ [1]	
(ii)	Issuance of additional shares			√ [1]
(iii)	Profit for the year	√ [1]		

[Total: 10]

4 Linda runs a business selling healthy smoothies. She has provided the following information at 31 December 2022 and 31 December 2023.

	2022	2023
Non-current assets	$	$
Equipment (net book value)	35 000	10 000
Current assets		
Inventory	12 500	9 200
Trade receivables	14 500	16 300
Cash at bank	5 000	-
Prepaid salaries	3 200	2 100
Current liabilities		
Bank overdraft	-	2 000
Current portion of long-term borrowing		1 000
Trade payable	11 800	12 200
Non-current liabilities		
Long-term borrowing	5 000	4 000
Current ratio	2.98	?
Quick ratio	1.65	?

REQUIRED

(a) Define 'liquidity'.

Liquidity is the ability of the business to repay its current liabilities when they fall due. [1]

OR

Liquidity measures how able the business is to convert current assets into cash to pay for current liabilities. [1]

Any 1 of the above.

(b) Calculate the current ratio as at 31 December 2023. Show your answer to **two** decimal place.

31 December 2023:
Total current assets/Total current liabilities:
$27 600/ $15 200=1.82[1]

(c) Calculate the quick ratio as at 31 December 2023. Show your answers to **two** decimal place.

Total current assets-Inventory-Prepaid salaries /Total current liabilities
= $16 300/$15 200=1.07 [1]

(d) Evaluate the change in the liquidity of Linda's business between 31 December 2022 and 31 December 2023. Use the information provided and your answer to part **(b)** and **(c)**.

[Trend] The current ratio of Linda's business has worsened from 2.98 in 2022 to 1.82 in 2023. [1]

[Analyse] In 2022, the current ratio was above the general benchmark of 2. However, in 2023, it fell below the general benchmark of 2 which could mean that the business have lesser current assets to pay for its current liabilities. This could be due to the result of cash at bank balance of $5 000 in 2022 which worsened to $2 000 bank overdraft in 2023 which contributed to an increase of current liabilities. [Reason] [1]

[Analyse and reason] In 2022, the current ratio was above the general benchmark of 2. However, in 2023, it fell below the general benchmark of 2, this may be a result of trade payable balance of $11 800 in 2022 and it increased to $12 200 in 2023. This means that the business may have difficulty in paying off its debts due to insufficient cash as seen from its bank overdraft balance of $2 000 in 2023. [1]

[Analyse and reason] In 2022, the current ratio was above the general benchmark of 2. However, in 2023, it fell below the general benchmark of 2, this may be a result of trade receivables balance of $14 500 in 2022 increased to $16 300 in 2023. Even though this might be a signal of increased in sales, it could also mean the business might have difficulty collecting cash from its credit customers. This resulted in having less liquid resources as seen from the bank overdraft of $2 000 in 2023.[1]

[Trend] The quick ratio of Linda's business has decreased from 1.65 in 2022 to 1.07 in 2023. [1]

[Analyse and reason] In 2022, the quick ratio was above the general benchmark of 1. However, in 2023, it is slightly above benchmark of 1 which could mean that the business may have difficulty to pay its short-term debts using quick assets where they fall due. This could be due to the result of cash at bank balance of $5 000 in 2022 which worsened to $2 000 bank overdraft in 2023. [1]

In conclusion, Linda's business liquidity has worsened over the two years. [1]

Any 5 of the above. [5]

(e) Suggest **two** ways Linda can improve the liquidity of her business.

Increasing sources of cash

- Selling non-current assets by cash /cheque
- Take a long-term loan
- Contribute additional cash
- Bring in more shareholders/owners to contribute cash
- Offer trade discount to reduce selling price of goods so that goods can be sold more easily. In this way, inventory be converted to cash.

Managing Cash Outflow

- Reducing operating expenses e.g cut down on her salaries expense
- Negogiate for a better credit terms from supplier

Any 2 of the above. [2]

(f) Other than liquidity ratios, name one profitability ratio that Linda's business can use to evaluate its performance.

Gross profit margin
Mark-up on cost
Profit margin
Return on equity

Any 1 of the above.

