YUAN CHING SECONDARY SCHOOL
PRELIMINARY EXAMINATION 2026
SECONDARY FOUR EXPRESS / FIVE NORMAL ACADEMIC
PRINCIPLES OF ACCOUNTS (7087/01)

SUGGESTED MARKING SCHEME

Name: ______________________________ (   )

Class: _____________

Instructions to students:
1. Highlight the content that you do not have.
2. Reflect on:
   a. Why were you unable to score in that question?
   (Did you understand what the question was asking for? Was there anything you were confused by? If there was, what was your confusion?)
   b. How would you improve in answering the question? What help do you believe you need?

QUESTION 1 (a)

Transaction	Source document
Purchased motor vehicle on credit	Invoice **[1]**
Informed credit customer, Winnie, that her account was undercharged	Debit note **[1]**
Received rental income via bank transfer	Receipt / Bank statement **[1]**

QUESTION 1 (b)
Objectivity theory **[1]** states that accounting information recorded must be supported by reliable and verifiable evidence so that financial statements will be free from opinions and biases. Source documents are considered reliable and verifiable evidence. **[1]**

QUESTION 1 (c)
The role of accounting is that it is an information system that provides accounting information for stakeholders to make informed decisions regarding the management of resources and performance of businesses. **[1]**

QUESTION 1 (d)
The accountant has applied the materiality theory **[1]** which states that relevant information should be reported in the financial statements if it is likely to make a difference to the decision-making process. Since the amount paid for the hole puncher is insignificant, it was treated as a stationery expense. **[1]**

Marker's report:
Question 1(a) Many students did not answer the 2nd transaction correctly.

Question 1(b) Many students were able to correctly identify the accounting theory but the explanation was not strong. Keywords like reliable and verifiable evidence is lacking in many answers.

Question 1(c) Many students lost marks as they simply wrote that the information is meant for owners / investors / shareholders to make decisions. It is important to note that accounting helps all stakeholders by providing them with accounting information for all of them to make informed decisions.

Question 1(d) Few students were able to identify the correct accounting theory. Common mistakes include monetary theory, prudence theory and accrual basis of accounting theory.

QUESTION 2 (a)

Any one of the following: [1]

- Mike will have minimal administrative duties that's why he formed a sole proprietorship.
- Mike will have absolute control of the business that's why he formed a sole proprietorship.

QUESTION 2 (b)

Journal

	Dr $	Cr $
Drawings	8 400✓	
Inventory		8 400✓
Drawings of inventory for owner's personal use [1]		

QUESTION 2 (c)

Capital Account

		Dr	Cr	Balance
2025		$	$	$
Apr 1	Balance b/d			75 000 Cr
2026				
Mar 31	Drawings	8 400✓		66 600 Cr
31	Income Summary		62 000✓	128 600 Cr
Apr 1	Balance b/d			128 600 Cr✓

QUESTION 2 (d)

Any one of the following: [1]

- It would be easier to raise funds in a private limited company as banks are more willing to lend money to a company than a sole proprietorship.
- There is limited liability in a private limited company. If the business fails, Mike is not obliged to pay for the business debts using his personal assets.
- A private limited company will exists forever until wound up or struck off.

Marker's report:

Question 2(a) Most students were able to answer this part question.

Question 2(b) Many students were able to get this journal entry correct. However, some did not put in their narrations. Many narrations were missing the owner in their description.

Question 2(c) Most students were unfamiliar with the format of the ledger account. For the few students who attempted it with the correct format, most of them did not record the correct date for drawings.

Question 2(d) Most students were able to answer this part question.

