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CARIBBEAN EXAMINATIONS COUNCIL

SECONDARY EDUCATION CERTIFICATE EXAMINATION

PRINCIPLES OF ACCOUNTS

Paper 02 – General Proficiency

3 hours

16 MAY 2012 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

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.

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SECTION I

Answer the THREE questions in this section.

1. An accounting student prepared the following trial balance for Heavy Metal Enterprises for the year ended 31 December 2011 and inserted the amount of $51 200 for capital.

	Dr $	Cr $
Bank overdraft	26 500	
Cash on hand	3 200	
Provision for bad debts		8 200
Bad debts		5 000
Accounts receivable		49 100
Accounts payable		54 200
Long-term loan		75 000
Carriage inwards		3 600
Carriage outwards	4 500	
Commissions received	6 200	
Rent paid		12 000
Equipment at cost	90 000	
Accumulated depreciation (equipment)	30 500	
Motor vehicle at cost		68 000
Accumulated depreciation (motor vehicle)	15 400	
Salaries	40 000	
Inventory	16 800	
Purchases		74 600
Sales	125 000	
Miscellaneous expenses	36 400	
Returns outwards	3 600	
Returns inwards	2 800	
Capital		51 200
	400 900	400 900

(a) Prepare the corrected trial balance for Heavy Metal Enterprise showing clearly the correct amount for Capital. **(13 marks)**

(b) You are presented with the following day books:

Sales Day Book

2011		Amount
1 September	U. Plumber	$ 7 200
4 September	V. Henry	$ 4 150
13 September	V. Henry	$ 2 100
20 September	U. Plumber	$ 1 396
		$14 846

Return Inwards Day Book

2011		Amount
3 September	U. Plumber	$1 000
9 September	V. Henry	$1 950
		$2 950

Cash Book

		Disc	Cash	Bank			Disc	Cash	Bank
2011		$	$	$	2011		$	$	$
1 Sept	Bal b/d		2 645	10 500	25 Sept	Rent		700	
4 Sept	U. Plumber	100		5 100	25 Sept	Wages			2 500
24 Sept	V. Henry	60		6 040					
					30 Sept	Bal c/d		1 945	19 140
		160	2 645	21 640				2 645	21 640

(i) Post the information from the day books in the personal account of U. Plumber and balance the account. **(3 marks)**

(ii) Prepare the Debtors Control Account and any other account in the General Ledger for the month of September. **(4 marks)**

Total 20 marks

2. The Sales Ledger of JJ's Paradise showed the following balances at 31 December 2010.

Account Title	**Amount**
Nat Lewis	$ 850
Jeb Steven	$3 600
Anna Tomas	$ 450

Mr JJ has decided to write off these three receivables as bad debts.

(a) (i) Prepare the journal entry on page 5 of JJ's journal to write off the three receivables. **(Narrative required)** **(7 marks)**

The remaining receivables totalled $28 320 at 31 December 2010. Mr JJ believes that 10% of these outstanding receivables are LIKELY to become bad debts. He wishes to make adequate provision for these doubtful debts.

(ii) Prepare the journal entry with a narrative, to create the Provision for Doubtful Debts Account. **(4 marks)**

On 31 December 2011, Mr JJ's receivables AFTER bad debts totalled $25 000. He decided to use the same rate of 10% as the previous year in accounting for doubtful debts.

(iii) Draw up the Provision for Doubtful Debts Account for the TWO years, 1 January 2010 to 31 December 2011, to show the change in the provision. Balance the account at the end of EACH year. **(5 marks)**

(b) (i) State ONE reason why adjustments are made to financial statements. **(1 mark)**

(ii) Identify ONE concept which guides adjustments to financial statements. **(1 mark)**

(iii) Explain how the concept identified in (b) (ii) above guides adjustments made to financial statements. **(2 marks)**

Total 20 marks

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3. (a) V. Cheeseman is preparing his summary accounts for the month ended 31 August 2011. He finds the following errors which may or may not affect the summary of the bank account entries in his Cash Book.

- A purchase of $303, paid by cheque, was recorded in both accounts as a purchase of goods valued at $330.
- A cheque for $467 sent to creditor R. Sant had been recorded in R. Sant's account ONLY.
- A cheque received from C. Samnah for $290 was debited in Samnah's account and credited in the Cash Book.

(i) Prepare the journal entries to correct the errors above. (**Narratives not required**.) **(7 marks)**

(ii) V. Cheeseman records the following figures in his summarized Cash Book BEFORE correcting the relevant errors:

Summarized Cash Book (bank columns only)
for the month ended 31 August 2011

	$
Opening balance	1 560
Receipts	8 910
	10 470
Payments	(7 900)
Closing balance	2 570

Beginning with the incorrect balance of $2 570, correct the summarized Cash Book for the relevant errors given above. (**Show all working**.) **(5 marks)**

(b) The following information is recorded in EITHER the bank statement or in V. Cheeseman's Cash Book but NOT in both.

	$
Bank charges	120
Standing order for vehicle insurance	600
Cheque dated 30 August 2010 sent to supplier	570
Cheque returned stamped "Insufficient Funds"	390
Direct deposits from debtors	4 500
Deposit to bank on 31 August 2011	990

The bank statement for the month ended 31 August 2011 shows a balance of $5 680.

(i) Using the corrected summarized Cash Book balance from a (ii) above, draw up an updated Cash Book for the month ended 31 August 2011. **(5 marks)**

(ii) Starting with the updated Cash Book balance, draw up a Bank Reconciliation Statement for V. Cheeseman for the month ended 31 August 2011. **(3 marks)**

Total 20 marks

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SECTION II

Answer any TWO questions in this section.

