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CARIBBEAN EXAMINATIONS COUNCIL

SECONDARY EDUCATION CERTIFICATE EXAMINATION

PRINCIPLES OF ACCOUNTS

Paper 02 – General Proficiency

3 hours

18 MAY 2009 (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.**

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SECTION I

Answer the THREE questions in this section.

1. JD Ponting started a business selling computer storage devices. He provides the following list of transactions which occurred during January 2008.

January 1	Deposited $5 000 of personal savings in the bank.
1	Deposited $4 500 of a $5 000 credit union loan in the same account. The balance was kept for the office. The loan required a payment of 1% interest at the end of each month for the next three years.
2	Bought office desk and safe for $800, paying by cheque.
3	Paid $1 500 for rent for January by cheque.
5	Bought supplies for sale at a cost of $6 000 on credit from Technol Suppliers.
10	Cashed a cheque of $900 for office use.
12	Bought a second-hand van for $2 400, paid by cheque and spent a further $1 300 in repairs on the van. The mechanic accepted a cheque for the amount.
14	Credit sales to Carter Business Solutions amounted to $5 700. The terms agreed on were net 10% 10 days.
19	Miscellaneous business expenses of $550 were paid in cash.
22	Issued to Technol Suppliers a cheque for $5 600 in full payment of goods received on January 5.
24	Cash sales amounted to $4 900 of which $3 200 was banked.
26	Received a cheque in full settlement from Carter Business Solutions.
31	Drew $1 500 in cash for personal use. Paid the interest due on credit union loan in cash.
31	JD Ponting's closing stock totalled $360. The sales assistant has not yet been paid wages of $300.

From the information provided:

(a) Prepare JD Ponting's 3-column Cash Book for the month of January 2008. **(11 marks)**

(b) Prepare JD Ponting's Trading and Profit and Loss Account for the month of January 2008. **(9 marks)**

Total 20 marks

2. Stephen Peterson, an accounting student, prepared his father's final accounts. The following errors were discovered by the accounting technician who examined the accounts.

1. The sale of goods $2 500 on credit to K Martin had been entered in K Marteen's Account.

2. The purchase of goods for $1 575 cash was completely omitted from the books.

3. The purchase of a motor car for $5 000 had been entered in the Motor Expenses Account.

4. Discounts Allowed of $400 had been entered in error on the debit side of the Discounts Received Account.

5. The wages account was undercast by $430.

6. A receipt of cash from J Slows for $100 had been entered on the credit side of the Cash Book and the debit side of J Slows' Account.

(a) Prepare the journal entries necessary to correct the above errors.
(N.B. Narratives are required.) **(13 marks)**

(b) The Income Statement prepared by Stephen Peterson showed Net Income of $24 521. Prepare a statement showing the corrected Net Income for the business.
(7 marks)

Total 20 marks

3. On January 1, 2009, Akil Rampaul's Balance Sheet was as follows:

ASSETS	$	LIABILITIES	$
Plant and Machinery at net book value	20 400	Accrued Wages	940
Accounts Receivable	7 817	Accounts Payable	5 340
Cash	1 183	Capital	35 000
Furniture and fittings	10 840	Bank overdraft	4 120
Inventory	5 000		
Prepaid Insurance	160		
	45 400		45 400

During the first week, Rampaul recorded the following transactions:

1. Sold machinery with net book value of $2 000 for $1 200 cash and bought new machinery for $6 900, paying by cheque.

2. Collected $1 102 in cash from debtors.

3. The inventory was revalued to $4 300.

4. Insurance of $20, for one week was used up.

5. Creditors were paid $3 340 by cheque.

6. The outstanding wages were paid in cash.

7. Received a cheque for $13 000 from his brother, Asa, as loan to be repaid in two years.

Prepare for Akil Rampaul, a revised Balance Sheet as at February 7, 2009 to show the effects of the first week's transactions.

N.B. Your Balance Sheet must be classified and in vertical style and all workings must be clearly shown. (20 marks)

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SECTION II

Answer any TWO questions in this section.

4. On February 28, 2009, Parkinson extracts the following information from his ledger:

Accounts	$
Sales	34 540
Purchases	18 360
Inventory March 1, 2008	1 750
Inventory February 28, 2009	2 130

(a) Prepare the General Journal entries to close the following accounts to Parkinson's appropriate final account.

(i) Sales Account

(ii) Purchases Account

(iii) Inventory Account at March 1, 2008

(iv) Inventory Account at February 28, 2009 **(6 marks)**

(b) Parkinson provides the following additional information:

Date	Transaction	$
	Wages paid by cheque	12 530
	Insurance paid by cheque	1 420
	Commissions received by cheque	1 600
	Advertising paid by cheque	450
March 1, 2008	Accrued Wages	2 030
	Prepaid Insurance	450
	Commissions Receivable	280
	Prepaid Advertising	110
February 28, 2009	Accrued Wages	1 990
	Prepaid Insurance	310
	Commissions Receivable	390
	Advertising owing	70

From the information provided, prepare the following T-accounts showing clearly the amount to be shown in the Profit and Loss Account.

