FORM TP 2011106

TEST CODE **01239020**

MAY/JUNE 2011

CARIBBEAN EXAMINATIONS COUNCIL

SECONDARY EDUCATION CERTIFICATE EXAMINATION

PRINCIPLES OF ACCOUNTS

Paper 02 – General Proficiency

3 hours

16 MAY 2011 (a.m.)

1. Answer ALL the questions in Section I and TWO questions from Section II.
2. Begin EACH answer on a separate page.
3. Keep ALL parts of EACH answer together.
4. Silent electronic calculators may be used, but ALL necessary working should be clearly shown.
5. EACH question is worth 20 marks.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO

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SECTION I

Answer the THREE questions in this section.

1. Mikail Jack is a music artiste. On March 31, 2011, he provided the following information about his assets and liabilities:

1. He owns recording equipment valued at $40 000.

2. He also owns musical instruments worth $15 000.

3. He owns a car, which was bought at a cost of $65 000. The car was bought with the help of a five-year loan of $30 000 from Easy Finance Company. Accumulated depreciation as at March 31, 2011 is $18 000.

4. There is an inventory of pre-recorded CDs on hand, valued at $5 700.

5. He sold $300 worth of his pre-recorded CDs to a fan, who promised to pay in April 2011.

6. The Cancer Society owes him $8 000 for performing at a public function.

7. He paid $650 in advance to Star Advertising Company which is working on his new advertising campaign.

8. He holds a bank account of $8 925, and has petty cash on hand of $50.

9. He owes $2 500 in interest charges on a loan from Easy Finance Company.

10. He rents a recording studio for $1 500 per month – three months' rent remains unpaid at March 31, 2011.

Prepare a classified Statement of Financial Position (Balance Sheet) for Mikail Jack, as at March 31, 2011. (Use the order of permanence in classifying assets.) **(20 marks)**

Total 20 marks

2. Chester and Norbert have been in partnership for several years. Their partnership agreement provides for the following:

1. Partners are to receive interest at the rate of 10% per annum on their opening capital balances.
2. Interest at a rate of 5% per annum is to be paid on partners' drawings during the year.
3. Norbert is to receive a salary of $1 500 per month.
4. Profits and losses are to be shared equally.

The following information has been extracted from their books:

Partners' Capital Accounts at January 1, 2010:

	$
Chester	250 000
Norbert	150 000

Partners' Current Accounts at January 1, 2010:

	$
Chester	24 000
Norbert	(1 500)

On July 1, 2010, **halfway through the year,** Chester and Norbert admitted Telford to the partnership. Telford brought $40 000 in cash, a motor car valued at $35 000 and equipment valued at $25 000.

(a) Prepare the journal entry to record the admission of Telford into the partnership. **(3 marks)**

Between January 1, 2010 and December 31, 2010 the following activities occurred:

Partners' Drawings:

	$
Chester	6 400
Norbert	7 000

Net Income of $122 330 was earned evenly throughout the year.

The ONLY CHANGE in the partnership agreement provides for profit or loss to be shared among the partners in the ratio of Chester 3 : Norbert 2 : Telford 1.
Note: all other provisions remain the same.

(b) Prepare an extract of the Partnership Appropriation Account up to the share of remaining profit for the year ended December 31, 2010. **(7 marks)**

(c) **Complete the worksheet provided** to arrive at the share of remaining income or profit earned by EACH partner. **(3 marks)**

(d) Prepare the Current Accounts of the partners as at December 31, 2010. **(7 marks)**

Total 20 marks

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3. Chris Luder and Sons maintains both a three-column Cash Book and a Petty Cash Book. The Petty Cash Account should start with $400 in hand every month. All payments for office supplies and cleaning expenses are recorded in the Petty Cash Book.

The balances at April 1, 2011 were as follows:	$
Cash	850
Bank	4 200
Petty Cash	75

During the month of April, the following transactions were recorded in the books, as indicated.

