FORM TP 2014025

TEST CODE **01239020**

JANUARY 2014

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

PRINCIPLES OF ACCOUNTS

Paper 02 – General Proficiency

3 hours

07 JANUARY 2014 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

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. You may use a silent, non-programmable calculator to answer questions.
5. EACH question is worth 20 marks.

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

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SECTION I

Answer the THREE questions in this section.

1. Isa is a sole proprietorship trading in hair products and accessories. For the year ended 30 April 2013, the following transaction reports on Isa's business were provided.

	$
Gross Income	68 540
Fixtures and fittings	9 000
Provision for depreciation on fixtures and fittings	1 800
Delivery van	12 000
Provision for depreciation on delivery van	2 360
Receivables (Debtors)	3 200
Provision for Doubtful Accounts	500
Equipment	10 740
Cash	300
Bank	5 880
Discounts received	3 120
Payables (Creditors)	7 700
Rent paid	6 500
Wages and salaries	18 000
Utilities	9 500

NOTES:

- Inventories at 30 April 2013 were valued at $6 590.
- A Provision for Doubtful Accounts of 10% of outstanding receivables is to be allowed.
- Depreciation is to be provided for as follows:
  - Fixtures & fittings – 10% by the straight line method
  - Delivery van – 20% by the reducing balance method
- Annual rental costs $6 000.
- $200 was due for utilities.

(a) Prepare Isa's Income Statement (Profit and Loss Account) for the year ended 30 April 2013. **(14 marks)**

(b) Calculate the total value of Isa's Current Assets as at 30 April 2013. **Show all working clearly.** **(5 marks)**

(c) Calculate the monthly rental amount. **(1 mark)**

Total 20 marks

2. Go-Low Ltd took inventory for the year ended 31 December 2013. The total of the ending inventory was $65 400 before the following errors were discovered:

- One inventory sheet was overstated by $250.
- An inventory sheet total of $4 657 was transferred to the summary sheet as $4 567.
- Free samples sent to the company by a supplier were included in the inventory at a cost of $75.
- Inventory costing $400 purchased from a supplier on 27 December 2013 was not included in the count.

(a) Prepare a statement showing the correct inventory figure for the year ended 31 December 2013. Show clearly the effect of EACH item in the statement. **(6 marks)**

(b) Go-Low Ltd uses the last in first out (LIFO) method of stock valuation. You are provided with the following information about one of the items in the inventory for the month of December 2013.

Dec 1	Beginning inventory	100 units @ $3 each	
	Purchases		**Sales**
Dec 2	250@ $3.50 each	Dec 5	200 @ $5 each
Dec 15	100 @ $4 each	Dec 17	175 @ $6 each

Complete the stock valuation worksheet, **provided as an insert**, to calculate the value of the ending inventory for Go-Low Ltd using the LIFO method. **(13 marks)**

(c) Would the value of ending inventory be higher or lower, if Go-Low had used the first in first out (FIFO) method? **(1 mark)**

Total 20 marks

3. Jack and Genny have been in partnership for several years producing and selling a variety of items. The following balances were extracted from the books of the partnership for the year ended 31 December 2013.

	Jack **$**	**Genny** **$**
Capital Accounts	80 000	70 000
Current Accounts	(500)	2 100
Drawings	6 000	4 000

Net profit for the year is $39 350.

Information from the partnership agreement included:

– Profits and losses are to be shared 3:2 to Jack and Genny respectively.

– Genny is to receive a salary of $12 000 per annum.

– Interest on capital is to be paid at a rate of 5% per annum.

– Interest on drawings is to be charged at a rate of 10% per annum.

- Jack withdrew cash (drawings of $6 000) on 1 April 2013.
- Genny withdrew cash (drawings of $4 000) on 1 July 2013.

(a) Prepare the Profit and Loss Appropriation Account of Jack and Genny for the year ended 31 December 2013. **(10 marks)**

(b) Prepare the partners' Current Accounts on 31 December 2013. **(8 marks)**

(c) What is Jack's net worth at 31 December 2013? **(2 marks)**

Total 20 marks

SECTION II

Answer any TWO questions from this section.

4. Mary Jane owns a small fleet of vehicles which she makes available to the general public for hire. On 1 January 2011, her limousine which originally cost $90 000 had an accumulated depreciation of $9 000.

Mary Jane provides for depreciation using the **reducing balance** method at a rate of 10% per annum.

(a) (i) Calculate the depreciation expense to be charged for EACH of the TWO years ending 31 December 2011 and 31 December 2012. **(4 marks)**

(ii) Draw up the Provision for Depreciation Account for the TWO years. **(5 marks)**

(iii) Prepare the Fixed Assets section of the balance sheet for the limousine as at 31 December 2011. **(4 marks)**

(b) Under which heading in the balance sheet would "Prepaid Rental Revenue" appear? **(1 mark)**

(c) Steve Treft, who owed Mary Jane $6 000 for services received, was declared bankrupt by the court. On 31 December 2012, Steve Treft sent a cheque in full settlement of his account which showed a payment of $0.25 on every dollar of debt he owes.

