

CONVENT OF THE HOLY INFANT JESUS SECONDARY
Preliminary Examination in preparation for
the General Certificate of Education Ordinary Level 2024

CANDIDATE
NAME

CLASS

REGISTER
NUMBER

PRINCIPLES OF ACCOUNTS

7087/01

Paper 1

27 August 2024

1 hour

Candidates answer on the Question Paper.
No Additional Materials are required.



READ THESE INSTRUCTIONS FIRST

Write your name, class and register number in the spaces provided on the work you hand in.
Write in dark blue or black pen.
You may use an HP pencil for rough working.
Do not use staples, paper clips, glue, correction fluid or correction tape.

Answer **all** questions.
You may use a calculator.

Where layouts are to be completed, you may need all the lines for your answer.
The businesses mentioned in this question paper are fictitious.

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

For Examiner's Use	
1	
2	
3	
4	

This document consists of 8 printed pages.

[Turn over

Answer **all** questions.

- 1 Thomas Trading buys goods from Ashlyn.

The business provided the following information for month of February 2024.

Ashlyn account				
Date	Particulars	Dr	Cr	Bal
2024		\$	\$	\$
Feb 1	Balance b/d			2 180 Cr
4	Inventory		1 500	3 680 Cr
12	Cash at bank	1 440		2 240 Cr
12	Discount received	360		1 880 Cr
21	Inventory		6 420	8 300 Cr
23	Inventory	500		7 800 Cr

REQUIRED

- (a) Explain what a trade discount is.

.....
 [1]

- (b) Interpret the entries on the following dates.

- (i) 12 February 2024

.....

 [2]

- (ii) 23 February 2024

.....
 [1]

- (c) Calculate the rate of discount on 12 February 2024.

.....
 [1]

(d) Identify the source document used on the following dates.

(i) 4 February 2024

..... [1]

(ii) 23 February 2024

..... [1]

(e) State **two** non-accounting information Thomas Trading should consider when deciding which supplier to buy from.

.....
 [2]

5107
MATH STUDIO

[Total: 9]

[Turn over

- 2 Zhi Heng operates a pet supplies business. He supplied the following information for the year ended 31 March 2024.

	Units	\$
Inventory as at 1 April 2023	500	2 700
Sales revenue for the year ended 31 March 2024	1 230	7 600

During the year ended 31 March 2024, the following purchases were made.

1 July 2023	200 units for \$1 450 from Ron.
15 October 2023	350 units for \$1 900 from Qi.
14 February 2024	180 units for \$1 200 from Le.
17 March 2024	100 units for \$700 from Xi.

Additional information:

1. Zhi Heng uses the First-In-First-Out (FIFO) method of inventory valuation.
2. All sales and purchases were made on credit.
3. The net realisable value of the inventory as at 31 March 2024 was \$500.

REQUIRED

- (a) State how inventory is valued.

..... [1]

- (b) Calculate the total cost of sales for the year ended 31 March 2024.

.....
 [2]

- (c) Prepare journal entries to adjust the ending inventory value as at 31 March 2024.

Journal

Date	Particulars	Dr	Cr
	CHIJSEC/2024/PRELIM/4E5N/POA/7087/P1		

\$

\$

[2]

- (d) State the effect and amount on profit for the year ended 31 March 2024 if the ending inventory was **not** adjusted.

..... [1]

The rate of inventory turnover for the year ended 31 March 2023 was 6 times.

REQUIRED

- (e) Calculate the rate of inventory turnover for the year ended 31 March 2024.

.....

 [2]

- (f) Comment on rate of inventory turnover over the two years ended 31 March 2023 and 2024.

.....

 [3]

[Total: 11]

[Turn over

- 3 Chloe runs a minimart. The business rents out a part of the minimart to Jude for \$1 200 per month.

Chloe provided the following information for the year ended 30 June 2024.

Account balances at 1 July 2023	\$
Salaries expense payable	600

On 28 June 2024, the business paid \$8 000 salaries through an electronic bank transfer. On this date, the business also received rental income by cheque.

Account balances at 30 June 2024	\$
Rental income received in advance from Jude	400
Salaries expense payable	200

REQUIRED

- (a) Calculate the amount of rental income to be shown in the statement of financial performance for the year ended 30 June 2024.

.....

.....

[1]

- (b) Calculate the amount of rental income received by cheque on 28 June 2024.

