NAME	FORM CLASS	ACAD CLASS	INDEX NO.

ST. PATRICK'S SCHOOL
PRELIMINARY EXAMINATION 2026

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

Candidates answer on the Question Paper.

ANSWERS

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	19 800	-
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. [3]

	31 July 2026
i) Working Capital CURRENT ASSETS – CURRENT LIABILITIES	(75670+53400+6850+900) -(71000+18900) =136820 – 89900 =$46920
ii) Current ratio CURRENT ASSETS CURRENT LIABILITIES	136820/89900 =1.52
iii) Quick ratio CASH + TRADE RECEIVABLES CURRENT LIABILITIES	900+53400 89900 =54300/89900

$=0.60$

The information available for the year ended 31 July 2025 were as follows:
Working Capital: $67620
Current ratio: 2.06
Quick ratio: 1.06

[7]

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

Working capital has worsened from $67620 in 2025 to $46920 in 2026.

Current ratio has worsened from 2.06 in 2025 to 1.52 in 2026, which falls below the benchmark of 2. This could be due to the increase in trade payables from $63500 in 2025 to $71000 in 2026.

Quick ratio has worsened from 1.06 in 2025 to 0.60 in 2026, which falls below the benchmark of 1. This indicates that the business does not have enough quick assets to pay for its short-term debts in 2026.

The cash position of the business has worsened from Cash at bank of $19800 and cash in hand of $3000 in 2025 to a bank overdraft of $18900 and cash in hand of only $900 in 2026. This could be due to cash being tied up in inventory as shown by the increase in inventory from $58 590 in 2025 to $75 670 in 2026.

Overall, the liquidity of the business has worsened over the two years.

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

-able to pay for daily business expenses to operate efficiently.

-able to pay early to trade payables and get cash discounts thereby lowering cost.

-able to pay for current liabilities as and when they fall due and will not run into the risk of insolvency should the trade payables and banks demand payment. Any one

[1]

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

-Obtain cash contributions from owner or shareholders.

-Sell unused non-current assets for cash.

-Take a long-term loan if collateral is available.

-Negotiate for longer repayment terms from credit suppliers.

Any one [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 from Watchit Enterprise on credit.
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

Cost of sales = 236200(90 units) + 275000(110 units) + 135000(70 units)

+ 78000(30 units)

= $724200

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

<u>Cost of sales</u>

Average inventory

= 724200

(236200+155000/2

=724200/195600 = 3.70 times

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]

The rate of inventory turnover has worsened from 8.98 times in 2024 to 4.12 times in 2025 to 3.70 times in 2026.

The business is selling its goods more slowly over the three years and hence is less efficient in managing its inventory.

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

- Give trade discount to encourage customers to buy more to clear inventory.

-Reduce selling price for slow-moving goods.

-Attract more customers through promotions and advertising.

-Use technological tools to improve the accuracy of demand predictions to know when and how much to order. Any one

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

Inventory Account

Date	Particulars	Debit($)	Credit($)	Balance ($)

2025				
May 1	Balance b/d			236200 Dr
Jul 15	Cash at bank	275000		
Nov 10	Trade payable-Watchit Enterprise	135000		
2026				
Jan 12	Cash in hand	78000		
Apr 24	Trade Payable-Diamond Timepiece	155000		
Apr 30	Cost of sales		724200	155000 Dr
May 1	Balance b/d			155000 Dr

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]

Inventory is valued at the lower of cost or net realizable value so as not to overstate profits and assets. The Prudence theory is applied.

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]

Profit will be overstated by $16000.

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

Journal

Date	Particulars	Debit ($)	Credit ($)
2026			
April 30	Impairment loss on inventory	16000	

Inventory	16000

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

-Local vs overseas suppliers

-Online vs brick-and-mortar suppliers

-After-sales service

-Return policy

-Warranty

-Reputation of supplier

Any one

[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 vehicle 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]

Journal

Date	Particulars	Debit ($)	Credit ($)
2026			
May 31	Cash in hand	500	
	Trade receivable-Paula		500

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	$80 000		
ii	$5400		
iii		$16000	

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

Accounting entity theory

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

An accountant exercise integrity by being honest and straightforward in all business relationships.

An accountant who is objective will not let bias, conflict of interest or undue influence

of others to override his professional judgement.

e) Explain the Revenue recognition theory. [1]

Revenue is earned when goods have been delivered or services have been provided.

[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]

Journal

Date	Particulars	Debit ($)	Credit ($)
2026			
July 31	Prepaid salaries expense	2000	
	Salaries expense		2000

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

Profit is understated.

(ii) Effect on Current assets

Current assets is understated.

c) Name and explain the accounting theory for the adjustment of salaries expense at 31 July 2026. [2]

Accrual basis of accounting theory: Income earned and expenses incurred for the financial year must

be recorded, regardless of whether cash is paid or income is received.

Or

Matching theory: Expenses incurred must be matched against income earned

of the same period to determine the profit for that period.

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

Owners and shareholders; Managers; Employees; Lenders; Suppliers; Customers; Government; Competitors. Any one

[Total: 7]

End of Paper