FORM TP 2018025

TEST CODE 01239020

JANUARY 2018

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

PRINCIPLES OF ACCOUNTS

Paper 02 – General Proficiency

3 hours

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of FIVE questions. Answer ALL questions.
2. Write your answers in the spaces provided in this booklet.
3. Do NOT write in the margins.
4. Show ALL working clearly.
5. You may use a silent, non-programmable calculator to answer questions.
6. You are advised to take some time to read through the paper and plan your answers.
7. 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.**
8. **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.**

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

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Answer ALL questions.

Write your answers in the spaces provided in this booklet.

1. The following is a list of balances extracted from the ledger accounts of Best Bake, a small pastry shop, at its year end, 31 December 2017.

	$
Inventories	25 000
Accounts payable	54 500
Buildings at book value	250 000
Loan payable 2018	35 000
Accounts receivable	22 000
Motor vehicles at book value	89 000
Bank	17 000
Prepaid expenses	4 000
Machinery at book value	120 000
Cash at hand	8 000
Capital	?
Wages owing	2 500
Bank loan (2025)	275 000

(a) Prepare a Classified Statement of Financial Position (Balance Sheet) for the year ended 31 December 2017, using the order of liquidity.

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(10 marks)

(b) In the table below, state the effect of the following transactions on the balance sheet equation. (Transaction (i) is done for you as an example.)

(i) The owner deposited an additional $7 000 into the business bank account.

(ii) The owner paid accounts payable of $500 from his personal savings.

(iii) The owner took goods valued at $400 for his personal use.

(iv) The owner bought stationery on credit from Paper Plus Limited costing $1 200.

	Assets	Liabilities	Capital
(i)	**Increase**		**Increase**
(ii)			
(iii)			
(iv)			

(4 marks)

(c) The following transactions for the business took place in May. Using the form **on page 7**, prepare the cash account and balance the account at the end of the month.

1-May Transferred $6 000 from the business bank account into a cash account

7-May Paid rent of $1 200 by cash

9-May Made sales of $4 800

12-May Received cash from an accounts receivable of $3 000

16-May Deposited $1 400 cash into the business bank account

26-May Brought office supplies for $800 in cash

29-May Paid wages of $5 000 by cash

CASH ACCOUNT

Date	Particulars	$	Date	Particulars	$

(6 marks)
Total 20 marks

2. Factory workers at the Sharp-Brake Ltd are paid $40 an hour, Monday to Friday, and time and a half on weekend days. The time card below shows the number of hours worked by each employee during a given week.

	U. Marsh	I. Stop	D. Park	H. Drive
Sunday	4	4	4	3
Monday	8	8	8	8
Tuesday	7	7	7	6
Wednesday		7	8	8
Thursday	8		7	7
Friday	6	6	8	8
Saturday		4	4	4

Deductions include the following:

National insurance: 5% of gross pay
Contribution to pension fund: 3% of gross pay
Income tax: 25% of pay after deducting national insurance and pension fund contributions

(a) (i) Complete the form below by inserting the information for the four employees.

Employee	Hours Worked (Monday–Friday)	Total Pay (Monday–Friday) $	Hours Worked (Saturday and Sunday)	Total Pay (Saturday and Sunday) $	Gross Pay $
U. Marsh					
I. Stop					
D. Park					
H. Drive					

(5 marks)

(ii) Prepare the payroll for the four employees.

Employee	Gross Pay $	NI Deductions (5%) $	Pension Deduction (3%) $	Taxable Income $	Income Tax (25%) $	Net Pay $
U. Marsh						
I. Stop						
D. Park						
H. Drive						

(6 marks)

(b) (i) State ONE example of a statutory deduction.

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(1 mark)

(ii) Define the term bonus.

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(2 marks)

(c) Two former factory employees, Parris and London, created a partnership. They agreed to

- charge 10% interest on drawings and capital
- share any remaining profits equally.

The table below shows the incomplete current accounts for the year ended 31 December 2017 in which the partnership earned a net income of $30 000.

Details	Parris	London	Details	Parris	London
Balance b/d		800	Balance b/d		12 000
Drawing	18 000	1 100	Interest on capital	2 000	3 000

Required:

Draw up the Appropriation Account for the partnership of Parris and London for the year ended 31 December 2017.

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(6 marks)

Total 20 marks

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3. Fire destroyed the records of Sweet Serve Company. You were able to ascertain the following records for the period up to the fire:

Sales	$200 000
Purchases	$125 000
Beginning inventory	$ 40 000
Gross profit margin	30%

(a) Prepare a trading account for the Sweet Serve Company for the period, showing clearly inventories, cost of goods sold and gross profit.