.....

.....

[2]

- (c) Prepare journal entries to record the salaries owing as at 30 June 2024 and the closing entries at the end of the financial year.

Journal

Date	Particulars	Dr	Cr
		\$	\$
	CHIJSEC/2024/PRELIM/4E5N/POA/7087/P1		

[4]

- (d) State the accounting theory that is being applied when accounting for salaries expense.

[1]

- (e) State the effects and amounts on the profit for the year and liabilities if the rental income at the end of the financial year was **not** adjusted.

[2]

- (f) State **two** internal control measures a business may use to safeguard cash.

[2]

[Total: 12]

[Turn over]

4 Benton, a sole proprietor, discovered the following errors on 31 December 2023, after the financial statements were prepared.

- 1 The return of goods worth \$560 by Larry, a credit customer, was debited to Larry's account and credited to sales returns account.
- 2 A purchase of a printer worth \$300 by cheque has been recorded in the office supplies expense account.

The profit for the year ended 31 December 2023 before the errors were discovered was \$800.

REQUIRED

(a) Complete the table to show how error 1 should be corrected.

Error	Account to be debited	Account to be credited	Amount (\$)
1			

[3]

(b) Calculate the adjusted profit or loss for the year ended 31 December 2023.

.....

.....

.....

.....

[2]

(c) State the accounting theory which must be applied when accounting for the sale and delivery of goods.

.....

[1]

(d) Explain the limitation of a balanced trial balance.

.....

.....

.....

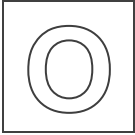
..... [2]

[Total: 8]

[END OF PAPER]



[Turn over



CONVENT OF THE HOLY INFANT JESUS SECONDARY
Preliminary Examination in preparation for
the General Certificate of Education Ordinary Level 2024

CANDIDATE
NAME

ANSWER SCHEME

CLASS

REGISTER
NUMBER

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PRINCIPLES OF ACCOUNTS

7087/01

Paper 1

27 August 2024

1 hour

Candidates answer on the Question Paper.
No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

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Answer **all** questions.
You may use a calculator.

Where layouts are to be completed, you may need all the lines for your answer.
The businesses mentioned in this question paper are fictitious.

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

For Examiner's Use	
1	
2	
3	
4	

Answer **all** questions.

- 1 Thomas Trading buys goods from Ashlyn.

The business provided the following information for month of February 2024.

Ashlyn account				
Date	Particulars	Dr	Cr	Bal
2024		\$	\$	\$
Feb 1	Balance b/d			2 180 Cr
4	Inventory		1 500	3 680 Cr
12	Cash at bank	1 440		2 240 Cr
12	Discount received	360		1 880 Cr
21	Inventory		6 420	8 300 Cr
23	Inventory	500		7 800 Cr

REQUIRED

- (a) Explain what a trade discount is.

A trade discount is a reduction in the list price. [1]

[1]

- (b) Interpret the entries on the following dates.

- (i) 12 February 2024

The business paid \$1440 to credit supplier, Ashlyn by cheque [1] and received a cash discount of \$360. [1]

[2]

- (ii) 23 February 2024

The business returned goods that cost \$500 to credit supplier, Ashlyn. [1]

[1]

- (c) Calculate the rate of discount on 12 February 2024.

Rate of discount received = $(360 / 1800) * 100\% = 20\%$ [1]

[1]

- (d) Identify the source document used on the following dates.

- (i) 4 February 2024

Invoice. [1]

[1]

- (ii) 23 February 2024

Credit note. [1]

[1]

- (e) State **two** non-accounting information Thomas Trading should consider when deciding which supplier to buy from.

- Local or overseas supplier.
- After-sales services.
- Return policy.
- Online or physical store.
- Reputation of supplier.
- Warranty.

[Any 2 of the above, award 1m each.]

[2]

[Total: 9]

- 2 Zhi Heng operates a pet supplies business. He supplied the following information for the year ended 31 March 2024.

	Units	\$
Inventory as at 1 April 2023	500	2 700
Sales revenue for the year ended 31 March 2024	1 230	7 600

During the year ended 31 March 2024, the following purchases were made.

1 July 2023	200 units for \$1 450 from Ron.
15 October 2023	350 units for \$1 900 from Qi.
14 February 2024	180 units for \$1 200 from Le.
17 March 2024	100 units for \$700 from Xi.

