

Hillgrove Secondary School
4E/5NA Preliminary Examination 2024
Principles of Accounts Paper 2 (7087/02)
Suggested answers and marking scheme

Q1

(a)

Danish Hairstyling Ltd			
Statement of Financial Performance for the year ended 31 December 2023			
	\$		\$
Hairstyling revenue		125000	(1)
Less: Other expenses			
Hairstyling supplies expense	12500	}	(1)
Salaries expense	24000		
Rent expense	36000	(1)	
Utilities expense (+\$590)	11590	(1)	
Depreciation expense:			
Fixtures and fittings [10% x (\$50000 - \$2000)]	4800	(1)	
Hairstyling equipment [30% x (\$14000 - \$4200)]	2940	(1)	
Impairment loss on trade receivables	60	(1)	
{[2% x (\$8400 - \$400)] - (\$500 - \$400)}			
Total other expenses		91890	
Profit for the year		33110	(1)
			[8m]

(b)

Danish Hairstyling Ltd			
Statement of Financial Position as at 31 December 2023			
	Cost	Accumulated depreciation	Net book value
Assets			
Non-current assets			
Fixtures and fittings	50000	24000	26000 (1)
Hairstyling equipment	14000	7140	6860 (1)
Total non-current assets			32860
Current assets			
Cash in hand			17600
Prepaid rent expense (\$37000 - \$36000)			1000 (1)
Trade receivables (-\$400)	8000 (1)		
Less: Allowance for impairment of trade receivables (2% x \$8000)	(160) (1)		
Net trade receivables			7840 (1)*
Total current assets			26440
Total assets			59300
Equity and Liabilities			
Shareholders' equity			
Share capital, 10 000 ordinary shares		20000 (1)	
Retained earnings (\$4900 + \$33110 (1)* - \$1000 (1)*)		37010	
Total equity			57010
Current liabilities			
Bank overdraft		700 (1)	
Utilities expense payable		590 (1)	
Dividends payable (10000 x \$0.10)		1000 (1)	
Total current liabilities			2290
Total equity and liabilities			59300
			*OF
			[12m]
			[Q1 Total: 20m]

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Q2

(a) List price = $(\$3600 / 90) \times 100 = \4000 [1m]

(b)

On 25 June 2024, Shengxin Trading paid credit supplier Sean Fruits \$11970 by cheque [1m]
after deducting cash discount of \$630 [1m].

(c) Cost of sales = $\$500 + \$600 = \$1100$ [1m]

(d) Workshop income received in advance [1m]

(e)

Shengxin Trading		
Extract of Statement of Financial Performance for the year ended 30 June 2024		
Add: Other income		\$
Workshop income	(1)	4 700 (1)
		[2m]

(f)

Accounting theory: Accrual basis of accounting theory [1m]

Explanation of accounting theory: Business activities that have occurred, regardless of whether cash is paid or received, should be recorded in the relevant accounting period. [1m]

(g)

Any two of the following: 1m each

- Customers' reviews of non-current assets
- Duration of warranty
- Purpose of non-current assets
- Features of non-current assets [2m]

[Q2 Total: 11m]

Q3

(a)

Accounting theory: Consistency theory [1m]

Explanation of accounting theory: Once an accounting method is chosen, this method should be applied to all future accounting periods to enable meaningful comparison of accounting information over time. [1m]

(b)

Accounting theory: Monetary theory [1m]

Explanation of accounting theory: Only business transactions that can be measured in monetary terms are recorded. [1m]

(c)

Accounting theory: Going concern theory [1m]

Explanation of accounting theory: A business is assumed to have an indefinite economic life unless there is credible evidence that it may close down. [1m]

(d)

(i) Working capital = Current assets – Current liabilities = $\$56\,800 - \$12\,100 = \$44\,700$ [1m]

(ii) Current ratio = Current assets / Current liabilities = $\$56\,800 / \$12\,100 = 4.69$ [1m]

(iii) Quick assets = Current assets excluding inventory and prepaid expense = $\$2\,900$

Quick ratio = Quick assets / Current liabilities = $\$2\,900 / \$12\,100 = 0.24$ [1m]

(e) 1m for each point. Award up to 6m.

