YUAN CHING SECONDARY SCHOOL
PRELIMINARY EXAMINATION 2025
SECONDARY FOUR EXPRESS / FIVE NORMAL ACADEMIC
PRINCIPLES OF ACCOUNTS (7087/01)

SUGGESTED MARKING SCHEME

QUESTION 1 (a)

Any one of the following: **[1]**
- Daisy has absolute control over Dazzy Trading and can make all the decisions for the business.
- A sole trader is easy to set up and there is minimal administrative duties for Daisy.

QUESTION 1 (b)

Going concern theory states that a business is assumed to have an indefinite economic life unless there is credible evidence that it may close down. **[1]**

QUESTION 1 (c)

Any one of the following: **[1]**
- Daisy contributed additional capital into the business.
- Dazzy Trading has made a profit for the year. Daisy re-invested the amount into the business.

QUESTION 1 (d)

Any one of the following: **[1]**
- An accountant with integrity is straightforward and honest in all professional relationships.
- An accountant who is objective will not let bias, conflict of interest or the undue influence of others override his or her professional judgement.

QUESTION 1 (e)

Transaction	Source Document	Purpose
Credit purchase	Invoice **[1]**	Informs credit customers of the amount owed after the business sold goods on credit **[1]**
Cash sales	Receipt **[1]**	Acknowledges payment received from customers immediately after the business has sold goods **[1]**

QUESTION 1 (f)

Dazzy Trading is unable to record the award in the business accounting records due to the monetary theory which states that only business activities that can be measured in monetary terms are recorded. **[1]** The award cannot be measured in monetary terms and thus should not be recorded. **[1]**

QUESTION 2 (a)

JOURNAL			
Date	Particulars	Debit $	Credit $
2025			
May 31	Advertising Expense	700✓	
	Inventory		700✓
31	Cash at Bank (1100 x 2)	2 200✓	
	Commission Income		2 200✓
31	Bank Loan (6600 – 6000)	600✓	
	Rental Expense		600✓

QUESTION 2 (b)

Crumbie Trading Statement of adjusted profits for the year ended 31 May 2025	
	$
Profit for the year before adjustment	85 000
Add: Commission income understated	2 200✓OF
Rental expense overstated	600✓OF
Less: Advertising expense understated	(700)✓
Profit for the year after adjustment	87 100✓OF

QUESTION 3 (a)

A credit balance in the cash at bank account means that it is a bank overdraft. **[1]**

QUESTION 3 (b)

(i) The business, Beta Trading, received a deposit of $3 000 in the business bank account which is a contribution from Benson's personal funds. **[1]**

(ii) The business, Beta Trading, issued a cheque of $10 000 to purchase motor vehicles. **[1]**

QUESTION 3 (c)

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

- Segregation of duties
- Custody of cash
- Authorisation
- Bank reconciliation

QUESTION 3 (d)

Working:

Accounting period	Loan period	Loan amount	Interest Expense	Interest Expense Payable
1 Jan 2023 – 31 Dec 2023	1 Oct 2023 – 31 Dec 2023	$100000	$\frac{100000x4x\frac{3}{12}}{100}$ = $1000	$1000
1 Jan 2024 – 31 Dec 2024	1 Jan 2024 – 30 Sep 2024	$100000	$\frac{100000x4x\frac{9}{12}}{100}$ = $3000	
	1 Oct 2024 – 31 Dec 2024	$80000	$\frac{80000x4x\frac{3}{12}}{100}$ = $800	$800

Interest expense for the year ended 31 December 2023 = $1 000 **[1]**
Interest expense for the year ended 31 December 2024 = 3000 **[1]** + 800 **[1]** = $3 800

QUESTION 3 (e)

Twinkle Stars Limited Statement of Financial Position as at 30 June 2023	
	$
EQUITY AND LIABILITIES	
Non-Current Liabilities	
Long-Term Borrowings (80000 – 20000)	60 000✓
Current Liabilities	
Current Portion of Long-Term Borrowings ($^{100000}/_{5}$)	20 000✓
Interest Expense Payable	800✓

QUESTION 4 (a)

JOURNAL			
Date	**Particulars**	**Debit $**	**Credit $**
2024 May 14	Cash at Bank (0.3 x 1600)	480✓	
	Trade Receivables: Freshie		480✓
14	Allowance for Impairment of Trade Receivables (1600 – 480)	1 120✓	
	Trade Receivables: Freshie		1 120✓

QUESTION 4 (b)

Any one of the following: **[1] – theory with explanation, [1] – linking to business**

- Prudence theory states that a business must report and adjust for losses that it is likely to incur, even though the losses may not be confirmed yet. Channel Trading needs to report for the amount owed by credit customers that are likely to be uncollectible as allowance for impairment of trade receivables, even if it is not confirmed yet.
- Matching theory states that for a given financial period, only the income earned and expenses incurred during the period should be recorded. Channel Trading needs to provide and adjust the allowance for impairment of trade receivables to record the impairment loss on trade receivables so as to reflect the expenses incurred.

QUESTION 4 (c)

Any four of the following: **[4] – 2 marks for trend, 2 marks for cause**

- *[Trend]* The rate of trade receivables turnover for Channel Trading has worsened from 5.2 times for the year ended 30 June 2024 to 4.3 times for the year ended 30 June 2025.
- *[Trend]* This means that for Channel Trading collect less frequently from their credit customers by 0.9 times for 2025 as compared to 2024.
- *[Cause]* One possible reason may be due Channel Trading being less stringent in their credit policies as they would like to attract more customers. As a result, it was harder to collect from the credit customers.
- *[Cause]* Another possible reason may be due to a reduction in reminders sent by Channel Trading as they required the employees to focus on other aspects of the business operations. With fewer reminders, the credit customers are taking longer to repay the amounts owed.
- *[Cause]* It may also be due to poor economic conditions. As a result, the credit customers are taking longer to repay the amounts owed to Channel Trading.

QUESTION 4 (d)

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

- Channel Trading may not have enough cash to pay for their expenses.
- Channel Trading may not have enough cash to pay off their credit suppliers.
- Channel Trading may not have enough cash to pay off the amounts owed to the bank.
- Channel Trading may not have enough cash, causing their liquidity position to worsen.

---END OF MARK SCHEME---