(i) Wages Expense Account

(ii) Insurance Expense Account

(iii) Commissions Revenue Account

(iv) Advertising Expense Account **(13 marks)**

(c) State the concept that is used to adjust expense and revenue accounts at the end of an accounting period. **(1 mark)**

Total 20 marks

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5. The following Trial Balance was extracted from the books of U L Dealers Company Limited as at April 30, 2008 after completion of the Trading Account.

	$	$
Gross Profit		146 450
Closing Stock	58 500	
Land	98 000	
Buildings	75 000	
Motor Vehicles	60 000	
Wages	16 000	
Provision for Bad Debts		920
Motor vehicle Expenses	10 500	
Discounts Allowed	4 300	
Debtors	29 500	
Provision for depreciation:		
Buildings		25 000
Motor Vehicles		35 000
Issued Share Capital:		
50 000 Ordinary shares at $2 each		100 000
45 000 6% Preference Shares at $1 each		45 000
Rent Expense	12 000	
Carriage Outwards	700	
8% Debentures 2012		15 000
Sundry Expenses	2 870	
	367 370	367 370

Additional information:

1. Rent has been prepaid by $1 500.

2. The company maintains a provision for bad and doubtful debts of 5% of total debtors.

3. Depreciation is provided as follows:

   Motor vehicles 10% per annum reducing balance
   Buildings 5% per annum straight line

4. Debenture interest for the current year is unpaid.

(a) Prepare the Profit and Loss Account for U L Dealers Company limited for the year ending April 30, 2008. **Use vertical format.** **(9 marks)**

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(b) UL Dealers Company Limited has provided the following information:

- Dividends are to be paid to the preference shareholders.
- $30 000 is to be transferred to the general reserves.
- A dividend of $0.75 is to be paid for every ordinary share held.

Using your Net Profile figure in (a) above, prepare the company's Appropriation Account. **(4 marks)**

(c) Prepare a Balance Sheet extract showing the Liabilities and Capital sections **only** for U L Dealers Company Limited as at April 30, 2008. **(7 marks)**

Total 20 marks

6. Lodenqui Mart and Buddai Mart both trade in ladies' and children's clothing. Their financial statements at December 31, 2008 show the following:

	Lodenqui Mart	**Buddai Mart**
	$	**$**
Fixed Assets	30 700	40 500
Current Assets		
Inventory	70 000	90 000
Debtors	35 000	42 000
Bank	4 300	
Cash	3 000	2 000
	143 000	174 500
Current Liabilities		
Creditors	33 000	78 400
Bank overdraft		30 000
Capital	84 300	33 800
Net profit	25 700	32 300
	143 000	174 500
Additional Information		
Opening Inventory	63 000	77 000
Total Sales	250 000	305 000
Total Purchases	80 000	150 000

(a) Calculate the following ratios for both businesses:

(i) Current Ratio

(ii) Acid Test Ratio

(iii) Inventory (Stock) Turnover

(iv) Profit margin **(10 marks)**

(b) Identify TWO ratios from the list in (a) above, that can be used to assess the profitability of the businesses. **(2 marks)**

(c) Identify TWO ratios from the list in (a) above, that can be used to assess the ability of the businesses to pay their debts. **(2 marks)**

(d) Identify ONE ratio from the list in (a) above, that **best** tests the liquidity of the businesses. **(1 mark)**

(e) State which business is more profitable, using the appropriate ratio(s) to support your argument. **(2 marks)**

(f) State which business is in a better financial position, using the appropriate ratio(s) to support your argument. **(3 marks)**

Total 20 marks

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7. The Pig Farmers' Co-operative has a membership of 100 farmers. Each member has 15 000 shares at a price of $1 per share. The balances on the books of the co-operative on September 30, 2008 were as follows:

	$
Debtors	145 000
Inventory of feeding supplies	65 900
Net book value of equipment	200 000
Unpaid amounts:	
Mortgage interest	10 000
Rent	4 000
Telephone	350
Members dividend	105 000
Provision for bad debts	1 550
Long-term investments in other co-operatives	400 000
Interest on investments outstanding	8 000
Net book value of motor vehicles	130 500
Farm land and buildings	800 000
Mortgage	70 000
Cash	4 000
Bank	32 500
Creditors	65 000
General reserve	30 000

(a) Prepare the classified Balance Sheet, **in vertical style**, of the Pig Farmers' Co-operative as at September 30, 2008. **(17 marks)**

(b) (i) Identify the information that should be used to determine whether the co-operative is in a position to meet its current liabilities. **(1 mark)**

(ii) Determine the rate at which dividend is paid, assuming that the dividend owing is for one year. **(2 marks)**

Total 20 marks

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