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CARIBBEAN EXAMINATIONS COUNCIL

SECONDARY EDUCATION CERTIFICATE EXAMINATION

PRINCIPLES OF ACCOUNTS

Paper 02 – General Proficiency

3 hours

17 MAY 2010 (a.m.)

1. **Answer ALL 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 workings should be clearly shown.**

5. **EACH question is worth 20 marks.**

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SECTION I

Answer ALL the questions in this section.

1. Below is a list of balances for Peter Jones, a sole trader.

	$
Inventories	75 000
Accruals	8 000
Fixtures and Fittings	30 000
Bank	38 000
Capital	339 000
Loan (repayable April 2010)	5 000
Debtors	70 000
Mortgage (repayable 2015)	145 000
Land and Building	250 000
Cash	15 000
Creditors	41 000
Motor vehicles	60 000

(a) (i) Prepare Peter Jones' classified Balance Sheet as at March 31, 2010, using the order of permanence. **(10 marks)**

(ii) Identify the most liquid current asset of the business. **(1 mark)**

(b) The following transactions which occurred during the year were not recorded by Mr Jones.

1. Paid rent of $3 000 by cheque.

2. The proprietor paid $600 from the cash account for insurance on his son′s car.

3. The business received $5 000 by cheque as commission.

4. Repaid part of creditors $6 000 by cheque.

5. Exchanged a portion of land in settlement of mortgage of $145 000.

6. Mr Jones sold inventory costing $5 000 to a friend for $4 500 cash.

(i) **On the work sheet provided**, show the effect of the above transactions on the accounts. **The first transaction has been done for you.** **(7 marks)**

(ii) Calculate the new balance in the Bank Account. **(2 marks)**

2. (a) Angel and Karissa are in partnership, sharing profits and losses in the ratio 3:2. Interest on drawings is charged at the rate of 5% per annum and interest on capital is 10% per annum. Angel and Karissa receive salaries of $15 000 and $8 000 respectively. Some of the Current Account entries for the partners for the period ended December 31, 2009 are set out below.

Angel and Karissa

Current Accounts

	Angel $	**Karissa $**		**Angel $**	**Karissa $**
Balance b/d		1 700	Balance b/d	3 000	
Drawings	14 000	18 000	Interest on capital	2 500	3 500
			Salary	15 000	8 000
			Share of profit	12 300	8 200

Copy the account above in your answer booklet.

(i) Calculate and enter the interest on drawings to be charged to EACH partner. **(3 marks)**

(ii) Balance the Current Accounts of the partners. **(Show workings.)** **(2 marks)**

(iii) State the significance of BOTH balances brought down as at December 31, 2009. **(2 marks)**

(iv) State ONE possible reason why Angel and Karissa earn different salaries. **(1 mark)**

(b) From the information in your Current Accounts, prepare the Appropriation of Profits Account for Angel and Karissa for the year ended December 31, 2009, showing clearly the net profit of the partnership. **(10 marks)**

(c) Calculate the capital invested by EACH partner. **(Show workings.)** **(2 marks)**

GO ON TO THE NEXT PAGE

3. (a) Khalel, the owner of Khalel's Gardening Centre, kept only single entries of his transactions. On January 31, 2010, he provided his bank manager with the following information but could not answer a number of questions.

	February 01, 2009 $	**January 31, 2010 $**
Property at cost	40 000	40 000
Motor van value at year end	9 000	7 000
Inventory	4 000	5 600
Accounts receivable (debtors)	1 475	2 300
Accounts payable (creditors)	925	850
Cash	1 240	2 360
Prepaid water rates	400	500
Electricity owing	210	110

The bank manager gave several reasons why this method was not very helpful. He also advised Khalel about using different methods to convert his records to double entry records.

(i) State TWO limitations of single entry records. **(2 marks)**

(ii) Prepare a Statement of Affairs as at February 01, 2009, to convert Khalel's Gardening Centre's single entry records. **(5 marks)**

(b) Khalel also provided the following information:

1. All sales were made on credit. Debtors paid $32 600 by cheque during the year. The account of one debtor for $75 had been written off as bad debt.

2. All purchases totalling $17 455 were made on credit.

3. In addition to other liabilities, Khalel borrowed $2 000 from his sister on February 01, 2009. This is to be paid by June 30, 2010. The interest rate was 5% per annum, but neither the loan nor the interest due had been recorded.

4. All other expenses (including water rates and electricity) totalled $6 115 for the year.

(i) Prepare a Sales Total (Control) Account for Khalel's Gardening Centre to calculate the total Credit Sales for the period ended January 31, 2010.

(3 marks)

(ii) Prepare an Income Statement for Khalel's Gardening Centre for the year ended January 31, 2010. **(9 marks)**

(iii) In which classification section of the Balance Sheet should Khalel record the loan from his sister?

(1 mark)

SECTION II

Answer any TWO questions in this section.

4. Cancun Guest House Limited rents comfortable rooms and serves breakfast to its guests. The company was started through the issue of the following:

100 000 $1 Ordinary Shares at one dollar ($1) each

5 000 10% Preference Shares at two dollars ($2) each and

200 6% Debentures at $200 each.