QUESTION 3 (a)

A trial balance that balanced does not prove that all the transactions have been recorded correctly because there may be errors that cancelled out each other which are not shown by the trial balance. [1]

QUESTION 3 (b)

Kenny Co
Trial Balance as at 30 April 2026

	Debit $	Credit $
Capital		25 000
Trade receivables (2240 + 6000)	8 240✓	
Trade payables (3800 – 1800 – 200)		1 800✓
Sales revenue (41950 + 6000)		47 950✓
Sales returns	1 860	
Cost of sales (27100 + 3300)	30 400✓	
Discount received (250 + 200)		450✓
Motor vehicles	25 000	
Inventory (6350 – 3300)	3 050✓	
Cash at bank (7960 – 1800)	6 160✓	
Utilities expense	490	
	75 200	75 200✓OF

QUESTION 3 (c)

Any one of the following: [1]

- Local or overseas suppliers
- Online vs brick-and-mortar suppliers
- After-sales service
- Return policy
- Warranty
- Reputation of suppliers

QUESTION 3 (d)

The business, Kenny Co, returned goods costing $590 to credit supplier William. [1]

QUESTION 3 (e)

Rate of discount $= \frac{\text{Cash Discount}}{\text{Amount Owed}} x100$

$= \frac{300}{5700+300} x100$

= 5% [1]

Marker's report:
Question 3(a) Many students were unable to explain the limitation. Students simply mention that it can only show arithmetic accuracy, or it is not an absolute proof of accuracy, without further explanation.

Question 3(b) Many students were unfamiliar with the format of the trial balance. Some students did not attempt any of the additional information too. For those who tried, common mistakes include discount received and inventory.

Question 3(c) Many students provided non-accounting information on inventory, rather than on credit supplier.

Question 3(d) Many students were able to answer this part question.

Question 3(e) Few students were able to get this correct. The total amount owed is the total of the discount and the payment. Many students incorrectly only divided by the payment amount.

QUESTION 4 (a)

Bank reconciliation is performed to check that the difference between the ending balances in the business cash at bank account and the bank statement is due to timing differences in recording. **[1]**

QUESTION 4 (b)

Acai Trading Bank Reconciliation Statement as at 30 June 2026	
	$
Balance as per bank statement	7 010✓
Add: Deposits-in-transit – Sales Revenue	4 700✓
Less: Cheques not yet presented – Advertising Expense	(1 850)✓
Adjusted balance as per cash at bank account	9 860✓

QUESTION 4 (c)

Profit for the year will decrease **[1]** by $490. **[1]**

QUESTION 4 (d)

Any five of the following: **[5] – 1 mark each, at least 1 trend and 1 cause**

Trend:

- Acai Trading's current ratio has worsened by 2.36 from 30 June 2025 to 30 June 2026.
- Acai Trading is liquid at 30 June 2025 as the current ratio is above the acceptable norm of 2 but the business' liquidity has worsened and is illiquid at 30 June 2026.
- Acai Trading's quick ratio has worsened by 1.96 from 30 June 2025 to 30 June 2026.
- Acai Trading is liquid at 30 June 2025 as the quick ratio is above the acceptable norm of 1 but the business' liquidity has worsened and is illiquid at 30 June 2026.

Causes:

- This may be due to Acai Trading having insufficient money in their cash at bank account. At 30 June 2025, there is $6200 in the cash at bank but it has worsened and at 30 June 2026, Acai Trading has no money in their bank account and owes $1100 to the bank due to the bank overdraft.
- This may be due to Acai Trading having to pay off the current portion of long-term borrowings as at 30 June 2026. The loan portion to be paid off has increased their liabilities and worsened their liquidity position.
- This may be due to the increase in trade payables by $2740. An increase in trade payables may be due to Acai Trading having difficulty paying off their trade payables.
- Acai Trading's inventory has also increased by $1800. Funds are tied up at the goods and if the goods are not sold, Acai Trading would not be able to receive the cash. Then, they may not have the quick assets to pay off their immediate liabilities.

Marker's report:
Question 4(a) Many students wrote that bank reconciliation is to deter fraud. While this is one of the possible reasons, students should strive to write the purpose of bank reconciliation as identifying transactions that were recorded at different timings which had caused ending balances to be different.

Students should also note that it is to deter fraud, not to deter against fraud. Deter and against becomes somewhat like a double-negative.

Question 4(b) Many students were able to provide the bank reconciliation statement. However, some of them had incorrectly included bank charges into the bank reconciliation statement.

Question 4(c) Most students were unable to do this part question. Many students used overstated/understated as their answers.