[Total: 11]

END OF PAPER

Deyi Secondary School
Principles of Accounts
Secondary 4E5NA Prelim Exam 2024

Mark Scheme : Paper 2

Question 1

1(a) **[10]**

Clifford Legal Pte Limited
Statement of Financial Performance for the year ended 31 March 2024

	$	$
Service fee revenue ($35 800 – $500)		35 300 **[1]**
Other income:		
Commission income ($6 200 - $600)		5 600 **[1]**
Gain on sale of non-current asset		500 **[1]**
		41 400
Less: Other expenses		
Rent expense (12 000 - $2 400)	9 600 **[1]**	
Wages and salaries	18 600 **[1]**	
General expense	1 200 **[1]**	
Interest expense ($8 000 + $2 500)	10 500 **[1]**	
Depreciation of office equipment	14 000 **[1]**	
Depreciation of motor vehicles	16 200 **[1]**	
Impairment loss on trade receivables	3 775 **[1]**	73 875
Loss for the year		(32 475)

1b. **[10]**

Clifford Legal Pte Limited
Statement of Financial Position as at 31 March 2024

	$ Cost	$ Accumulated Depreciation	$ Net Book Value
Assets			
Non-current assets			
Office equipment	96 000	42 000 *(28 000 + 14 000)*	54 000 **[1]**
Motor vehicles	248 000	156 200 *(140 000 + 16 200)*	91 800 **[1]**
			145 800
Current assets			
Trade receivables ($80 300 - $2 000)	78 300		
Less: Allowance for impairment of trade receivables (5% x $78 3000	(3 915) **[1]**	74 385	
Prepaid rent expense		2 400 **[1]**	
Cash at bank		8 000	
Cash in hand		3 200	87 985
Total Assets			233 785
Equity and liabilities			
Shareholder's equity			
Share capital, 100 000 ordinary shares		100 000	
Retained earnings ($50 160 -$3 000 – $32 475)		14 685**[1]**	114 685
Non-current liabilities			
Long-term borrowings (105 000 – 21 000)			84 000 **[1]**
Current liabilities			
Trade payables		8 000	
Commission income received in advance		600 **[1]**	
Interest expense payable		2 500 **[1]**	
Dividend payable		3 000 **[1]**	
Current portion of long-term borrowings		21 000 **[1]**	35 100
Total equity and liabilities			233 785

Question 2

2(a)(i) [1]

On 30 November 2022, the business provided services for $21 000 to customers on credit. **[1]**

2(a)(ii) [2]

On 30 September 2023, the business received service fee revenue of $1 000 in advance for service that it has not rendered for the accounting year **[1].**

On 30 September 2023, the business earned service fee revenue of $83 000 for the current accounting year **[1].**

2(b) [2]

Revenue recognition theory **[1].**

Revenue is earned when goods have been delivered or when services have been provided **[1].**

OR

Accrual basis of accounting **[1]**

According to the accrual basis of accounting, income is recognised when it is earned rather than when the amount is received **[1]**

OR

Matching theory **[1]**

Expenses incurred must be matched against income earned in the same period to determine accurate profit for the period **[1]**

2(c) [6]

Journal

Date		Debit $	Credit $
2023 Sep 30	Trade payable Raja	100 **[1]**	
	Discount received		100 **[1]**
Sep 30	Loan interest expense	5 000 **[1]**	
	Bank loan / long-term borrowings		5 000 **[1]**
Sep 30	Cash in hand	3 000 **[1]**	
	Capital		3 000 **[1]**

2(d) [3]

Error 1 : Profit is understated by $100 **[1]**

Error 2 : Profit is overstated by $5 000 **[1]**

Error 3 : No effect **[1]**

2(e) [1]

Adjusted profit = $8 700 + $100 - $5 000 = **$3 800 [1]**

Question 3

3(a) [5]

Trade receivable Jade account

Date	Particulars	Dr $	Cr $	Balance $
2024				
July 1	Balance b/d			500 Dr **[1]**
4	Cash at bank (98% x $500)		490 **[1]**	10 Dr
	Discount allowed (2% x $500)		10 **[1]**	0
12	Sales revenue (75% x $800)	600 **[1]**		600 Dr
13	Sales revenue (75% x $120)	90 **[1]**		690 Dr
Aug 1	Balance b/d			690 Dr

3(b) [1]

This is because the level of trade receivables will indicate the business' ability to pay for the goods that it bought from the suppliers on credit **[1]** **OR**

If trade receivables are high, it may indicate adequate funds to pay trade payables eventually **[1] OR**

If trade receivables are high, it may be a sign of good business and this will give suppliers the confidence to trade with the business. **[1] OR**

Trade payables might be concerned if trade receivable amount is high due to risk of default payments and this will affect the liquidity of the business. **[1]**

3(c) [1]

Rate of inventory turnover for 31 December 2023:

Cost of sales / average inventory = $\dfrac{145\ 000}{(12\ 000 + 5\ 000)/2}$

= **<u>17.06 times</u> [1]**

3(d) [5]