The following information was provided for the year ended November 30, 2009.

	$
Net Profit for the year	83 520
Stock of breakfast supplies	5 000
Stock of sheets, towels etc. at cost (purchased December 01, 2008)	22 000
Accounts payable	13 430
Property and tools at cost	365 000
Provision for depreciation – Property and tools (at 1 Dec. 2008)	109 500
Petty cash	1 200
Bank	20 480
General reserve	8 000
Retained earnings (Dec. 2008)	13 830

Additional information:

1. Depreciation on property and tools for the year – $22 000.

2. The stock of sheets, towels and similar items are depreciated over two years before they are replaced.

3. Debenture interest remains outstanding.

4. The directors have recommended the following:

   – Transfer of $15 000 to the General Reserve
   – Full dividend on all Preference Shares
   – 50% dividend on Ordinary Shares

(a) Prepare the Appropriation Account of the company for the year ended November 30, 2009. **(Show all workings)** **(7 marks)**

(b) Prepare a classified Balance Sheet as at November 30, 2009, for Cancun Guest House Limited. **(13 marks)**

5. Jeans and Things is a medium-sized factory which makes teens' clothing. At the end of the accounting year, December 31, 2009, the following information was available.

	$
Stocks at January 01, 2009:	
Raw materials	33 500
Work in progress	7 300
Finished goods	82 770
Rent and rates	12 300
Machinery at cost	500 000
Administrative expenses	25 230
Factory wages	135 000
Factory salaries	72 500
Selling and distribution expenses	43 820
Purchases of raw materials	247 330
Carriage inwards on raw materials	1 500
Returns outwards	3 000
Carriage outwards	1 000
Factory insurance	15 000
Sales	725 650
Stocks at December 31, 2009:	
Raw materials	13 220
Work in progress	6 900
Finished goods	95 240

The following additional information was provided:

1. Machinery is to be depreciated at 25% per annum.

2. Rent and rates are to be shared equally between factory and office.

3. Factory insurance is prepaid to March 2010. Monthly premium is $1 000.

(a) Prepare a Manufacturing Account for the year ended December 31, 2009, showing clearly:

- The cost of raw materials consumed
- The prime cost
- Factory overheads **(13 marks)**

(b) Prepare the Income Statement for the year ended December 31, 2009. **(7 marks)**

6. Joe Mukram owns and operates a tyre shop in Fast Town. During the month of October 2009 he recorded the following information:

Date	Transaction	Value
October 01	Opening Balance	150 @ $25
October 10	Purchased	200 @ $27
October 15	Sold	230 @ $50
October 21	Purchased	500 @ $30
October 26	Sold	400 @ $50
October 31	Sold	120 @ $55

(a) **Using the stock form provided**, determine the value of the tyres remaining in stock at October 31, 2009. Joe Mukram uses the LIFO method of stock valuation.

(13 marks)

(b) Prepare a Trading Account for the month ending October 31, 2009. **(7 marks)**

7. (a) (i) Identify ONE **internal** user of accounting information and state how this information is used by that user. **(2 marks)**

(ii) Identify ONE **external** user of accounting information and state how this information is used by that user. **(2 marks)**

(b) Identify the type of business organisation described in EACH situation below:

(i) Several employees are employed in a large organisation owned by a single person.

(ii) Three brothers operating a business where the action of one brother is binding on the other two brothers.

(iii) Shareholders cannot sell their shares in the company on the stock market.

(iv) Groups of consumers or producers form an organisation to provide services to its members.

(v) An organisation, operated by members, to provide services to members and is often financed by donations, fund-raising and subscriptions. **(5 marks)**

(c) Each of the transactions below violates an accounting concept or principle. State the concept or principle that is being violated.

(i) Credit sales made in March of 2010 were not recorded until the money was received in May 2010.

(ii) Due to the bankruptcy of Mr Dragon, a debtor, the business is likely to lose $20 000. Management refuses to write off this amount as a bad debt or to create a provision for bad debts.

(iii) In order to report higher profits for the financial year, management has changed from the straight line method of depreciation to the reducing balance method.

(iv) Mr Lumberjack paid the insurance for his private house and recorded it as a business expense. **(4 marks)**

(d) Draw a labelled diagram of the six (6) stages of the accounting cycle. **(7 marks)**

END OF TEST

Candidate No: _____ **Centre No:** _____

Worksheet for Question 1. (b)

Transaction	Accounts Affected	Account(s) to be Increased	Account(s) to be Decreased
1	Bank Rent	Rent	Bank
2			
3			
4			
5			
6			

TO BE ATTACHED TO YOUR ANSWER BOOKLET

Candidate No: _____ **Centre No:** _____

Answer Sheet for Question 6 (a).

Joe Mukram
Stock Form (LIFO method)

Date	Purchases		Sales		Balance		
	Quantity	Cost Price ($)	Quantity	Sales Price (4)	Quantity	Cost Price ($)	Value ($)

TO BE ATTACHED TO YOUR ANSWER BOOKLET