Point	
1	Amirah Trading's (AT) working capital of \$44 700 was better than Hannah Trading's (HT) \$27 000.
2	This seemingly implied that AT was in a better liquidity position as compared to HT.
3	AT's current ratio of 4.69 was better than HT's 3.70. However, AT's quick ratio of 0.24 was worse than HT's 1.30.
4	Since quick ratio is a stricter indicator of liquidity as compared to current ratio, AT's liquidity position was worse than HT's.
5	Moreover, AT's quick ratio was less than 1. This indicated that AT had insufficient quick assets to settle its current liabilities and was probably having cashflow problems.
6	AT's inventory holdings of \$50 000 was 2.50 times that of HT's \$20 000. Thus, a significantly higher amount of AT's funds was tied up in unsold inventory.
7	AT lacked cash. AT had bank overdraft of \$400 while HT had cash at bank balance of \$10 000, yet both businesses owed almost the same amount to credit suppliers.
8	AT's liquidity position was further aggravated by \$2 000 of long-term borrowings becoming current as the status changed from being due in over 1 year to falling due within the next 12 months.

[6m]

(f)

Proposal 1

Proposal 1 will improve Amirah Trading's liquidity position since the cash received from selling the under-utilised delivery van will increase the amount of current assets and quick assets. [1m]

Proposal 2

This proposal will not improve Amirah Trading's liquidity position because the increase in current assets and quick assets due to increase in cash at bank balance will be offset by an increase in current liabilities as the loan needs to be repaid within 12 months. [1m]

[Q3 Total: 17m]

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Q4
(a)

Ace Academy Journal			
Date	Particulars	Dr(\$)	Cr (\$)
2023			
Dec 31	Income summary	2 100	
	Interest expense		2 100

Workings

$$(3/12 \times 4\% \times \$60\,000) + (9/12 \times 4\% \times \$50\,000) = \$2\,100$$

[2m]

1m for correct accounts and 1m for correct amount

(b)

Ace Academy

Extract of Statement of Financial Position as at 31 December 2023	
Non-current liabilities	\$
Long-term borrowings	40 000 (1)
Current liabilities	
Current portion of long-term borrowings	10 000 (1)
Interest expense payable (9/12 x 4% x \$50 000)	1 500 (1)

[3m]

(c)
1m each for each point.

Decision	Ace Academy should buy a photocopier.
Reason 1	Ace Academy will save \$13 600 over three years if it buys a photocopier. Workings $3 \times 12 \times \$600 = \$21\,600$ $\$21\,600 - \$8\,000 = \$13\,600$
Elaboration 1	Amount saved can be used to pay for Ace Academy's operating expenses.
Reason 2	Ace Academy will be acquiring a photocopier that has not been used before if it buys a photocopier.
Elaboration 2	Hence, the photocopier should be in excellent condition and is less likely to break down, and thus less likely to cause disruptions to Ace Academy's operations.
Reason 3	Buying a photocopier provides Ace Academy flexibility over configuration of user IDs and printing quotas at no extra cost.
Elaboration 3	Ace Academy can customise the configuration of user IDs and printing quota to suit its operations.

or

Decision	Ace Academy should rent a photocopier.
Reason 1	Upfront payment for renting a photocopier is \$4 400 lower as compared to buying and is within the amount that Ace Academy is able to spend on upfront payment. Workings $\$5\,000 - \$600 = \$4\,400$
Elaboration 1	There will be less strain on Ace Academy's cash flow and there is no need for it to take up a short-term loan and incur interest expense.
Reason 2	Repairs is fully taken care of by the rental company as long as the damage is caused by routine usage.
Elaboration 2	Hence, Ace Academy need not concern itself with the maintenance of the photocopier and can better focus on business operations.
Reason 3	Contract period of 1 year is not an onerously long period of time.
Elaboration 3	Ace Academy can easily switch to a different or better model of photocopier or switch to a different rental company after the contract period and need not concern itself with the removal of the photocopier or finding a buyer for the used photocopier.

[7m]

[Q4 Total: 12m]