	31 December 2021	31 December 2022	31 December 2023
Rate of inventory turnover	22.67 times	12.22 times	**17.06 times**

The rate of inventory turnover has worsened from 22.67 times in 2021 to 12.22 times in 2022. However, it improved from 12.22 times in 2022 to 17.06 times in 2023. **[1]**

This means that in 2022, business sold and replaced its inventory fewer times compared to 2021. **[1]**

The business may be buying too many goods and was unable to sell them due to reasons such as poor promotion efforts.**[1]**

In 2023, the business' efficiency in managing its inventory improved slightly and this means that the business was able to sell and replace its inventory faster than in 2022. **[1]** This could be due to reasons such as lower selling price and better marketing campaigns to increase sales volume.

In conclusion, the business' efficiency in managing its inventory is not consistent over the three years. It got worse in 2022 and improved in 2023. **[1]**

3(e) [3] [1m for one <u>reasonable</u> and <u>logical</u> explanation, maximum 3 points]

Suggestion 1:

Offering trade discount will make Adam's goods attractive to the customers. The business might be able to achieve higher sales volume, and this will have a positive impact of the business's profitability. **[1]**

However, offering trade discount to **<u>all</u>** customers may diminish its appeal to loyal customers, as it would no longer be a special privilege for them. This could lead to losing these loyal customers to competitors who provide more attractive incentives to encourage regular patronage and loyalty. **[1]**

Suggestion 2:

Offering credit terms to customers can be very attractive, as it allows them to obtain goods without immediate cash payment. This will be an incentive for them to buy more goods, thus leading to higher inventory turnover. **[1]**

However, one possible setback is the lack of thorough screening for creditworthiness of trade receivables. This could lead to higher payment defaults and impairment loss on trade receivables, which will affect profitability and liquidity of the business. **[1]**

Another possible setback is not all customers may prefer buying on credit terms. Some might prefer to pay cash and not worry about monitoring the payment date and risk incurring interest on late payments. **[1]**

Question 4

4(a) [2]

Cost price of the batch = $ 4 800

Net Realisable value of the batch = $3 000 - $800 = $2 200

So, value of this batch of inventory must be adjusted from $4 800 to $ 2 200. Hence, reduce by $2 600.

Overall value of inventory = $15 500 [1] - $2 600 [1] = $12 900

4(b) [1m for full set of double-entry]

Dr. Insurance claim receivable $1 900

Cr. Impairment loss on inventory $1 900

4(c) [7]

1m for decision
1m for each basic statement (maximum of 3m)
1m for development of each basic statement (maximum of 3m)

Decision : Shona should buy Power X6 to sell.

Basic Statement 1:
Power X6 has stronger vacuum suction compared to Slim Xtra.

Development 1:
Although SlimXtra is equipped with a dust brush, it is average in terms of effectiveness. The stronger vacuum suction from Power X6 will appeal more to customers since many have young families and hygiene will be a priority. This will eventually lead to higher sales revenue for the business in the long run.

Basic Statement 2:
Power X6 has an adaptor that can clean the tight spaces and will be more effective in cleaning compared to Slim Xtra that has a floor head that is big and less versatile for cleaning corners.

Development 2:
This feature enables effective cleaning with minimal bending, significantly reducing the risk of back pain. Consequently, it will attract health-conscious customers who value both efficiency and wellness, thereby broadening the business' customer base.

Basic Statement 3:
The gross profit from selling Power X6 is higher than from selling Slim Xtra by $500 per unit.

Development 3:
Despite the higher cost price of Power X6, its higher selling price will bring about higher gross profit for the business. Customers in this high income neighbourhood would not mind the higher purchase price because of it good features.

Decision : Shona should buy Slim Xtra to sell.

Basic Statement 1:
Slim Xtra is lighter and cordless compared to a heavier Power X6 that is corded.

Development 1:
Being light weight and cordless will provide more convenience for families with young children. It is easier to move around the house and reduce the possibility of physical strains on the user. This will result in greater customer's satisfaction for the business.

Basic Statement 2:
In terms of storage, Slim Xtra takes up less space compared to Power X6.

Development 2:
This feature will appeal to families with young children who need extra storage space, leading to increased sales volume for the business.

Basic Statement 3:
Slim Xtra has a lower cost price of $1200 instead of $1800 for Power X6.

Development 3:
The lower cost price will result in lower cost of sales, allowing the business to use the cost-savings on other operating expenses of the business.

END OF MARKING SCHEME