Question 4(d) Most students were able to identify at least 2 trends and 1 cause. However, for trends, it is important to note that liquidity ratios do not have any units. There were many students who wrote times / % when including the ratios in their answers.
Also, the purpose of acceptable norm is to state if the business is liquid / illiquid. Some students mentioned the acceptable norm but did not link back to whether the business is liquid, and in which year.

For the causes, many students had incorrectly said that quick ratio worsened due to inventory. Quick ratio will only be affected by quick assets, and inventory is not a quick asset. Other students had also attempted to bring in profitability and inventory management which only serves to make the analysis more confusing.

Self-check marker:

Question 1
Chapter: Introduction to Accounting / Accounting Information System

- Source documents → Novice / Apprentice / Expert
- Accounting theories → Novice / Apprentice / Expert
- Role of accounting → Novice / Apprentice / Expert

Question 2
Chapter: Introduction to Accounting / Equities

- Forms of ownership → Novice / Apprentice / Expert
- Journal entries → Novice / Apprentice / Expert
- Ledger account → Novice / Apprentice / Expert

Question 3
Chapter: Trial Balance / Trade Payables

- Limitations of trial balance → Novice / Apprentice / Expert
- Trial Balance → Novice / Apprentice / Expert
- Interpretation → Novice / Apprentice / Expert
- Calculation → Novice / Apprentice / Expert

Question 4
Chapter: Cash / Financial Statements Analysis (Liquidity)

- Purpose of bank reconciliation → Novice / Apprentice / Expert
- Bank reconciliation statement → Novice / Apprentice / Expert
- Effects → Novice / Apprentice / Expert
- Evaluation → Novice / Apprentice / Expert

My reflection:
What I already know:

What I need to improve on:

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SUGGESTED MARKING SCHEME

QUESTION 1 (a)

Healthy Wellness
Statement of Financial Performance for the year ended 31 July 2026

	$	$
Service Fee Revenue (292380 + 4650)		297 030✓
Add: Other Income		
Discount Received		3 750✓
Less: Expenses		
Loss on Sale of Non-Current Assets	7 500✓	
Rental expense (65000 – 1000)	64 000✓	
Interest expense (0.04 x 60000)	2 400✓	
Salaries expense	95 600	
Advertising expenses	40 880	
Depreciation of Equipment (0.2 x 182400)	36 480✓	
Depreciation of Fixtures and Fittings (0.1 x 63000)	6 300✓	
Impairment Loss on Trade Receivables (880 – 250)	630✓	(253 790)
Profit for the Year		46 990✓**OF**

QUESTION 1 (b)

Healthy Wellness
Statement of Financial Position as at 31 July 2026

ASSETS	$	$	$
Non-Current Assets	Cost	Accumulated Depreciation	Net Book Value
Equipment (102600 + 36480)	285 000	(139 080)	145 920✓OF
Fixtures and Fittings (14300 + 6300)	73 000	(20 600)	52 400✓OF
			198 320
Current Assets			
Trade Receivables	22 000		
Less: Allowance for Impairment on TR (19500 x 0.04)	(880)	21 120✓	
Service Fee Revenue Receivable		4 650✓	
Prepaid Rental Expense		1 000✓	26 770
Total Assets			225 090
EQUITY AND LIABILITIES			
Owner's Equity			
Capital (103000 + 46990 – 1670✓)			148 320
Non-Current Liabilities			
Long-Term Borrowings (60000 – 15000)			45 000✓
Current Liabilities			
Trade Payables		12 520	
Bank Overdraft		3 450✓	
Interest Expense Payable (2400 – 1600)		800✓	
Current Portion of Long-Term Borrowings ($^1/_4$ x 60000)		15 000✓	31 770
Total Equity and Liabilities			225 090✓OF

Marker's report:
Question 1(a) Most students were able to score well for this part question. Common mistake is recording the wrong amount for interest expense, and treating loss on sale of non-current asset as income.

Question 1(b) Many students were able to get this correct. Common mistake is missing out expense when writing interest expense payable, as well as the wrong amount for interest expense payable.
A small group of students are still unfamiliar with the format for statement of financial position, making mistakes in the respective headers.

