YUAN CHING SECONDARY SCHOOL
PRELIMINARY EXAMINATION 2025
SECONDARY FOUR EXPRESS / FIVE NORMAL ACADEMIC
PRINCIPLES OF ACCOUNTS (7087/02)

SUGGESTED MARKING SCHEME

QUESTION 1 (a)

Woody Limited
Statement of Financial Performance for the year ended 31 July 2025

	$	$
Sales Revenue	110 660	
Less: Sales Returns	(16 790)	
Net Sales Revenue		93 870✓
Less: Cost of Sales		(41 740)
Gross Profit		52 130✓
Add: Other Income		
Commission Income	5 700✓	
Discount Received	7 700	13 400
Less: Expenses		
Discount Allowed	4 520	
Rental Expense (8810 + 1000)	9 810✓	
Salaries Expense (16520 – 2300)	14 220✓	
Impairment Loss on Trade Receivables (780 – 400)	380✓	
Impairment Loss on Inventory (10250 – 10000)	250✓	
Depreciation of Motor Vehicles (75300 x 0.1)	7 530✓	
Depreciation of Fixtures and Fittings (39800 x 0.05)	1 990✓	(38 700)
Profit for the Year		26 830✓OF

QUESTION 1 (b)

Woody Limited
Statement of Financial Position as at 31 July 2025

	$ Cost	$ Accumulated Depreciation	$ Net Book Value
ASSETS			
Non-Current Assets			
Motor Vehicles (9700 + 7530)	85 000	(17 230)	67 770✓OF
Fixtures and Fittings (7560 + 1990)	39 800	(9 550)	30 250✓OF
			98 020
Current Assets			
Trade Receivables	19 500		
Less: Allowance for Impairment on TR (19500 x 0.04)	(780)	18 720✓	
Cash at Bank		30 250	
Cash in Hand		11 000	
Inventory		10 000✓	
Commission Income Receivable (5700 – 5000)		700✓	
Prepaid Salaries Expense		2 300✓	72 970
Total Assets			170 990
EQUITY AND LIABILITIES			
Shareholders' Equity			
Share Capital, 40 000 Ordinary Shares		100 000✓	
Retained Earnings (25730 + 26830 – 2000✓)		50 560	150 560
Non-Current Liabilities			
Long-Term Borrowings			10 000
Current Liabilities			
Trade Payables		7 430	
Rental Expense Payable		1 000✓	
Dividends Payable (40000 x 0.05)		2 000✓	10 430
Total Equity and Liabilities			170 990

QUESTION 2 (a)

Any one of the following: [1]

- Business needs cash to meet their needs for daily operations and unforeseen emergencies.
- Business needs cash to pay off their expenses like salaries expense. If not, the employees may leave and affect business operations.
- Business needs cash to pay off their expenses like rental expense. If not, the landlord may stop renting the space to the business and the business is unable to continue their operations.
- Business with low liquidity is usually short of cash and may be unable to settle its short-term debts.
- Business needs cash to pay off the loans owed to the banks.
- Business needs cash to pay off their credit suppliers, if not they may not be able to purchase goods on credit from the credit suppliers.

QUESTION 2 (b)

Any three of the following: [3] – **1 mark each**

- The current ratio of Gui Trading has worsened by 0.96 from 3.19 at 30 June 2023 to 2.23 at 30 June 2024 and further worsened by 1.21 to 1.02 at 30 June 2025.
- Gui Trading is liquid at 30 June 2023 and 30 June 2024 as the current ratio is above the acceptable norm at 2:1, and illiquid at 30 June 2025 as it is below the acceptable norm.
- The quick ratio of Gui Trading has worsened by 0.84 from 1.92 at 30 June 2023 to 1.08 at 30 June 2024 and further worsened by 0.84 to 0.24 at 30 June 2025.
- Gui Trading business is liquid at 30 June 2023 and 30 June 2024 as the quick ratio is above the acceptable norm at 1:1, and illiquid at 30 June 2024 as it is below the acceptable norm.
- This means that Gui Trading has insufficient liquid assets to pay off the debts of the business at 30 June 2025

QUESTION 2 (c)

Any two of the following: [2] – **1 mark each**

- Gui Trading cash levels have been decreasing over the 3 years. They have a bank overdraft of $18 000 at 30 June 2025 which shows that the business does not have any money in their bank account to pay off their current liabilities.
- Gui Trading's inventory levels have been increasing over the 3 years. At 30 June 2025, Gui Trading's inventory is at $70 960 which makes up for about 77% of their current assets. Inventory is not a quick asset and cannot be converted to cash readily to be used to pay off the liabilities.
- The amount owed by Gui Trading to credit suppliers have been increasing over the 3 years. This shows that Gui Trading is facing more difficulty in repaying the amounts owed to their trade payables.