Sweet Serve Company
Trading account for the period just ended

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(4 marks)

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(b) The following is a summary of Sweet Serve's bank account for the year ended 31 December 2017.

Bank Account

Bal b/d	20 000	Purchases	120 000
Sales	220 000	Insurance	45 000
Rent received	24 000	Sundry expenses	60 000
Drawings	15 000		
Bal c/d	24 000		
	264 000		264 000
Bal b/d	24 000		

The following additional information is also available:

	31/12/2016	31/12/2017
Rent revenue outstanding	2 000	1 000
Insurance expense owing	1 500	700

Using the T-account format, prepare the following accounts for Sweet Serve for the year ending December 31 2017.

(i) Rent Revenue a/c

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(5 marks)

(ii) Insurance Expense a/c

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(5 marks)

(c) A company started business on 1 January 2015 and decided to maintain a provision for bad debts of 4% of its year-end accounts receivable. Accounts receivable for the first three years of operations were as follows:

		$
31 December 2015	Accounts Receivable	72 000
31 December 2016	Accounts Receivable	84 000
31 December 2017	Accounts Receivable	80 000

Prepare the company's Provision for Bad Debts Account for the three years, 2015–2017.

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(6 marks)

Total 20 marks

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4. Green Land Ltd specializes in the production of fruits and vegetables. The company has plans to purchase an additional ten acres of land. The authorized share capital of the company was

1 000 000 ordinary shares @ $1 each	$1 000 000
500 000 5% preference shares @ $2 each	$1 000 000

In order to raise the funds on 1 January 2017 the company made an issue of: 200 000 ordinary shares at $1.50 each, and $100 000 in 2% debentures.

All the shares and debentures were fully subscribed.

(a) Prepare journal entries to record the issue of the shares and debentures on 1 January 2017. (Narratives are not required.)

Journal Entries

Details	Dr	Cr

(5 marks)

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(b) At the end of the first half of the company's business year, the accountant provided you with the following balances.

	$
Retained profits	150 000
Ordinary shares @ $1 each	300 000
5% preference shares	50 000
General reserve	30 000
2% debentures	100 000
Share premium	125 000
Net income	140 000

The accountant informs you that debenture interest had not been included in calculating net income.

The board of directors has recommended the following appropriation of profits:

(i) $20 000 to be transferred to general reserve

(ii) $50 000 to be transferred to a fixed assets replacement reserve

(iii) An ordinary dividend of $0.05 per share to be paid

(iv) Payment of the preference dividend

Prepare a statement to show the appropriation of profits for the six months ending 30 June 2017.

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(9 marks)

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(c) Prepare the capital reserve section of Green Land's Statement of Financial Position (Balance Sheet) as at 30 June 2017.

Green Land Ltd
Balance Sheet (extract) as at 30 June 2017

(6 marks)

Total 20 marks

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NOTHING HAS BEEN OMITTED.

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5. The Rose Hall Golf Club has been in existence for several years. Members pay an annual subscription which entitles them to use the facility for the year. The following is the receipt and payment account for the year ended 31 December 2017.

Rose Hall Golf Club
Receipt and Payment Account
For the year ended 31 December 2017

	$		$
Balance b/f	15 000	Rent and rates	3 500
Donations	3 500	Extension to clubhouse	4 000
Members' subscriptions	12 000	Secretarial expenses	5 000
Sales of competition tickets	1 300	Suppliers for competition prizes	500
Visitors' fee	600	Stationery	3 500
		Equipment purchase	6 000
		Refreshments for competition	200
		Repairs	5 600
		Bal c/f	4 100
	32 400		32 400

The following information is also available.

	1 Jan 17	31 Dec 17
Subscriptions in advance	1 500	800
Subscriptions in arrears	1 800	1 200
Equipment	15 200	19 600
Inventory of competition prizes	300	200
Amount owing to suppliers of competition prizes	150	50

(a) Prepare a Statement of Affairs for the club as at 1 January 2017.

(5 marks)

(b) Using the T-account format, prepare the Subscriptions Account for the year ended 31 December 2017.

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(6 marks)

(c) Prepare a statement showing the profit or loss made on the competition taking account of the following:

(i) The cost of prizes totalled $400.

(ii) The secretary spent 5% of her time organizing the competition.

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(9 marks)

Total 20 marks

END OF TEST

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