QUESTION 2 (a)

Mark-up on cost $= \frac{\text{Gross Profit}}{\text{Cost of Sales}} x100$

$= \frac{60100}{196600} x100$

= 30.57% [1]

QUESTION 2 (b)

Marcus should continue to invest in Hunter Limited as the return on equity has improved. [1] The return on equity has improved by 1.4% from the year ended 30 April 2024 to 2025 and further improved by another 2.2% to the year ended 30 April 2026. Marcus is able to receive more returns from his investment and thus he should continue to invest. [1]

QUESTION 2 (c)

Trend (Gross profit margin): [1]
- The gross profit margin for Hunter Limited has improved by 3.5% from the year ended 30 April 2024 to 2025 and further improved by another 4.9% to the year ended 30 April 2026.
- This means that Hunter Limited is able to earn more gross profit for every dollar of net sales revenue over the 3 years.

Causes (Gross profit margin): [1]
- This may be due to Hunter Limited improving the quality of their products and thus they are able to increase the selling price of their goods. Hunter Limited will have higher sales revenue and thus better gross profits.
- This may be due to Hunter Limited buying in bulk to enjoy trade discounts and lower the cost price of their goods. This results in lower cost of sales and better gross profits.

Trend (Profit margin): [1]
- However, the profit margin for Hunter Limited has worsened by 1.1% from the year ended 30 April 2024 to 2025 and further worsened by another 1.2% to the year ended 30 April 2026.
- This means that Hunter Limited earned lesser profit for the year for every dollar of net sales revenue over the 3 years.

Causes (Profit margin): [1]
- This may be due to Hunter Limited increasing the salaries of their employees to provide better customer service and boost sales. When salaries expense increases, the profit for the year will worsen.
- This may be due to Hunter Limited advertising their products more to boost sales. When advertising expense increases, the profit for the year will worsen.
- This may be due to the tenants of Hunter Limited has stopped renting from them which results in lower rental income. When rental income decrease, profit for the year will worsen.

QUESTION 2 (d)

Any one of the following: [1]
- Hunter Limited can rent out excess shop spaces to earn rental income and increase profit for the year.
- Hunter Limited can move to another location with lower rental expense and increase profit for the year.
- Hunter Limited can introduce energy-saving measure to lower utilities expenses and increase profit for the year.

QUESTION 2 (e)

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

- If a business profitability worsens, it would be unable to compete with its competitors.
- If a business profitability worsens, it would be difficult to attract investors.
- If a business profitability worsens, it would be difficult to obtain loans from the banks.

QUESTION 2 (f)

- If Hunter Limited holds on to excess goods, the goods may become obsolete and they would have to write-off the goods. This results in an impairment loss on inventory which will worsen profit for the year. **[1]**
- If Hunter Limited does not have sufficient goods to cater to the demands of his customers, it will result in a stock-out situation. Hunter Limited may lose sales if the customers patronise their competitors instead. **[1]**

QUESTION 2 (g)

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

- The day sales in inventory of Hunter Limited has improved by 4.7 days for the year ended 30 April 2024 to 25.0 days for the year ended 30 April 2025 and improved by another 6.6 days for the year ended 30 April 2026.
- This means that Hunter Limited takes 4.7 days lesser to sell their goods for the year ended 30 April 2025 and another 6.6 days for the year ended 30 April 2026.
- This may be due to Hunter Limited offering more trade discounts to their credit customers to encourage them to buy in bulk. As a result, the goods took lesser time to be sold over the three years.
- This may also be due to Hunter Limited increasing their advertising efforts over the three years to promote sales. As a result, the goods took lesser time to be sold over the three years.
- Hunter Limited may have improved the quality of their products and attracted more customers. As a result, the goods took lesser time to be sold over the three years.

Marker's report:

Question 2(a) Many students were unprepared for this calculation. Students were also careless and left out the units (%).

Question 2(b) Many students were unable to use return on equity to answer this question. Students who did the correct analysis, had made the mistake of writing that better return on equity means more "money / cash" for the owners. The correct term should be "greater returns" for Marcus.

