NAME	FORM CLASS	ACAD CLAS S	INDEX NO.

ST. PATRICK'S SCHOOL
PRELIMINARY EXAMINATION 2026

SUBJEC T	**:**	**Principles of Accounts** **(7087/02)**	**DATE**	**:**	**14 August 2026**
LEVEL	**:**	**Secondary 4 Express/5NA**	**DURATION**	**:**	**2 hours**

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 of the marks for this paper is 60.

For Examiner's Use	
Score	**/60**

This question paper consists of 14 printed pages including this cover page.

Answer all questions.

1 Refer to the Insert for data for Question 1.

REQUIRED

(a) Prepare the statement of financial performance for the business for the year ended 31 August 2026. [10]

Advance Technology Company

Statement of financial performance for the year ended 31 August 2026

	$	$
Sales revenue	602360	
Less: sales returns	9365	
Net sales revenue		592995
Less cost of sales		126315
Gross profit		466680
Add other income		
Discount received	1840	
Commission income (16210 + 4725)	20935	22775
Less expenses		
Salaries expenses	30000	
Rent expense (60000 – 16000)	44000	
General expense	14198	
Interest expense (40000 x 6%)	2400	
Impairment loss on trade receivables [95700x4%] - 2500	1328	
Depreciation of fixtures and fittings (189000 x 15%)	28350	
Depreciation of motor vehicles (80810 – 31240) x 20%	9914	130190
Profit for the year		359265

(b) Prepare the statement of financial position as at 31 August 2026. [10]

Advance Technology Company

Statement of Financial Position as at 31 August 2026

	$	$	$
Assets	Cost	Accumulated Depreciation	Net Book Value
Non-current assets			
Fixtures and fittings	189000	87430	101570
Motor vehicles	80810	41154	39656
			141226
Current assets			
Cash in hand		6000	
Trade receivables	95700		
Less: allowance for impairment of trade receivables	3828		
Net trade receivables		91872	
Inventory (281000 – 70250)		210750	
Prepaid rent expense		16000	
Commission income receivable		4725	
Insurance claim receivable		70250	399597
Total assets			540823
Equity and liabilities			
Owner's equity			
Capital (94992 + 359265 – 9270)			444987
Non-current liabilities			
Long-term borrowings			30000
Current liabilities			
Bank overdraft		1780	
Trade payable		44776	

Current portion of long-term borrowing	10000	
Salaries payable	7600	
Interest payable	1680	65836
Total equity and liabilities		540823

[Total: 20]

2 The trade receivable account for Lancelot Trading in the books of Macbeth Trading is shown below.

Trade receivable-Lancelot Trading

Date	Particulars	Debit ($)+	Credit ($)-	Balance ($)
2026				
Jul 1	Balance b/d			24 000 Dr
8	Sales revenue	12 300		36 300 Dr
12	Sales returns		900	35 400 Dr
20	Cash at bank		4 900	30 500 Dr
20	Discount allowed		100	30 400 Dr
31	Cash at bank		6080	24 320 Dr
31	Allowance for impairment of trade receivables		24320	0

REQUIRED

a) Interpret the entries on the following dates. [3]

(i) July 8

Business sold goods costing $12 300 to Lancelot Trading on credit.

(ii) July 20

Received a cheque of $4 900 from Lancelot Trading for amount owed after deducting

cash discount of $100.

(iii) July 31

Received a cheque for $6 080 from Lancelot Trading for payment towards his debt.

Business decided to write off the balance of $24 320 owed as uncollectible.

b) Explain with an accounting theory why it is necessary for Macbeth Enterprise to account
for impairment loss on trade receivables. [2]

The amount of uncollectible debt is charged as an expense against sales revenue of the

same accounting period to calculate the profit or loss.

The Matching theory is applied.

The following information was obtained from the business for the year ended 31 July 2026.