Additional information:

1. Zhi Heng uses the First-In-First-Out (FIFO) method of inventory valuation.
2. All sales and purchases were made on credit.
3. The net realisable value of the inventory as at 31 March 2024 was \$500.

REQUIRED

- (a) State how inventory is valued.

Inventory is valued at the lower of cost or net realisable value. [1]

[1]

[Turn over]

- (b) Calculate the total cost of sales for the year ended 31 March 2024.

Total cost of sales = 2700 + 1450 + 1900 + 1200 = \$7250

[Any 2 correct amounts, award 1m.]

[2]

- (c) Prepare journal entries to adjust the ending inventory value as at 31 March 2024.

Journal

Date	Particulars	Dr	Cr
2024		\$	\$
Mar 31	Impairment loss on inventory	200	
	Inventory (700 – 500)		200

[Entry and amount must be correct to be award 1m each.]

[2]

- (d) State the effect and amount on profit for the year ended 31 March 2024 if the ending inventory was **not** adjusted.

Profit for the year will be overstated by \$200. [1]

[1]

The rate of inventory turnover for the year ended 31 March 2023 was 6 times.

REQUIRED

- (e) Calculate the rate of inventory turnover for the year ended 31 March 2024.

Rate of inventory turnover = 7250 (e.f.) [1] / [(2700 + 500) / 2] [1] = 4.53 times

[2]

- (f) Comment on rate of inventory turnover over the two years ended 31 March 2023 and 2024.

- The inventory turnover rate has worsened over the two years from 6 times in 2023 to 4.53 times in 2024. [1]
- This would imply that the number of times the business has sold and replaced its inventory is slower over the two years. [1]
- Hence, the business is less efficient in managing its inventory over the two years. [1]

[3]

[Total: 11]

- 3 Chloe runs a minimart. The business rents out a part of the minimart to Jude for \$1 200 per month.

Chloe provided the following information for the year ended 30 June 2024.

Account balances at 1 July 2023	\$
Salaries expense payable	600

On 28 June 2024, the business paid \$8 000 salaries through an electronic bank transfer. On this date, the business also received rental income by cheque.

Account balances at 30 June 2024	\$
Rental income received in advance from Jude	400
Salaries expense payable	200

REQUIRED

- (a) Calculate the amount of rental income to be shown in the statement of financial performance for the year ended 30 June 2024.

Rental income = \$1200 * 12 = \$14400. [1] [1]

- (b) Calculate the amount of rental income received by cheque on 28 June 2024.

Rental income received by cheque = \$14400 (e.f.) [1] + 400 [1] = \$14800. [2]

- (c) Prepare journal entries to record the salaries owing as at 30 June 2024 and the closing entries at the end of the financial year.

Journal

Date	Particulars	Dr	Cr
2024		\$	\$
Jun 30	Salaries expense	200	
	Salaries expense payable		200
Jun 30	Income summary (8000 + 200 – 600)	7 600	
	Salaries expense		7 600

[Entry and amount must be correct to be awarded 1m each.] [4]

- (d) State the accounting theory that is being applied when accounting for salaries expense.

Matching theory [1] / Accrual basis of accounting theory. [1] [1]

[Turn over

- (e) State the effects and amounts on the profit for the year and liabilities if the rental income at the end of the financial year was **not** adjusted.

Profit for the year will be overstated by \$400. [1]

Liabilities will be understated by \$400. [1]

[2]

- (f) State **two** internal control measures a business may use to safeguard cash.

- Segregation of duties.
- Custody of cash.
- Authorisation.
- Bank reconciliation.

[Any 2 of the above, award 1m each.]

[2]

[Total: 12]

- 4 Benton, a sole proprietor, discovered the following errors on 31 December 2023, after the financial statements were prepared.

- 1 The return of goods worth \$560 by Larry, a credit customer, was debited to Larry's account and credited to sales returns account.
- 2 A purchase of a printer worth \$300 by cheque has been recorded in the office supplies expense account.

The profit for the year ended 31 December 2023 before the errors were discovered was \$800.

REQUIRED

- (a) Complete the table to show how error 1 should be corrected.

Error	Account to be debited	Account to be credited	Amount (\$)
1	Sales returns [1]	Trade receivable – Larry [1]	1 120 [1]

[3]

- (b) Calculate the adjusted profit or loss for the year ended 31 December 2023.