Question 2(c) Many students did not answer this well and focused either only on gross profit margin or profit margin. Also, many students did not bring in any causes when writing the profit trends. Students had also wrongly bring in day sales of inventory when answering this question.

Question 2(d) Many students were able to answer this question. Common mistake was when students cited reasons related to goods, which is only accepted when question asked for improvements on gross profit margin or mark-up on cost.

Question 2(e) Many students wrote that the consequence is bankruptcy / closing down. This is an answer that we want to avoid thus it is not accepted. Also, many students wrote about having poor liquidity and insufficient cashflow when the question asked about profitability worsening.
Students are encouraged to write stronger answers related to the many different aspects of the business.

Question 2(f) Most students were unable to answer this question. Only a small handful of students were able to explain clearly what happens when a business holds too much and too little inventory.

Question 2(g) Many students were able to answer this question well. Some students only stated the trend without mentioning the causes.

QUESTION 3 (a)
Usage / Wear and tear / Obsolescence / Legal limits [1]

QUESTION 3 (b)
Golden Trading used the straight-line method on fixtures and fittings as they provided uniform benefits throughout its useful life. [1]

QUESTION 3 (c)
Golden Trading is unable to change the depreciation rate due to consistency theory [1] which states that once an accounting method is chosen, this method should be applied to all future accounting periods to enable meaningful comparison. Golden Trading needs to use the same depreciation rate so that the business can compare depreciation expense across years. [1]

QUESTION 3 (d)

	31 May 2025	31 May 2026
Workings: Rate x (Cost – Scrap Value)	0.1 x (32000 – 2000) x $^{5}/_{12}$	0.1 x (32000 – 2000)
Depreciation of fixtures and fittings expense ($):	= $1 250 [1]	= $3 000 [1]

QUESTION 3 (e)

Account debited	Account credited
Depreciation Expense [1]	Accumulated Depreciation [1]

QUESTION 3 (f)
Any one of the following: [1]

- Employees
- Banks
- Suppliers
- Government
- Competitors

QUESTION 3 (g)
Current assets are resources a business owns or controls that are expected to provide future benefits which will be used up within one accounting period. [1]

QUESTION 3 (h)

Journal

	Dr $	Cr $
Allowance for Impairment of Trade Receivables	5 800✓	
Trade Receivables: Silvery Co		5 800✓

QUESTION 3 (i)
There will be no effect on current assets. [1]

Marker's report:
Question 3(a) Many students answered this well. Common mistake is to mention "goods". A couple of students also mentioned "damages to non-current asset" which is incorrect cos damages will lead to a write-down, not depreciation.

Question 3(b) Few students answered this well. Many students incorrectly mentioned about useful life and scrap value which does not affect the method of depreciation selected.

Question 3(c) Many students were able to state the correct accounting theory, after the explanation is poor. Students focused on having the same method and same rate of depreciation, without stating clearly why this is necessary.

Question 3(d) Many students were able to state the correct formula. However, few students noted that there should only be 5 months of depreciation for the year ended 31 May 2025.

Question 3(e) Many students were able to do this part question.

Question 3(f) Most students were able to do this part question. Common mistakes includes investors / shareholder → they are considered as owners of the business.

Question 3(g) Many students were able to do this part question. Common mistake is when students do not explain assets. Students also do not mention that the current assets provide benefits. In addition, students mentioned "this accounting period", however the current assets provide benefits which will be used up within one accounting period and this refers to the next accounting period.

Question 3(h) Many students were able to do this question. Common mistake includes missing out the name of the trade receivables.

Question 3(i) Most students were unable to do this question and incorrectly answered that current assets will be overstated, without realizing that the journal entries cancel out each other when comparing the effect on current assets.