	$
Sales revenue	390 000
Sales returns	5 900
Net trade receivables as at 1 August 2025	31 200
Net trade receivables as at 31 July 2026	42 600

REQUIRED

c) Calculate the following for the year ended 31 July 2026. [2]
i) rate of trade receivable turnover
ii) trade receivable collection period.

i) Rate of trade receivable turnover = $\frac{\text{Net credit sales revenue}}{\text{Average net trade receivables}}$

$$= \frac{[390000 - 5900]}{(31200+42600)/2}$$

= 10.41 times

ii) Trade receivable collection period = 36900/384100 x 365

= 35.07 days

The following data was obtained for the year ended 31 July 2025.

i) Rate of trade receivables turnover: 16.8 times

ii) Trade receivables collection period: 21.72 days

d) Evaluate the efficiency of Macbeth Trading's trade receivable management over the two years. [2]

The rate of receivables turnover has worsened from 16.8 times in 2025 to 10.41 times in 2026.

The trade receivables collection period has lengthened from 21.72 days in 2025 to 35.07

days in 2026.

The business has taken longer to collect from trade receivables in 2026.

Its efficiency in managing trade receivables in 2026 has worsened.

[1]

e) Explain the importance of efficient trade receivable management to the business.

It is important because when a business takes longer than usual to collect payment

from its credit customers, it would have less cash, causing liquidity position to worsen.

[1]

f) Suggest **one** way for the business to improve on its trade receivables management.

- Improve credit granting process.

-Provide cash discounts to encourage customers to pay early.

- Increase debt collection effort by sending regular reminders to credit customers who delay payment.

-Engage professional debt recovery agencies to collect payment from financially distressed credit customers.

Any one of the above

[Total: 11]

3 The following information was provided by Comfy Walker Pte Ltd on 1 June 2025.

	$
Share capital, 200 000 ordinary shares	200 000
Retained earnings	25 000

On 1 March 2026, 70 000 shares were issued at $0.50 each. All the shares were fully paid via bank transfer. On 30 May 2026, a dividend of $0.20 was declared, to be paid out on 1 July 2026.

The profit for the year ended 31 May 2026 was $63 700.

REQUIRED

a) Prepare journal entries to record the following. [3]

i) Issue of share capital on 1 March 2026

ii) Issue of dividends on 30 May 2026.

iii) The transfer of profits on 31 May 2026.

Journal

Date	Particulars	Debit ($)	Credit ($)
2026			
Mar 1	Cash at bank (70000 x 0.50)	35000	
	Share capital		35000
May 30	Dividends (270000 x 0.20)	54000	
	Dividends payable		54000
May 31	Income summary	63700	
	Retained earnings		63700

b) Prepare the Statement of financial position of the business as at 31 May 2026, showing only the equity section. [2]

Statement of financial position as at 31 May 2026 (extract)

	$	$
Equity and liabilities		
<u>Shareholder's equity</u>		

Share capital, 270000 Ordinary shares	235 000
Retained earnings [25000 + 63700 – 54000]	34 700
Total shareholders' equity	269 700

The business also provided the following information on the business for the years ended 31 May 2025 and 2026.

	2026
Net sales revenue	768 000
Cost of sales	612 000
Total operating expenses	92 300
Average equity	247 350

REQUIRED

c) Calculate for the following ratios for the year ended 31 May 2026.

i) Gross Profit margin [1]

GP/NSR x 100 $\frac{768000-612000}{768000}$ x 100

=156000/768000 x 100

=20.31%

ii) Profit margin [1]

P/NSR x 100 $\frac{156000 – 92300}{768000}$ x 100

= 63700/768000 x100

= 8.29%

iii) Rate of return on equity [1]

P/Average equity x 100 63700/247350 x 100

= 25.75%

The ratios for the year ended 31 May 2025 were as follows.

Gross profit margin: 24.99%

Profit margin: 15.50%

Rate of return on equity: 56.25%

d) Using the information on the above ratios, evaluate the profitability of the business over the two years. [4]

The gross profit margin has worsened from 24.99% in 2025 to 20.31% in 2026 indicating that the business is either selling goods at lower price or incurring higher cost of sales.

The profit margin has worsened from 15.50% in 2025 to 8.29% in 2026 indicating that the business is less efficient in managing its expenses.

The return on equity has worsened from 56.25% in 2025 to 25.75% in 2026 indicating that the business is less efficient in generating profits for its shareholders in 2026.