QUESTION 2 (d)

Average inventory $= \frac{\text{Beginning Inventory} + \text{Ending Inventory}}{2}$

$= \frac{131760}{2}$

= $65 880 [1]

Day sales in inventory$= \frac{\text{Average Inventory}}{\text{Cost of Sales}} x365$

$= \frac{65880}{300000} x365$

= 80.2 days [1]OF

QUESTION 2 (e)

Any three of the following: **[3] – 1 mark each**

- The day sales in inventory of Gui Trading has worsened from 70.4 days for the year ended 30 June 2023 to 75.8 days for the year ended 30 June 2024 to 80.2 days for the year ended 30 June 2025.
- This means that Gui Trading takes an extra 5.4 days to sell their guitars for the year ended 30 June 2024 and another 4.4 days for the year ended 30 June 2025.
- This may be due to Gui Trading taking advantage of trade discounts given by credit suppliers and bought more guitars in bulk over the three years to reduce their cost of sales. As a result, they will take a longer time to sell off their guitars over the three years.
- This may also be due to Gui Trading reducing their advertising efforts over the three years to reduce their advertising expenses. As a result, it may be harder to sell off their guitars and thus Gui Trading takes more time to sell off the guitars over the years.
- There may also have been increased competition over the three years, with better quality guitars offered by their competitors. As such, Gui Trading takes a longer time to sell off their guitars.

QUESTION 2 (f)

Any one of the following: **[1]**

- Reduce selling prices for the slow-moving guitars
- Offer trade discounts to customers to encourage them to buy in bulk
- Attract more customers through marketing campaigns
- Use technological tools to improve the accuracy of predictions about customer demand in order to know when and how much guitars to buy

QUESTION 3 (a)

Any one of the following: **[2] – 1 mark for trading business, 1 mark for service business**

- A trading business buys from suppliers and sells goods to customers while a service business provides services to its customers.
- A trading business has both the trading portion and profit and loss portion in the statement of financial performance while a service business only has the profit and loss portion.
- A trading business has both calculates both gross profit and profit for the year while a service business only calculates profit for the year.

QUESTION 3 (b)

Revenue recognition theory states that revenue is earned when goods have been delivered or services have been provided. **[1]**

QUESTION 3 (c)

Account debited	Account credited
Cash in Hand / Cash at Bank [1]	Service Fee Revenue [1]

QUESTION 3 (d)

Account debited	Account credited
Rental income received in advance [1]	Rental income [1]

QUESTION 3 (e)

Account debited	Account credited
Rental income receivable [1]	Rental income [1]

QUESTION 3 (f)

Rental income earned = + Beginning income received in advance + Cash at bank + Ending income receivable

= +3600 + 50000 + 4000

= $57 600 **[1]**

QUESTION 3 (g)

Profit for the year will be understated **[1]** by $4 000 **[1]**

QUESTION 3 (h)

Current assets **[1]** on the statement of financial position will be understated **[1]** by $4 000

QUESTION 4 (a)

Diligence Traders is a trade receivable **[1]** of Healthy Trading.

QUESTION 4 (b)

Percentage of cash discount $= \frac{\text{Amount of cash discount}}{\text{Amount owed by credit customer}} \times 100\% = \frac{400}{10000} \times 100\% = \mathbf{4\%}$ **[1]**

QUESTION 4 (c)

Trade discounts are given to encourage customers to buy in bulk / encourage customers loyalty. **[1]**

QUESTION 4 (d)

The source document used to record sales returns is a credit note. **[1]**

QUESTION 4 (e)

The accounting theory behind source document is objectivity theory. **[1]**

QUESTION 4 (f)

The business, Healthy Trading, received $9600 from credit customer Diligence Traders via a bank transfer. **[1]** The business, Healthy Trading, gave credit customer Diligence Traders a cash discount of $400. **[1]**

QUESTION 4 (g)

Any one of the following: **[7] – 1 mark stand, 1 mark – reason x 3, 1 mark elaboration x 3**

- Healthy Trading should grant credit to Yummy Limited.
  Yummy Limited business is located in the same country as Healthy Trading. If Healthy Trading grants credit to Yummy Limited, it would be easier to collect the amount owed.
  Yummy Limited has a better repayment history by 5 days as compared to Juicy Trading. This means that Healthy Trading is likely to be able to collect the amount owed faster from Yummy Trading after granting credit to them.
  Yummy Limited's average sales is larger than Juicy Trading by $50 000. This means that Yummy Limited is a more major customer to Healthy Trading as compared to Juicy Trading. By granting credit to Yummy Limited, Healthy Trading is able to retain the customer and it will be able to earn more sales revenue. Otherwise, Yummy Limited may look for other suppliers, including those from overseas and Healthy Trading will lose this customer.

- Healthy Trading should grant credit to Juicy Trading.
  Juicy Trading's average sales is small than Yummy Limited by $50 000. In the event that Juicy Trading defaults on payment, the amount of losses and risks to Healthy Trading is smaller as compared to Yummy Limited.
  Juicy Trading is more prompt in payment as they are only late once for payment. This means that Healthy Trading is better able to receive the amount owed by Juicy Trading.
  Juicy Trading has been in business for 12 years longer than Yummy Limited. This shows that the business should be more stable and Juicy Trading would be more likely to repay the amounts owed to Healthy Trading.
  Juicy Trading has a better reputation and more favourable reviews from customers. This shows that they are likely to have good sales and would have the funds to repay the amounts owed to Healthy Trading.

---END OF MARK SCHEME---