Adjusted loss for the year = \$800 – 1120 [e.f.] [1] + 300 [1] = \$20 (Loss)

[2]

- (c) State the accounting theory which must be applied when accounting for the sale and delivery of goods.p

Revenue recognition theory. [1]

[1]

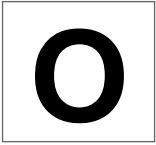
- (d) Explain the limitation of a balanced trial balance.

A balanced trial balance does not prove that all transactions have been recorded and is error-free [1] as there may be errors not revealed by a trial balance. [1]

[2]

[Total: 8]

[END OF PAPER]



CONVENT OF THE HOLY INFANT JESUS SECONDARY
Preliminary Examination 2024
in preparation for the GCE Ordinary Level Examination

CANDIDATE
NAME

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REGISTER
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PRINCIPLES OF ACCOUNTS

7087/02

INSERT

21 August 2024

2 hours

READ THESE INSTRUCTIONS FIRST

This insert contains the data for Question 1.



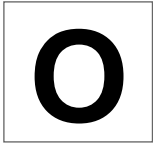
Data for Question 1

The following balances were extracted from the books of PQR Pte Limited on 30 June 2024.

	\$	
Office equipment at cost	95 000	
Motor vehicles at cost	145 000	
Accumulated depreciation		
Office equipment	18 000	
Motor vehicles	73 950	
Sales revenue	278 710	
Sales returns	15 200	
Cost of sales	185 300	
Inventory	31 800	
Commission income	19 750	
Wages and salaries	54 000	
General expenses	6 700	
Rent expense	11 250	
Trade receivables	24 780	
Trade payables	16 100	
Allowance for impairment of trade receivables	860	
Cash at bank	13 300	debit
3% bank loan repayable 2029	20 000	
Issued share capital, 125 000 ordinary shares	125 000	
Retained earnings 1 July 2023	29 960	

Additional information

- 1 Office equipment are to be depreciated at 10% per annum using the straight-line method assuming a scrap value of \$5 000.
- 2 Motor vehicles are to be depreciated at 30% per annum using the reducing-balance method.
- 3 At 30 June 2024:
 - i commission income, \$1 750, had been received in advance
 - ii rent expense, \$1 000, was prepaid
 - iii wages and salaries, \$940, were owing.
- 4 It was decided that 5% of the trade receivables were unlikely to be collectible.
- 5 Interest on the bank loan for the year to 30 June 2024 had not yet been paid.
- 6 The company declared a dividend of \$0.08 per share. This will be paid on 1 September 2024.



CONVENT OF THE HOLY INFANT JESUS SECONDARY
Preliminary Examination 2024
in preparation for the GCE Ordinary Level Examination

CANDIDATE
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PRINCIPLES OF ACCOUNTS

7087/02

Paper 2

21 August 2024

2 hours

Candidates answer on the Question Paper.

Additional Materials: Insert

READ THESE INSTRUCTIONS FIRST

Answer **all** questions.



The use of an approved calculator is allowed.

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.

For Examiner's Use	
1	
2	
3	
4	
Total	

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 30 June 2024.

PQR Pte Limited

Statement of Financial Performance for the year ended 30 June 2024

5TQ7
MATH STUDIO



[9]

- (b) Prepare the statement of financial position as at 30 June 2024.

PQR Pte Limited
Statement of Financial Position as at 30 June 2024

5107
MATH STUDIO



[11]

[Total: 20]

- 2 Pia runs a business transporting waste for businesses. She has provided the following ledger account for her business for the last **two** years ended 31 December 2022 and 2023.

Capital account				
Date	Particulars	Debit	Credit	Balance
2022		\$	\$	\$
Jan 1	Balance b/d			24 000 Cr
Jun 1	Cash at bank		10 000	34 000 Cr
Dec 31	Drawings	5 000		29 000 Cr
	Income summary		23 900	52 900 Cr
2023				
Jan 1	Balance b/d			52 900 Cr
Apr 1	Office equipment		4 000	56 900 Cr
Dec 31	Drawings	11 000		45 900 Cr
	Income summary	?	?	30 200 Cr
2024				
Jan 1	Balance b/d			30 200 Cr

REQUIRED

- (a) Prepare the journal entry to record the transfer of profit or loss for the year ended 31 December 2022 to the capital account. A narration is **not** required.