4. P and G are two sole traders who decided to trade under the partnership name of PG Enterprises. The following are lists of balances for EACH trader before the formation of the partnership.

P	
	$
Equipment	14 000
Payables	6 000
Inventory	12 600
Receivables	3 400
Cash	10 000
Loose tools	1 800
Bank overdraft	5 800

G	
	$
Motor vehicle	8 000
Stationery	700
Premises	60 000
Cash	1 300
Mortgage	34 000

(a) (i) Prepare individual opening entries as at 1 May 2012 to record EACH sole trader's contribution to the partnership. **(7 marks)**

(ii) Prepare a classified summarized Balance Sheet for PG Enterprises, as at 1 May 2012, using the order of permanence. **(7 marks)**

(b) The two partners anticipate a profit of $99 000 at the end of the first year's trading, but have not yet decided what profit-sharing ratio to adopt.

Calculate EACH partner's share of profit under the following schemes:

(i) In capital sharing ratio **(2 marks)**

(ii) In the ratio 3:7 **(2 marks)**

Show all working.

(c) List TWO features, other than the profit sharing ratio, that should be included in P and G's partnership agreement. **(2 marks)**

Total 20 marks

5. (a) Explain, in ONE sentence, the meaning of EACH of the following statements:

(i) The owners of a corporation benefit from limited liability.

(ii) Farris London, a shareholder, wants to know what the Board of Directors of Aries Limited does.

(iii) The Registrar of Companies has received the documents required to start up the new corporation. **(3 marks)**

(b) Aries Limited has an authorized share capital of 200 000 one dollar ($1) Ordinary Shares and 100 000 one dollar ($1) 8% Preference Shares. On 1 April 2011, the following balances were listed in its books:

	$
165 000 Ordinary Shares @ $1 EACH	165 000
83 000 8% Preference Shares @ $1 EACH	83 000
10% Debentures	41 000

On 1 April 2011, Aries Limited

- issues the remaining Ordinary and Preference shares for cash and
- buys back $21 000 in debentures with the cash received

Draft General Journal entries to record

(i) the issue of the remaining ordinary shares at $1.50 EACH. **(5 marks)**

(ii) the issue of the remaining preference shares at $1.00 EACH. **(2 marks)**

(iii) the reduction in debentures. **(3 marks)**

Narratives not required.

(c) Other balances found on the books include:

	$
Profit and Loss Account before interest on debentures	90 000
Retained earnings	40 100
General reserve	51 500

On 31 May 2011, the directors agreed to the following:
- Pay the interest due on the **remaining** debentures
- Transfer $51 500 to general reserve
- Provide for the dividend to all holders of Preference Shares
- Provide for a dividend of 12% to all holders of Ordinary Shares

Prepare the Appropriation Account for Aries limited for the year ended 31 May 2011. **Show all working**. **(7 marks)**

Total 20 marks

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6. Simon Long makes decorative concrete ornaments. He recorded the following information about his manufacturing operations for the year ended 31 December 2011.

	$	$
Inventory at 1 January 2011		
Direct materials		6 500
Indirect materials	400	
Work-in-progress	12 500	
Finished goods	45 000	
Inventory at 31 December 2011		
Direct materials		8 000
Work-in-progress	15 100	
Finished goods	38 400	
Other items recorded were as follows:		
Purchases of direct materials	70 100	
Purchases of indirect materials	6 200	
Returns outwards of direct materials	2 500	
Transportation costs on materials	1 000	
Factory wages	59 000	
Supervisors' salaries	12 600	
Direct expenses	6 800	
Factory power	5 700	
General factory expenses	13 000	
Annual depreciation on factory equipment and building	3 500	

Note: 90% of transportation costs relates to direct materials and 10% to indirect materials.

(a) Calculate the following costs for Simon Long:

(i) Direct materials consumed **(4 marks)**

(ii) Indirect materials used **(3 marks)**

(b) Prepare the Manufacturing Account for Simon Long for the year ended 31 December 2011.

Show clearly the
- cost of direct materials consumed
- prime costs
- factory overheads
- cost of production. **(11 marks)**

(c) Calculate the cost of goods sold. **(2 marks)**

Total 20 marks

7. Liontown Co-operative was formed to produce souvenirs for the booming tourist market. The co-operative started with share capital of $55 000 in $1 shares. The co-operative is now two years old and records the following information for the first two years of operation.

	31 December 2010	31 December 2011
	$	$
Cost of sales	38 000	81 000
Sales	70 000	290 000
Expenses	21 000	46 000
Creditors	2 300	4 600
Loans to members	-	120 300
Interest due from members		2 100
Loan from Cooperative Union Bank	-	100 000
Equipment	-	40 000
Portable stalls	-	4 500
Inventory	5 100	29 300
Bank	60 500	126 400

The co-operative paid out dividends of 10¢ per share in its first year of operation and transferred the remainder to a Members' Education Fund.

(a) Prepare the Income Statement and the Appropriation Account for Liontown Co-operative for the first year ended 31 December 2010. **(6 marks)**

(b) During the second year of operation, Liontown Co-operative began lending money to members who wished to start their own small business.

(i) Identify the type of co-operative under which Liontown was classified in the operation of its

a) first year

b) second year.

(ii) Name ONE committee that Liontown is LIKELY to use to carry out its business.

(iii) State ONE purpose of the Members' Education Fund. **(4 marks)**

(c) For the year ended 31 December 2011, the Board of Directors records a surplus of $157 500. The board plans to

- transfer $32 600 to the Members' Education Fund
- pay out $27 500 in dividends
- leave the remainder as undistributed profits.

Prepare a classified Balance Sheet for Liontown Co-operative for the year ended 31 December 2011 (second year of operation) taking the appropriation of the surplus into consideration. **(10 marks)**

Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.