QUESTION 4 (a)

Matching theory states that expenses incurred must be matched against income earned in the same period to determine the profit for that period. Radiance Beauty needs to record the $8000 rental expense payable as the current accounting period's expenses to correctly reflect the rental expense incurred as $58000 to determine the correct profit for the year. **[1]**

QUESTION 4 (b)

Journal

	Dr $	Cr $
Rental Expenses	8 000✓	
Rental Expenses Payable		8 000✓
Rental expenses have been incurred in this accounting period, but will only be paid in the next accounting period **[1]**		

QUESTION 4 (c)

Profit for the year will be overstated **[1]** by $8 000 **[1]**

QUESTION 4 (d)

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

- Radiance Beauty should buy Organic Glow Serum.
  Radiance Beauty can earn 5% more gross profit margin if they buy Organic Glow Serum. With higher gross profit margin, they will be able to improve their profit margin and attract more investors.
  The packaging for the Organic Glow Serum is more environmentally friendly as it is stored in a reusable glass jar. It will be easier for Radiance Beauty to attract customers as they prefer sustainable and eco-friendly products.
  Organic Glow Serum is popular with customers and that there were no stocks available for sale. Radiance Beauty can attract customers easily and it is unlikely that the serum will be unsold and result in losses.

- Radiance Beauty should buy Skin Brightening Lotion.
  The cost price per unit for Skin Brightening Lotion is $20 cheaper. For the same quantity stocked up, Radiance Beauty will require lesser cash outflow which is better for their liquidity.
  Skin Brightening Lotion is being used by a well-known Korean artiste. It would be easier for Radiance Beauty to attract customers who are easily influenced by social media advertisements.
  The Skin Brightening Lotion does not require special storage and can be left at normal temperatures. As Radiance Beauty has limited space, it would be easier to stock up on the Skin Brightening Lotion and make use of the existing space in the shop. It is also easier to sell to customers as it does not require any special packaging to ensure that the product is kept cold.

Marker's report:
Question 4(a) Many students were able to do this part question. However, a number of students had left this accounting theory question entirely blank.

Question 4(b) Most students were able to do the journal entries. However, the narrations were poorly written and mostly incomplete.

Question 4(c) Most students were able to do this part question.

Question 4(d) Many students answered well for decision-making.
In general, more students chose to buy from Organic Glow Serum. A few students still simply lifted the reasons directly from the question without paraphrasing. Many students attempted to elaborate and link back to Radiance Beauty, but all the elaboration are the same – Radiance Beauty can attract more customers. Students should not that elaboration needs to be differentiated across the 3 reasons.

For students who chose Organic Glow Serum,
Students were unable to write good elaboration for the better gross profit margin. Their elaboration just mentioned that Radiance Beauty can have better gross profits. The elaboration is similar to consequences for profitability but few students realized this. Students also briefly mentioned that higher gross profit means Radiance Beauty will have more cash, without any elaboration. This is incorrect as profitability and cash flow are not the same.

For students who chose Skin Brightening Lotion,
The elaboration for lower cost price is poorly answered. Students tend to explain that with lower cost price, there will be higher gross profits. However, this does not apply to this question as gross profit margin has been given and the comment now becomes contradictory.

Self-check marker:

Question 1
Chapter: Trial Balance and Financial Statements

- Statement of financial performance → Novice / Apprentice / Expert
- Statement of financial position → Novice / Apprentice / Expert

Question 2
Chapter: Financial Statements Analysis (Profitability and Inventory Management)

- Calculation → Novice / Apprentice / Expert
- Evaluation → Novice / Apprentice / Expert
- Improvement → Novice / Apprentice / Expert
- Consequences → Novice / Apprentice / Expert

Question 3
Chapter: Non-Current Assets / Introduction to Accounting / Trade Receivables

- Causes of depreciation → Novice / Apprentice / Expert
- Methods of depreciation → Novice / Apprentice / Expert
- Depreciation calculation → Novice / Apprentice / Expert
- Journal entries → Novice / Apprentice / Expert
- Stakeholders → Novice / Apprentice / Expert
- Definition of current assets → Novice / Apprentice / Expert
- Effects → Novice / Apprentice / Expert

Question 4
Chapter: Cost of Sales and Other Expenses / Inventories

- Accounting theory → Novice / Apprentice / Expert
- Journal entries → Novice / Apprentice / Expert
- Effects → Novice / Apprentice / Expert
- Decision-making → Novice / Apprentice / Expert

My reflection:
What I already know:

What I need to improve on:

---END OF MARK SCHEME---