Particulars	Debit \$	Credit \$

[2]

- (b) Explain the reasons for the change in owner's equity for the year ended 31 December 2022.

.....

.....

.....

.....[2]

- (c) Calculate the amount of profit or loss made by Pia's business for the year ended 31 December 2023. State clearly whether your answer is a profit or a loss.

.....

.....

.....[2]

Pia's business had the following transactions for the year ended 31 December 2023:

Date	Transaction
2023	
Apr 1	Pia contributed a laptop, \$4 000, to the business.
Jul 5	Pia withdrew \$10 000 from the business bank account for her own use.
Nov 10	\$1 000 cash from the shop was taken by Pia to pay for her personal medical bills.

REQUIRED



(d) Define drawings.

.....

.....[1]

(e) Prepare the drawings account for Pia's business for the year ended 31 December 2023.

Drawings account

.....

.....

.....

.....

.....

.....

.....[3]

(f) Name **and** explain the accounting theory applied when recording drawings.

.....

.....

[2]

[Total: 12]

- 3 The following information has been provided for two hardware stores for the year ended 30 June 2024.

	Brickhouse	Woodzone
Current ratio	2.55	1.73
Quick ratio	1.74	?
	\$	\$
Cash at bank	10 200	-
Bank overdraft	-	7 000
Inventory	12 500	36 100
Trade receivables	28 300	25 900
Trade payables	22 100	21 600
Prepaid rent	5 400	4 800
Current portion of long-term borrowing	-	10 000

REQUIRED

- (a) Calculate the quick ratio for Woodzone for the year ended 30 June 2024.

[2]

- (b) Evaluate the liquidity of Brickhouse **and** Woodzone for the year ended 30 June 2024.

[Turn over

- 4 Megan sells handphoned. The business provided the following information for its allowance for impairment of trade receivables account for the year ended 31 December 2023.

	1 January 2023	31 December 2023
	\$	\$
Allowance for impairment of trade receivables	2 900	1 100

On 20 May 2023, credit customer Joy closed her business. Megan's business wrote off the remaining \$1 500 owed by Joy's business.

REQUIRED

- (a) Prepare the journal entry to record the transaction on 20 May 2023. A narration is **not** required.

Particulars	Debit \$	Credit \$

[2]

- (b) Prepare an extract of the statement of financial performance for the year ended 31 December 2023, showing the other expenses section.

Extract of Statement of Financial Performance for the year ended 31 December 2023

.....

.....

.....

.....[2]

- (c) State the effects on current assets and profit for the year if the allowance for impairment of trade receivables was **not** adjusted for the financial year ended 31 December 2023.

[2]

- (d) Explain why a business accounts for an allowance for impairment of trade receivables with reference to an appropriate accounting theory.

[2]

Two customers have approached the business to negotiate for a longer repayment period, from 30 days to 40 days. Megan intends to extend longer repayment period to only one business. Its current credit term is 30 days.

	Technologic	Gizmoles
Nature of business	Sells a wide range of electronic products for all consumers	Sells mainly handphones and its accessories
Average trade receivables balance owing to Megan	\$25 000	\$ 80 000
Repayment history	Collection days: 33 Repaid late 2 times	Collection days: 41 Repaid late 7 times
Reputation	<ul style="list-style-type: none"> • Very popular among the masses • Has been Megan's customer for 1 year 	<ul style="list-style-type: none"> • Many good online ratings • Has been Megan's customer for 10 years
Industry outlook	The demand for electronic products has plateaued. Economists predict negative growth for the sector.	The demand for personal devices remains strong. Significant growth has been forecasted for the future.

REQUIRED

- (e) Which customer would you advise Megan to grant a longer repayment period to? Justify your decision with **three** reasons.



[7]

- End of Paper -



2024 4E5N Prelim Mark Scheme (P2)

Q1(a)

PQR Pte Limited

Statement of financial performance for the year ended 30 June 2024

	\$	\$	
Sales revenue	278,710		
Less: Sales returns	(15,200)		
Net sales revenue		263,510	
Less: Cost of sales		(185,300)	
Gross profit		78,210	[1]
 Add: Other income			
Commission income (-1750)		18,000	[1]
 Less: Other expenses			
Wages and salaries (+940)	54,940		[1]
General expenses	6,700		
Rent expense (-1000)	10,250		[1]
Interest expense (3% x 20 000)	600		[1]
Depreciation of office equipment [(95 000 - 5 000) X 10%]	9,000		[1]
Depreciation of motor vehicles [(145 000 - 73 950) X 30%]	21,315		[1]
Impairment loss on trade receivables [(5% X 24 780) - 860]	379	(103,184)	[1]
Loss for the year		(6,974)	[1] OF
			(Own Figure)