Draw up Steve Treft's account. **(6 marks)**

Total 20 marks

5. (a) Five Jam Producers set out a list of costs, **shown on the insert provided**. Classify EACH cost item as **either** Manufacturing Account **or** Income Statement. For EACH item classified as Manufacturing Account, indicate whether it is a Direct or Indirect cost. Item *No. 0* has been done for you as an *example*. **(7 marks)**

(b) Blings & Tings Manufacturing provided the following list of balances for the year ended 30 November 2013:

	$
Carriage In on raw materials	2 000
Carriage out	800
Direct wages	60 000
Rent	36 000
Inventories at 1 December 2012: Raw materials Finished goods Work-in-progress	20 000 44 600 16 000
Purchases of raw materials	50 000
Returns in	900
Returns out	1 200
Sales	250 000
Factory overheads	14 800
Closing Inventories at 30 November 2013: Raw materials Finished goods Work-in-progress	11 700 10 200 3 000

NOTE: One-fifth of the rented premises is used as office space and the remaining four-fifths of the rented premises is utilized for actual manufacturing processes.

Prepare Statements of Manufacturing Costs for Blings & Tings Manufacturing for the year ended 30 November 2013 showing clearly the following:

(i) Cost of Raw Materials Consumed **(5 marks)**

(ii) Prime Cost **(3 marks)**

(iii) Cost of Production **(5 marks)**

Total 20 marks

6. The treasurer of The West District Windball Cricket Club produced the following Receipts and Payments Account for the year ended 31 December 2013.

West District Windball Club
Receipts and Payments Account
For the year ended 31 December 2013

	$		$
Balance b/f	4 200	Rent on premises	5 000
Members' subscriptions	10 360	Snack bar purchases	7 150
Donations	500	Secretarial expenses	2 500
Snack bar takings	13 440	Uniform expenses	3 300
		Repairs to equipment	750
		Purchases of new equipment	5 000
		Other expenses	1 930
		Balance c/f	2 870
	28 500		28 500

The following information is also available.

	1 January 2013	31 December 2013
	$	$
Subscription in arrears	250	280
Subscription in advance	190	—
Snack bar inventories	3 260	3 740
Equipment valuation	17 500	20 200

(a) Prepare the Subscription Account for the year ended 31 December 2013. **(6 marks)**

(b) Prepare the Snack Bar Trading Account for the year ended 31 December 2013. **(4 marks)**

(c) Prepare the Club's Income and Expenditure Account for the year ended 31 December 2013. **(10 marks)**

Total 20 marks

7. (a) (i) On the accounting cycle flow chart, **provided as an insert**, fill in the steps given below in the correct sequence.

- Extract a trial balance
- Adjusting and closing entries
- Source documents
- Journalize
- Preparation of financial statements
- Post to ledgers **(3 marks)**

(ii) State ONE purpose for EACH of the following steps in the accounting cycle:

- Trial balance
- Source documents **(2 marks)**

(b) On 1 June 2013, Designers Inc. decided to issue the following:

- 180 000 Ordinary Shares at a value of $1.00 each
- 64 000 7% Preference Shares at a value at $2.00 each

All shares were fully subscribed.

Prepare the journal entries to record the issue of shares. **(8 marks)**

(c) Designers Inc. realized a profit for the year of $48 500 from revenues of $176 450 for the year.

(i) Calculate the Profit Percentage for Designers Inc. **Round off answers to the nearest whole number. Show formula working**. **(3 marks)**

(ii) Calculate the Return on Investment for Designers Inc. **Round off answers to the nearest whole number. Show formula working**. **(3 marks)**

(iii) Briefly comment on the profitability of Designers Inc. **(1 mark)**

Total 20 marks

END OF TEST

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

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Question 2. (b)

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Stock Valuation Worksheet

Date	Purchases			Sales			Balance		
	Units	**Cost $**	**Valuation $**	**Units**	**Cost $**	**Valuation $**	**Units**	**Cost $**	**Valuation $**
Dec 1							100	3.00	300.00

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Question 5. (a)

FIVE JAM PRODUCERS

Item *No. 0* has been done for you as an *example*.

No.	Cost Item	Manufacturing Account		Income Statement
		Direct Cost	Indirect Cost	
0	*Factory office expense (Example)*		√	
1	Factory overheads			
2	Wages of Sales Assistant			
3	Selling and distribution expenses			
4	Wages of Production worker			
5	Depreciation of factory equipment			
6	Purchase of raw materials			
7	Design cost per bottle			
8	Mortgage interest			
9	Administration costs			
10	Cost of bottles purchased			

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Question 7. (a) (i)

THE ACCOUNTING CYCLE