April	1	Restored imprest by cash to petty cash book.
	6	Paid wages of $2 100 by cheque.
	7	Received cash of $1 900 from P. Rice to settle amount of $2 000.
	9	Purchased postage stamps at a cost of $50.10; mop and broom $34.60.
	11	Bought copying paper at a cost of $40.80.
	15	Bought cleaning supplies at a cost of $25.50; and staples for stapling machine at $31.20.
	16	Deposited $1 200 (cash) into the bank.
	16	S. John paid his debt of $1 000 by cheque, less 5% discount.
	18	Chris Luder, owner, withdrew $500 in cash for private expenses.
	22	Bought envelopes at a cost of $63.30.
	26	Paid debt of $2 900 to K. Band Enterprises by cheque, less 2% discount.
	27	Cleaner's wages $128.30.
	30	S. John's cheque received on April 16 was returned marked "return to drawer".

(a) Draw up the three-column Cash Book for Chris Luder and Sons for the month of April 2011. **(9 marks)**

(b) **Using the worksheet provided**, draw up the Petty Cash Book for Chris Luder and Sons for the month of April 2011. **(8 marks)**

(c) Post the TOTALS of the office supplies and cleaning expenses columns in the appropriate ledger. **(3 marks)**

Total 20 marks

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SECTION II

Answer any TWO questions in this section.

4. B. C. Yen recorded the following Trial Balance after calculating gross profit.

Trial Balance as at December 31, 2010

	$	**$**
Gross Profit		163 000
General Expenses	51 570	
Advertising	5 800	
Bank interest	1 520	
Commissions earned		2 200
Premises at cost	196 000	
Fixtures and fittings at cost	110 000	
Provision for depreciation:		
Premises		39 200
Fixtures and fittings		33 600
Inventory at December 31, 2010	19 030	
Accounts receivable	20 500	
Provision for doubtful debts		2 300
Accounts payable		16 500
Bank overdraft		13 450
Cash	2 700	
Capital		136 870
	407 120	407 120

Adjustments required at end of year:

1. Advertising expense includes $800 prepayment.
2. Bank interest of $480 was owing at December 31, 2010.
3. Commissions received in advance, that is, not yet earned, $300.
4. Bad debts of $900 are to be written off from accounts receivable.
5. Premises are to be depreciated at 5% using the straight-line method.
6. Fixtures and fittings are to be depreciated at 20% using the reducing balance method.
7. Provision for doubtful debts is to be $2 100.

(a) **Complete the worksheet provided** for the required adjustments numbered 2 to 7 above by

(i) entering EACH item from B. C. Yen's Trial Balance which requires adjustment

(ii) showing how EACH item is to be adjusted and the amount of the adjustment. The first one is done for you as an example. **(10 marks)**

(b) Prepare the Fixed and Current Assets sections of B. C. Yen's Balance Sheet as at December 31, 2010 showing **clearly** any changes taken into account. **(10 marks)**

Total 20 marks

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5. Martha's Cakes & Confectionery is a manufacturer producing a variety of baked goods for sale to supermarkets. At December 31, 2010, the following information became available:

	$
Cost of raw materials used	56 400
Closing stock of raw materials	3 905
Kitchen equipment	16 000
Provision for depreciation on kitchen equipment	7 200
Office equipment	10 000
Provision for depreciation on office equipment	1 000
Purchases: Office supplies & stationery	600
Boxes (for kitchen storage)	1 200
Small kitchen appliances	900
Salaries - Office staff	5 800
Wages - bakers & cake decorators	15 800
Wages - delivery driver	8 880
Other delivery costs	2 900
Administrative costs	1 950
Advertising	400
Electricity	10 500

Notes: 1. The electricity cost is to be apportioned between the kitchen and the office as follows: Kitchen – 2/3; Office – 1/3.

2. Assets are to be depreciated as follows:
Kitchen equipment @ 10% reducing balance.
Office equipment @ 5% on cost.

3. Value of small kitchen appliances at year end was $500.

4. Sales amount for the year was $114 352.

(a) Prepare the Manufacturing Account for Martha's Cakes & Confectionery, showing clearly:

(i) Prime cost
(ii) Factory overheads
(iii) Total cost of production **(10 marks)**

(b) Prepare the Income Statement for Martha's Cakes & Confectionery for the year ended December 31, 2010, classifying costs appropriately. **(8 marks)**

(c) Martha reports an average unit cost of $10 per baked item. Compute the number of baked items produced for the year ended December 31, 2010. (**Show all working clearly**.) **(2 marks)**

Total 20 marks

6. Fifty housewives in the Goodlands community started a buying cooperative. On May 1, 2009, they each paid a $6.00 registration fee, and agreed that each member would buy 25 shares at $10.00 each.