PQR Pte Limited

Q1(b)

Statement of financial position as at 30 June 2024

Assets:	\$	\$	\$	
	Cost	Accumulated depreciation	Net book value	
Non-current assets:				
Office equipment	95,000	27,000	68,000	[1]
Motor vehicles	145,000	95,265	49,735	[1]
			117,735	
Current assets:				
Trade receivables	24,780			
Less: Allowance for impairment of trade receivables	(1,239)			[1]
Net trade receivables		23,541		[1]
Prepaid rent expense		1,000		[1]
Cash at bank		13,300		
Inventory		31,800	69,641	
Total assets			187,376	
Equity and liabilities:				
Shareholders' equity:				
Share capital, 125 000 ordinary shares		125,000		
Retained earnings (29 960 - 6 974 - 10 000)		12,986	137,986	[1]
Non-current liabilities:				
Long term borrowing			20,000	[1]
Current liabilities:				
Trade payables		16,100		
Commission income received in advance		1,750		[1]
Wages and salaries payable		940		[1]
Interest expense payable		600		[1]
Dividends payable (0.08 X 125 000)		10,000	29,390	[1]
Total equity and liabilities			187,376	

Q2

(a)	Particulars	Debit (\$)	Credit (\$)	
	Income summary	23,900		[1]
	Capital		23,900	[1]

- (b) Owner's equity increased from \$24 000 to \$52 900 during the year ended 31 December 2022. [1]
 The increase is caused by \$10 000 capital contribution by the owner, drawings of \$5 000 by owner [1]
 and a profit for the year of \$23 900.

OR

The additional capital contribution of \$10 000 and profit of \$23 900 are more than the drawings of \$5 000. Therefore, there is a net increase of \$28 900 in owner's equity for the year ended 31 December 2022. [1]

- (c) Capital fell from \$45 900 to \$30 200, it was a loss for the year of \$15 700. (45900 - 30200) [2]

- (d) Drawings refers to the assets or resources that are taken out of the business by the owner for personal use. [1]

(e)	Drawings account				
	Date	Particulars	Dr (\$)	Cr (\$)	Bal (\$)
	2023				
	Jul 5	Cash at bank	10,000		10,000 Dr [1]
	Nov 10	Cash in hand	1,000		11,000 Dr [1]
	Dec 31	Capital		11,000	- [1]

- (f) Accounting entity theory states that the owner and the business are separate entities and the business has to record transactions that affect the business and are related to the owner. [1]
 Since drawings by the owner will affect the business, it has to be recorded by the business. [1]

OR

Accounting entity theory states that owner and business are separate entities and all transactions that are recorded should be from the point of view of the business. Drawings by the owner removes business resources from the business and therefore needs to be recorded in the books of the business, from the business point of view. [1]

Q3**(a)** Quick ratio = Quick assets / Current liabilities

Quick assets = 25 900

Current liabilities = 7 000 + 21 600 + 10 000 = \$38 600

Quick ratio = 25 900 / 38 600 = 0.67

[1]**[1]****(b)**

	Brickhouse	Woodzone
Current	2.55	1.73
Quick	1.74	0.67

Brickhouse has a better current ratio of 2.55 as compared to Woodzone's 1.73.

[1]

Only Brickhouse has met the general benchmark of 2 for current ratio.

This shows that Brickhouse has sufficient current assets to repay its immediate debts for the year ahead.

[1]

Brickhouse has a better quick ratio of 1.74 when compared to Woodzone's 0.67.

[1]

Only Brickhouse has met the general benchmark of 1 for quick ratio.

This shows that Brickhouse has sufficient quick assets to repay its immediate debts for the year ahead.

[1]

Both businesses have sufficient current assets to repay immediate debts (current ratio greater than 1), however, Brickhouse has more excess current assets to meet its day-to-day expenses as well.

[1]

Brickhouse has better liquidity as it has a better cash balance of \$10 200 whereas Woodzone has a negative cash balance (bank overdraft of \$7 000).

