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FORM TP 2019106

MAY/JUNE 2019

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

PRINCIPLES OF ACCOUNTS

Paper 02 – General Proficiency

3 hours

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READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of FIVE questions.
2. Answer ALL questions.
3. Write your answers in the spaces provided in this answer booklet.
4. DO NOT write in the margins.
5. Show ALL working clearly.
6. You may use a silent, non-programmable calculator to answer questions.
7. You are advised to take some time to read through the paper and plan your answers.
8. If you need to rewrite any answer and there is not enough space to do so on the original page, you must use the extra lined page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**
9. **If you use the extra page(s) you MUST write the question number clearly in the box provided at the top of the extra page(s) and, where relevant, include the question part beside the answer.**

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

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Write your answers in the spaces provided in this booklet.

1. Simone Cooke is a producer of natural juices. On 31 January 2018, she provided the following information about her assets and liabilities:

- Inventory of frozen beverages on hand valued at $50 000.
- Simone Cooke owns an industrial blender valued at $200 000.
- A delivery van was bought at a total cost of $140 000 on 3 January, using a six-year, 20 per cent per annum loan of $60 000 from Optimum Beverage Financing Ltd.
- T. Farmer, who promised to supply some apples for the apple nectar blend, was paid $9 000 in advance.

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- Simone Cooke owns refrigerators valued at $95 000.
- Health Food Store was supplied with products, on credit, valued at $10 000. The company promised to settle in March 2018.
- Rent of $20 000 is outstanding for the month of January.
- Ultimate Muscle Builder Ltd owes Simone Cooke $15 000 for products used to host an exercise symposium.
- Simone Cooke holds $18 000 in her bank account and $8 000 in her cash register.

Additional Notes

- Interest charges on the loan from Optimum Beverage Financing Ltd have not yet been paid for the **month** of January 2018.

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- Simone Cooke has decided to depreciate the delivery van, using the straight line method of depreciation. She expects to get eight years of service from the van, at the end of which she anticipates she can sell it for $12 000. You are to account for the month of January depreciation.

Required

Using all the information provided above, prepare a classified Statement of Financial Position (Balance Sheet) for Simone Cooke, in vertical style, as at 31 January 2018. Use the order of permanence in classifying assets. **Show the working capital clearly**. Round off all workings to the nearest whole number.

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Total 20 marks

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NOTHING HAS BEEN OMITTED.

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2. P. Smith, a sole proprietor, presented the following list of selected account balances.

Balances as at 31 December 2017		
	$	**$**
Bank	1 750	Dr/Cr
Purchases	2 750	
Sales	12 500	
C. John	500	Dr
T. Chan	300	Cr
Discounts allowed	75	
Discounts received	150	

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(a) Using **pages 9 and 10** of your answer booklet, open the appropriate accounts for each account listed, and record the balances brought forward at 1 January 2018.

During the month of January 2018, the followng transactions were recorded for P. Smith.

2 January — A cheque for $460 was received from C. John in full settlement of his account. P. Smith gave him a discount for early settlement of the account.

3 January — P. Smith received an invoice for $950 from T. Chan for inventory bought on credit.

9 January — An invoice was prepared for C. John, totalling $600, for goods delivered on credit.

17 January — P. Smith issued a cheque for $1 100 to T. Chan. This was in full settlement of his account, as P. Smith was entitled to a discount from T. Chan for the 3 January transaction.

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25 January — P. Smith withdrew $900 from the bank for his own personal use.

31 January — P. Smith purchased a used car from VROOM Ltd for $30 000 on credit.

(7 marks)

(b) (i) Record the transactions given above for January, using the accounts previously opened for question 2(a). You may open any other account(s) you deem necessary for recording the given transactions. **(9 marks)**

(ii) Balance off, total and rule the Bank Account at the end of the month. **(2 marks)**

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(c) (i) Using the account of T. Chan, calculate the amount of the 17 January cheque which applied to the purchase of 3 January. **Show all working clearly.**

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(1 mark)

(ii) Calculate the percentage discount that P. Smith received with respect to the T. Chan's transaction on 3 January, and its subsequent settlement on 17 January. **Show all working clearly.**

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(1 mark)

Total 20 marks

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3. Ryan and Iana are partners sharing profits and losses in the ratio of 6:4 respectively. At the end of the financial year, 31 August 2017, the following selected balances were extracted from the books of the partnership after calculation of that year's gross income.

