

MARIS STELLA HIGH SCHOOL (SECONDARY)

**PRELIMINARY EXAMINATIONS 2024
SECONDARY FOUR EXPRESS**

PRINCIPLES OF ACCOUNTS
Paper 1

7087/01
15 August 2024
1 hour

MARK SCHEME

MAXIMUM MARK: 40

Question 1 [Total: 7]**(a)**

Transaction	Source document
1	Invoice
2	Debit note
3	Receipt

[1 mark each, 3]**(b)** Any one of the following. **[2]****Integrity** – to be straightforward and **honest** in all professional and business relationships**Objectivity** – to be **unbiased** when making a professional judgement in the accounting process and not be influenced by threats and rewards**(c)** Ledger **[1]****(d)** Going concern theory **[1]****Question 2 [Total: 11]****(a)** Drawings has no effect on the profit for the year. **[1]**
Drawings will decrease the equity. **[1]****(b)**

Drawings				
		Debit \$	Credit \$	Balance \$
2023				
Jun 14	Inventory	500 [1]		500 Dr
2024				
Feb 16	Cash at bank	2 500 [1]		3 000 Dr
31	Capital		3 000 [1] OF	-

(c)

Capital				
		Debit \$	Credit \$	Balance \$
2023				
Apr 1	Balance b/d			50 000 Cr [1/2]
Aug 13	Cash at bank		10 000 [1]	60 000 Cr
Dec 25	Motor vehicles		40 000 [1]	100 000 Cr
2024				
Mar 31	Income summary		28 000 [1]	128 000 Cr
31	Drawings	3 000 [1] OF		125 000 Cr
Apr 1	Balance b/d			125 000 Cr [1/2]

(d) Stewardship – Accountant being the agent of the organization is given the responsibility to **manage the resources [1/2]** of the business and has a moral duty to present accounts that do not misled users of accounting information **[1/2]**.

Question 3 [Total: 10]

(a)

	WOW	Joy Eatery
Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{(65000+60000+35000+1000)}{(50000+30000)} \div$ $= 161000 \div 80000$ = 2.01 [1]	$\frac{(53000+10000+36000+2000)}{(54000+22000)} \div$ $= 101000 \div 76000$ = 1.33
Quick ratio [$\frac{\text{Current assets} - (\text{inventory} + \text{prepayment})}{\text{Current liabilities}}$]	$\frac{(161000 - 60000 - 35000)}{80000} \div$ $= 66000 \div 80000$ = 0.83 [1]	$\frac{(101000 - 10000)}{76000} \div$ $= 91000 \div 76000$ = 1.20

(b)

- WOW's current ratio of 2.01 was better than Joy Eatery's current ratio of 1.33.
- WOW's current ratio was above the general benchmark of 2 [1/2] while Joy Eatery falls below the general benchmark of 2 [1/2].
- This means that WOW is more able to pay its current liabilities using current assets than Joy Eatery.
- WOW's quick ratio of 0.83 was worse than Joy Eatery's quick ratio of 1.20.
- WOW's quick ratio of 0.83 was below the general benchmark of 1 [1/2] while Joy Eatery was above the general benchmark of 1 [1/2].
- This means that WOW is less able to pay its current liabilities using quick assets than Joy Eatery. / This indicate that WOW may face difficulties in paying its immediate debts using its quick assets.
- These could be because WOW has a bank overdraft of \$30000,
- and has a high inventory of \$60000. A lot of funds are tied up in inventory. These could have worsened WOW's liquidity position.
- In conclusion, WOW is in a worst off liquidity position than Joy Eatery.

(Any 5 points + Conclusion, 1 mark each)

(c) (Any 2, max 2 marks)

- Cash contribution from owner
- Obtain long-term borrowings
- Sale of excess non-current assets for cash

Question 4 [Total: 12]

- (a) It refers to service fee revenue received last month but earned this month [1/2]. Thus the amount of \$6000 that was adjusted last year is reversed [1/2] and added to this year service fee revenue on 1 June 2024.
- (b) On 20 June, Ethans Vans provided \$2000 [1/2] worth of services for Shawn but did not receive any amount from Shawn for the services provided. [1/2].
- (c) It refers to services fee revenue of \$5000 received this month [1/2] but Ethan Vans had not provide the service yet [1/2].
- (d) Service fee revenue and profit would be overstated [1/2] by \$5000. [1/2]
Current liability (Service fee revenue received in advance) would be understated [1/2] by \$5000 [1/2]
- (e) Any one of the following. [2]
Revenue Recognition – Revenue is recognised when goods are sold and delivered or when services have been performed
Accrual - Revenue is recognised when it is earned and not on amount of cash received.
- (f) Revenue is the main source of income for the business, it is the amount earned when a business sells goods or provides services to customers. [1]
Other income is the amount earned from other business activities, discount received, commission income [1]
- (g)

Journal

Date	Particulars	Debit (\$)	Credit (\$)
2024			
Jun 30	Cleaning expense	1200	
	Cash at bank		1200
Jun 30	Cleaning expense	200	
	Cleaning expense payable		200
Jun 30	Income summary	1400	
	Cleaning expense		1400

[1/2 mark each, 3]