[1]

Woodzone suffers from insufficient cash as a lot of its cash is tied up in its inventory holdings of \$36 100 as compared to Brickhouse who is only holding \$12 500 worth of inventory.

[1]

Woodzone also has higher current liabilities due to its upcoming repayment of the current portion of long-term borrowing (\$10 000). This would worsen its quick ratio and liquidity.

[1]

In conclusion, Brickhouse has better liquidity than Woodzone.

[1]**Up to 6 marks.****(c)** If a business is not liquid, it would not have sufficient cash to repay its creditors and face bankruptcy. It might have insufficient cash to pay for operational expenses and may have to wind up.**[1]****[1]****Any one of the above.****(d)** Obtain cash contribution from the owner or shareholders**[1]**

Obtain a long-term loan

[1]

Sell excess non-current assets for cash

[1]

Reduce operating expenses

[1]

Negotiate for better credit terms from supplier

[1]**Any two of the above.****(e)** A profitable business may have difficulty collecting payment from customers or It may have used most of its cash to purchase non-current assets.**[1]****[1]**

Q4

(a)	Particulars	Debit (\$)	Credit (\$)	
	Allowance for impairment of trade receivables	1,500		[1]
	Trade receivable - Joy		1,500	[1]

- (b) Extract of Statement of Financial Performance for the year ended 31 December 2023
- | | | |
|--|-------|-----|
| | \$ | |
| Less: Other expenses | | |
| Reversal of impairment loss on trade receivables | (300) | [2] |

- (c) Current assets would be understated by \$300. [1]
 Profit for the year would be understated by \$300. [1]

- (d) The **prudence theory states that the accounting treatment chosen should be the one that least overstates assets** and profits. Since allowance for impairment of trade receivables is a contra-asset that **reduces the value of our trade receivables**, a business accounts for it so that it does **not overstate its trade receivables and current assets**. [1]

- (e) **SBQ - Option Technologic**
- Decision**
 I would advice Megan to grant a longer repayment period to Technologic. [1]

Reason 1
 Technologic sells a wide range of electronic products and not just handphones like Gizmoles. [1]

Explanation 1
 This means that Technologic's business is diversified and will be able to maintain its sales during the year, even if the sales of handphones is suddenly affected. Technologic would still be able to repay Megan even if a longer repayment period was granted to them. [1]

Reason 2
 Technologic has a better repayment history with collection days of 33 while only repaying late twice. [1]
 This is better than Gizmoles who takes 41 days to make payment and has repaid late 7 times.

Explanation 2
 Extending a longer repayment period to Technologic would be less risky as they are more prompt and conscientious when it comes to repayment of trade receivables. Technologic currently takes 33 days and extending a longer repayment period of 40 days would be safer for Megan. [1]

Reason 3
 Technologic is a very popular brand among the masses which shows that it caters to a wide range of customers. [1]

Explanation 3
 Megan's business could stand to gain more business by extending a longer repayment period to Technologic as they are a popular brand. Even though they have only done 1 year of business with Megan, extending them a longer repayment period could boost their business relationship and bring about more sales and profits. [1]

Accept any other reasonable answers for Technologic.

SBQ - Option Gizmoles

Decision
 I would advice Megan to grant a longer repayment period to Gizmoles. [1]

Reason 1
 Gizmoles is a bigger customer of Megan's, with a much higher average trade receivables balance of \$80 000 than Technologic's \$25 000. [1]

Explanation 1
 Since Gizmoles is a bigger customer, granting them a longer repayment period could boost the business relationship between Megan and Gizmoles. This would bring out greater trust between them and lead to more sales and profits for Megan's business. [1]

Reason 2
 Gizmoles has many good online ratings which shows that the quality of their products and services are of high standards. [1]

Explanation 2
 Besides already having done business with Gizmoles for 10 years, Gizmoles also has been known for the quality of its products and services. Extending a longer repayment period to Gizmoles would not be hasty or risky for Megan as they have known each other a long time and Gizmoles is a reputable business. [1]

Reason 3
 Personal devices are still very important with significant growth predicted for the future. [1]

Explanation 3
 This means that Gizmoles' business will pick up in the future and will continue to grow. By extending a longer repayment period to Gizmoles, Megan's business will benefit from more business from Gizmoles as they continue to buy more handphones from Megan to meet the strong demand for personal devices in the future. [1]

Accept any other reasonable answers for Gizmoles.