NAME	FORM CLASS	ACAD CLASS	INDEX NO.

ST. PATRICK'S SCHOOL
PRELIMINARY EXAMINATION 2026

SUBJECT	**:**	**Principles of Accounts (7087/01)**	**DATE**	**:**	**21 August 2026**
LEVEL	**:**	**Secondary 4 Express/5NA**	**DURATION**	**:**	**1 hour**

Candidates answer on the Question Paper.

READ THESE INSTRUCTIONS FIRST

Write your Name, Form Class, Acad Class and Index No. in the spaces at the top of the page.

Write in dark blue or black pen.

Do not use staples, paper clips, glue or correction fluid.

Answer **all** questions.

If working is needed for any question it must be shown with the answer.

The use of an approved scientific calculator is expected, where appropriate.

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.

The total marks for this paper is 40.

For Examiner's Use	
Score	**/40**

This question paper consists of 10 printed pages including this cover page.

Answer all questions.

1 First Garments provided the following information for two years.

	31 July 2025	31 July 2026
	$	$
Inventory	58 590	75 670
Trade receivables	44 700	53 400
Prepaid expenses	5 030	6 850
Cash at bank	9 800	-
Cash in hand	3 000	900
Trade payables	63 500	71 000
Bank overdraft	-	18 900

REQUIRED

a) Calculate the following for the business for the year ended 31 July 2026.Show your answers to two decimal places. [3]

	31 July 2026
i) Working Capital	
ii) Current ratio	
iii) Quick ratio	

The information available for the year ended 31 July 2025 were as follows:
Working Capital: $67 620
Current ratio: 2.06
Quick ratio: 1.06

b) Comment on the liquidity of the business for the two years ended 31 July 2025 and 2026. [7]

c) Give **one** reason why a business needs to have adequate liquidity. [1]

d) Suggest **one** way in which a business can improve its liquidity. [1]

[Total: 12]

2 Muji Store buys and sells designer timepieces. The following information was provided for the year ended 30 April 2026.

Inventory as at 1 May 2025 was 90 units at $236 200.

Summary of inventory purchases for the year.

Purchases	
2025	
July 15	110 units at $275 000 by cheque.
November 10	70 units at $135 000 on credit from Watchit Enterprise.
2026	
January 12	30 units at $78 000 by cash.
April 24	50 units at 155 000 on credit from Diamond Timepiece.

Muji Store sold 300 units of inventory for the year ended 30 April 2026 for $816 000 on credit. The business uses the FIFO (First-in-First Out) method of inventory valuation.

REQUIRED

a) Calculate the following for the year ended 30 April 2026. [2]

i) Cost of sales

ii) Rate of inventory turnover, rounding your answer to **two** decimal places.

The rate of inventory turnover for the years ended 30 April 2024 and 2025 was 8.98 times and 4.12 times respectively.

b) Comment on the rate of inventory turnover of the business over the three years. [2]

c) Suggest **one** way for the business to improve its inventory turnover. [1]

d) Prepare the inventory account for the above transactions, bringing down the balance to the next financial period. [3]

It was discovered that on 30 April 2026, after the financial reports were prepared, that 10 pieces of inventory, costing $16 000, were damaged beyond repair.

e) Explain with an accounting theory the valuation rule for inventory. [2]

f) Explain how profit will be affected if the value of inventory is not adjusted for Muji Store for the year ended 30 April 2026. [1]

g) Prepare the journal entry to adjust the inventory for the year ended 30 April 2026. [1]

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h) State **one** non-accounting information that a business might use when deciding on choosing a credit supplier. [1]

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[Total: 13]

3 A new and inexperienced accountant at Celine Beauty Salon made the following errors on 31 May 2026.

Error	
i	Purchase of a van for business use from Kah Motors for $80 000 has been recorded in the vehicles maintenance account.
ii	Hair service revenue for $8 200 received by cheque has been recorded in the books as $2 800.
iii	Payment for salaries $8 000 has been debited to the Cash at bank account and credited to the salaries expense account.
iv	Owner took goods costing $750 for personal use. This was not recorded.
v	A receipt issued to a credit customer, Paula, for $500 cash received was

omitted.

REQUIRED

a) Prepare the journal entry to correct error 'v'. [1]

b) Complete the following table to show the effect of **correcting errors** i, ii and iii on the profit of the business. If there is no effect, place a tick in the 'no effect' column. [3]

Error	Increase by $	Decrease by $	No effect
i			
ii			
iii			

c) Name the accounting theory applied when recording transaction 'iv'. [1]

d) Explain how an accountant can exercise integrity and be objective. [2]

e) Explain the Revenue recognition theory. [1]

[Total: 8]

4 Brooks Production Company provides the following information for the year ended 31 July 2026.

Salaries prepaid on 1 August 2025	$15 000
Salaries paid by cheque for the year	$87 000
Annual salaries	$100 000

REQUIRED

a) Prepare the journal entry to adjust salaries expense on 31 July 2026. [2]

b) Analyse the effect of **not adjusting** income earned but not received on the profit and current asset at the end of the financial period. [2]

(i) Effect on Profit

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(ii) Effect on Current assets

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c) Name and explain the accounting theory for the adjustment of income and expenses at year's end. [2]

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d) State **one** stakeholder who would be interested in the financial information of Brooks Production company. [1]

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[Total: 7]

End of Paper