	Dr	Cr
Current Accounts		
Ryan	6 000	
Iana		9 000
Drawings		
Ryan	42 000	
Iana	30 000	
Capital Accounts		
Ryan		320 000
Iana		300 000
Inventory @ 31 August 2017	73 000	
Loan to the Partnership from Ryan		40 000
Non-Current Assets		
Cost Price	960 000	
Acc. Provision for Depreciation @ 1 September 2016		210 000
Operating Expenses	88 000	
Gross Income		327 000

Additional Information

- Closing inventory at 31 August 2017 had been understated by $5 000.
- Non-current assets are to be depreciated by 20% per annum, using the reducing balance method.
- Operating expenses, which were due and remain unpaid at 31 August 2017, totalled $6 000.
- The partnership agreement included the following terms:
  - Ryan is entitled to receive interest of 10% per annum on his loan to the business.
  - Iana is to receive a partnership salary of $36 000 per annum.
  - 3% interest on capital is to be paid to partners.
- Interest charged on drawings for the year: Ryan $4 800; Iana $3 400.

Required

(a) Prepare the Income Statement for the partnership for the year ended 31 August 2017, on the form provided **on page 13**, using the balances and the additional information provided. **(8 marks)**

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(b) Prepare the Appropriation Account for the partnership for the year ended 31 August 2017.

(7 marks)

(c) Prepare Iana's Current Account for the year ended 31 August 2017.

(5 marks)

Total 20 marks

4. (a) The Evergreen Golf Club offers life membership at an annual subscription fee of $3 600 per person. The following information is available for the Evergreen Golf Club for the year ended 31 March 2018.

Cash balance at 1 April 2017	1 750
Administrative expenses	12 775
For the annual social evening, 800 tickets were sold at a price of $250 each. However, payment has not yet been received for 30 tickets.	
Social evening costs	60 895
Ground maintenance	39 430
Staff costs	46 900
The club has a total of 120 members. Ten of them each had $600 outstanding in subscription fees at year end. The remaining members were all fully paid up for the year.	
Bar takings	54 600
Bar costs	28 300

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Required

Prepare, **on page 17**, the Receipts and Payments Account for the Evergreen Golf Club for the year ended 31 March 2018. **(13 marks)**

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(b) The following accounts information relates to selected transactions extracted from the ledger of Thomas Gray, a retailer, at the end of February 2018.

Receivables

2018				
Feb 28	Sales	$7 000		

S. Lake

			2018	
			Feb 12	Purchases $200

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Thomas Gray, Drawings

2018				
Feb 17	Purchases	$500		

Thomas Gray, Capital

			2018	
			Feb 26	Bank $2 000

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(i) Complete the form provided **on page 19** using the information provided. **The first row has been completed for you as an example.**

- In COLUMN A, give the name of the journal or day book from which the entry was posted.
- In COLUMN B, write a brief narration, to describe or explain what transaction took place.

Entry Date	Column A	Column B
	Name of Journal (Day Book) for Source of Entry	**Brief explanation of the transaction**
28 February	Sales Journal	A total of $7 000 worth of inventory was sold on credit for the month of February
12 February		
17 February		
26 February		

(6 marks)

(ii) Thomas Gray anticipates that 5% of his receivables in part (b) will prove uncollectable based on his account standing as at 28 February.

Calculate the amount that he is required to provide as Provision for Doubtful Debts at the end of February 2018.

(1 mark)

Total 20 marks

5. The following is an extract from the books of Freight Express Company Ltd taken on 31 December 2018.

Share capital issued: Ordinary shares at $1 8% preference shares at $2	 $150 000 $100 000
Retained profits for the year after taxation	$186 000
General reserve	$ 95 000
Retained profits from previous year	$124 000

The board of directors proposed the following:

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- $50 000 is to be transferred to General Reserve.
- Dividend of 20% proposed for ordinary shares.
- Preference shares dividend to be settled in full.

(a) In the space provided, draw up the Statement of Changes in Equity for Freight Express Company Ltd for the year ended 31 December 2018.

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(8 marks)

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(b) The authorized share capital of Freight Express Company Ltd is as follows.

250 000 ordinary shares at $1 each
100 000 eight per cent preference shares at $2 each

In the space provided below, use all relevant data previously given to prepare an extract of the Statement of Financial Position (Balance Sheet), to show only the equity section, for Freight Express Company Ltd as at 31 December 2018.

(8 marks)

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(c) Ratios for Freight Express Company Ltd and the industry averages for the year ended 31 December 2018 are as follows.

No.		Freight Express Co. Ltd	Industry Average
(i)	Net profit percentage	40%	36%
(ii)	Current ratio	3:2:1	2:1:1
(iii)	Return on capital employed	69%	62%

For EACH of the three ratios, compare the business' figure against the industry's average, by writing ONE comment on the performance of Freight Express Company Ltd. Assume all other factors are equal.

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(i) .....

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(ii) .....

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(iii) .....

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(iv) Regarding the current ratio position, make one recommendation to Freight Express Co. Ltd of an area for further investigation and/or imporvement.

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(4 marks)

Total 20 marks

END OF TEST

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