(a) Prepare the journal entries to record the monies collected for:

- Registration fees
- Share purchase **(6 marks)**

At the end of the second year of operation, total share capital was $25 000. The following figures were extracted from the books as at April 30, 2011:

Surplus	$108 900
Undistributed profit	48 600

The Board of Management has proposed the following:

1. Transfer of 20% to the Education Fund.

2. A transfer of 15% to commence a Health Benefit Plan Reserve Fund.

3. Members are to receive a 25% refund on the total patronage sales of $180 000 for the year ended April 30, 2011.

4. Payment of 10% of share value as dividends.

(b) Prepare the Appropriation Account for the Goodlands Housewives Cooperative for the year ended April 30, 2011. **(8 marks)**

(c) Mrs Susan Cunningham, a co-operative member who now owns 42 shares, has receipts totalling $3 845 in respect of her purchases from the Goodlands Housewives Cooperative during the last year.

(i) Calculate the amount of the patronage refund due to Mrs Cunningham. (**Show all working clearly.**) **(2 marks)**

(ii) Calculate the TOTAL amount that should be paid to her, by the cooperative, out of this year's surplus. (**Show all working clearly.**) **(3 marks)**

(d) State ONE benefit, to the housewives, of joining the Goodlands Housewives Cooperative Society. **(1 mark)**

Total 20 marks

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7. (a) Cartel Vee sells leather sandals. His transactions for the month ended July 31, 2010 were as follows:

Transactions	Units	Unit Cost Price ($)
Beginning stock	110	55
Stock purchases	490	70
Sales @ $100 each	520	

Show workings for ALL calculations.

(i) Calculate the amount of units held as unsold stock at year end. **(3 marks)**

(ii) Calculate the value of closing stock using the

a) FIFO method
b) LIFO method. **(2 marks)**

(iii) Calculate the Gross Profit for Cartel Vee using the LIFO value for closing stock. **(5 marks)**

(iv) State the MAIN reason why it is necessary to know the stock valuation method being used by a firm. **(1 mark)**

(v) Calculate the cost price that would be used for the AVCO method in valuing closing stock. **(4 marks)**

(vi) What ratio can be calculated to measure how quickly Cartel Vee sells his stock? **(1 mark)**

(b) At the end of Cartel Vee's first year of operation, his accountant presents the following ratios comparing the performance of Cartel Vee with a competitor:

Ratios	Cartel Vee	Competitor
Current ratio	12.5:1	9:1
Expense to sales ratio	28%	33%

(i) Which of the ratios above measures control of costs? **(1 mark)**

(ii) Which of the ratios above measures a firm's ability to meet its short-term debts? **(1 mark)**

(iii) Prepare a short report, using both ratios, comparing Cartel Vee's performance with that of his competitor. **(2 marks)**

Total 20 marks

END OF TEST

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Worksheet for Question 2 (c)

Share of Remaining Income	Working Column $	Chester $	Norbert $	Telford $
January - June (50%)				
July - December (50%)				
TOTALS				

TO BE ATTACHED TO YOUR ANSWER BOOKLET

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Worksheet for Question 3 (b)

Petty Cash Book

Amount	Date 2011	Details	Total	Office Supplies	Cleaning Expenses
	Apr 1	Balance b/d			
	Apr 1	Cash			
	Apr 9	Postage stamps			
	Apr 9	Mop and broom			
	Apr 11	Copying machine paper			
	Apr 15	Staples			
	Apr 15	Cleaning supplies			
	Apr 22	Envelopes			
	Apr 27	Cleaner's wages			
		Balance c/d			

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Worksheet for Question 4 (a) (i) and (ii)

	ITEM	ADJUSTMENT REQUIRED	
		TREATMENT	AMOUNT
1	Advertising	**Subtract** prepayment of	$800
2			
3			
4			
5			
6			
7			

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