In conclusion, the business profitability has worsened in 2026 compared to 2025.[1]

e) Suggest **one** way in which the business can improve its profitability. [1]

- Sell goods at higher selling price.
- Buy goods in bulk to obtain trade discount to lower cost of sales.
-Buy goods from cheaper sources of supply.
- Sublet excess office space to earn rental income.
-Pay early to take advantage of cash discounts
-Reduce operating expenses such as utilities and rental of premise.

Any one

[Total: 13]

4 Panda Delivery Services purchased two vans costing $80 000 each on 1 June 2025 from Volks Vagen Pte Ltd on credit. On 1 June 2026, one of the vans was sold for $42 000 and a cheque was received. A new van costing $60 000 was purchased on the same day and paid by cheque.

Depreciation is provided at 30% per annum using the reducing balance method. A full year's depreciation is provided in the year of purchase and none in the year of year. The financial year ends on 31 December.

REQUIRED

a) Explain the term 'depreciation'. [1]

Depreciation is the allocation of the cost of a non-current asset over its useful life.

b) Show the journal entries for the sale of the van, including the transfer of the gain or loss at year's end. [4]

Journal

Date	Particulars	Debit ($)	Credit ($)
2026			
Jun 1	Sale of non-current asset	80000	
	Motor vehicles		80000
Jun 1	Accumulated depreciation of motor vehicles	24000	
	Sale of non-current assets		24000
	(80000 x 30%)		
Jun 1	Cash at bank	42000	
	Sale of non-current asset		42000

Dec 31	Income summary	14000	
	Sale of non-current asset		14000
	[42000 – (80000 – 24000)]		

c) Calculate the depreciation expense on 31 December 2026. [2]

Depreciation expense on 31 December 2026 =

[(80000-24000) x 30%] + 60000 x 30%

[OLD] [NEW]

= $34800

On 31 December 2026, the business paid $9 000 by cheque for the replacement of the engine for an old van, to one with a higher capacity. This was recorded in the repairs expense account.

REQUIRED

c) State how this will affect profit for the year ended 31 December 2026. [1]

Profit is understated by $9000

d) Name the accounting theory that is applied in recording revenue expenditure. [1]

Materiality theory

Panda Delivery Service is planning to buy a new computer system to enable it to improve efficiency in its delivery service. The owner has information on two models to choose from.

	System Hewlett	System Apple
Price	$120 000	$100 000
Annual maintenance cost	Free for the first year, thereafter at $2 000 per year.	$1 000 per year, commencing from installation.
Software upgrade requirements	Free upgrade for first year, thereafter yearly upgrade cost at $2 800.	No free upgrade. Yearly upgrade at $ 1500.
Manpower training required	Require the training of one technician. Cost of training: $4 000	Require the training of one technician and a support staff. Cost of training per staff: $1 500.
Warranty	4 years	2 years
Availability	Immediate installation	Delivery in 2 months
Trade in	Accept trade in of company's old computer system at a fair market price.	Do not accept trade in.
Customer feedback	Though higher priced, very reliable and incorporate state-of-the-art software.	Positive feedback from most of the customers on speed and reliability.
Finance option	Deposit 10% and balance can be paid over 6 months	Equal payment over 12 months.

REQUIRED

d) Advise the business on the computer system to buy. Support your recommendation with **three** reasons. [7]

The business should buy the System Hewlett.

-The supplier can install system immediately.

- This will enable the business to upgrade its delivery system immediately to improve efficiency and increase its competitiveness in generating sales revenue.

- The warranty period is 4 years, 2 years longer than the other system.

- This will enable the business to make efficient use of the new system as the

supplier will take care of any technical issues free of charge over a longer period.
- The supplier accepts trade-in of the old computer system at a fair market price.
- This helps to lower the cost to a more comparable price than the other model and allows the business to enjoy its state-of-the-art software.

The business should buy the System Apple.
- The cost is $20 000 cheaper than the Hewlett model.
Less depreciation would be charged each year, thus reducing expenses incurred.
- Annual maintenance at $1 000 per year is cheaper in the long run.
This lowers business operating expenses and will contribute towards higher profit.
- There is positive feedback from other users on its speed and reliability.
The business is assured of a reliable system to enable better operational efficiency.
Other acceptable point:
- Able to have installment payment over 12 months. This will ease the business initial cash outlay and allows the business to pay yearly at a more affordable amount, easing its cash flow.

[Total: 16]

End of paper