CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

06 JANUARY 2017 (a.m.)

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FILL IN ALL THE INFORMATION REQUESTED CLEARLY IN CAPITAL LETTERS.

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SUBJECT PRINCIPLES OF ACCOUNTS – Paper 02

PROFICIENCY GENERAL

REGISTRATION NUMBER | | | | | | | | | | |

SCHOOL/CENTRE NUMBER					

NAME OF SCHOOL/CENTRE

CANDIDATE'S FULL NAME (FIRST, MIDDLE, LAST)

DATE OF BIRTH | D | D | M | M | Y | Y | Y | Y |

SIGNATURE _____

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JANUARY 2017

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

PRINCIPLES OF ACCOUNTS

Paper 02 – General Proficiency

3 hours

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. Answer ALL questions in Section I and TWO questions from Section II.
2. Write your answers in the spaces provided in this answer 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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SECTION I

Answer the THREE questions in this section.

Write your answers in the spaces provided in this booklet.

1. On 1 March 2015, Chris and Vern decided to form a partnership to make and deliver fresh salads to offices and households. Chris contributed $80 000 cash and a motor vehicle which was valued at $20 000. Vern contributed $45 000 in cash and $25 000 in equipment.

(a) Prepare the journal entry to show the formation of the partnership of Chris and Vern.

Date	Details	Debit ($)	Credit ($)

(7 marks)

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In their first year of operation, Chris and Vern made a net profit of $40 100. The partnership agreement showed that Chris and Vern planned to take salaries of $12 000 each, pay interest on capital at a rate of 10% and charge for drawings at a rate of 5%. During the year, Chris withdrew $24 000 in cash. The remainder of profits or losses was to be shared in the ratio 2:1 between Chris and Vern, respectively.

(b) Prepare the Profit and Loss Appropriation Account for the end of the first year for Chris and Vern.

(9 marks)

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(c) Prepare the columnar Current Account of Chris and Vern as at 28 February 2016.

(4 marks)

Total 20 marks

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NOTHING HAS BEEN OMITTED.

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2. Mhalal and Jack operate a business trading in bicycle tyres. They disagree on the inventory valuation that should be used. Mhalal only knows the FIFO method and he insists that FIFO should be used to determine the value of the ending inventory for the three months ended 31 March 2016.

(a) Jack prefers the LIFO method of inventory valuation. Explain to Mhalal, in ONE sentence, how LIFO differs from the FIFO method.

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(1 mark)

The following information is presented to you by Mhalal and Jack.

2016		Units	Cost Price Per Unit $
1 January	Beginning inventory	100	20
17 January	Purchased	200	22
29 January	Sold	240	40
12 February	Purchased	400	25
1 March	Sold	260	42
10 March	Purchased	130	26
31 March	Sold	250	45

(b) Complete the inventory form provided **on pages 9 and 10**, using the FIFO method, and in the space below state the value of inventory as at 31 March 2016.

(11 marks)

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MHALAL AND JACK INVENTORY VALUATION FORM

Date	Purchases			Sales			Balance		
	Units	Cost Price ($)	Total Value ($)	Units	Selling Price ($)	Total Value ($)	Units	Cost Price ($)	Total Value ($)

GO ON TO THE NEXT PAGE

MHALAL AND JACK INVENTORY VALUATION FORM

Date	Purchases			Sales			Balance		
	Units	Cost Price ($)	Total Value ($)	Units	Selling Price ($)	Total Value ($)	Units	Cost Price ($)	Total Value ($)

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(c) Using the information from the inventory form, prepare the Trading Account for Mhalal and Jack for the three months ended 31 March 2016.

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(7 marks)

(d) Describe, in ONE sentence, the effect on cost of goods sold and gross profit if Mhalal and Jack had used the LIFO method which gives a lower valuation for closing inventory.

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(1 mark)

Total 20 marks

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3. Stress Ease Enterprises provides a service called "Client Rescue" to its clients by collecting them from locations where their vehicles are stalled and delivering them to their destinations. The firm owns two vehicles worth $210 000 in total.

The following information is provided for Stress Ease for the year ended 31 March 2016.

(i) Forty-three hundred (4 300) clients pay a retainer fee of $100 per year.

(ii) There is a charge of $35 per kilometre for "Client Rescue".

Quarter	Kms
1	1 923
2	2 680
3	3 175
4	1 848

Stress Ease Enterprises incurred the following costs during the same year.

Driver's salaries	$160 600
Fuel	$198 500
Vehicle usage costs	$ 27 430
Depreciation on vehicles	30% straight line method

(a) Prepare Stress Ease Enterprises' Income Statement for the year ended 31 March 2016.

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(9 marks)

(b) For the month ended 30 April 2016, Stress Ease Enterprises recorded the following cash and bank transactions.

2016 April		$
1	Balance at Bank Cash	3 570 1 140
3	Insurance payment made by cheque	2 500
5	Client Rescue fees received in cash of which $25 000 was sent immediately to the bank	25 690
6	Petty cashier withdraws cash from cash in hand	130
7	Purchases of spare parts paid by cheque	10 470
8	Engine repair paid by cheque	5 000
9	Owner withdrew cash from bank for house rent	8 000
10	Client Rescue fees received in cash	31 110
11	Deposited cash in bank	30 000
15	Payment to Creditor — J. Davis by cheque after discount of 10%	9 900
18	Client Rescue fees paid for by credit card — clients were refunded $200 in cash	19 200
23	Cleaning materials paid in cash	370
25	Client Rescue fees deposited immediately in bank account	6 840
30	Wages paid by cheque	14 500

Using the form provided **on pages 15 and 16**, prepare the Cash Book of Stress Ease Enterprises for the month ended 30 April 2016. **(11 marks)**

Total 20 marks

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Date	Details	Dis All $	Cash $	Bank $	Date	Details	Dis Rec $	Cash $	Bank $

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Date	Details	Dis All $	Cash $	Bank $	Date	Details	Dis Rec $	Cash $	Bank $

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SECTION II

Answer any TWO questions in this section.

Write your answers in the spaces provided in this booklet.

4. Warwreck Car Wrecking Company has been in operation for three years using two wrecking trucks. On 31 August 2016, the end of the third accounting period, the new accountant noticed that the company had recorded depreciation on its wrecking trucks in the following ways:

First year Straight-line method
Second year Reducing balance method on the net book value at the end of Year 1

Based on the above information:

(a) (i) Name the TWO financial statements which were affected by the error described above.

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(2 marks)

(ii) Name the accounting principle that was NOT being followed by the company.

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(1 mark)

To correct the error, the new accountant presents the following information.

ASSET	COST	YEARS OF USEFUL LIFE	DEPRECIATION METHOD	RATE
Vehicles	$160 000	8	Reducing balance	30%

(b) (i) Using all the information provided, calculate the balance which had been brought down in error in the Provision for Depreciation Account as at 1 September 2015.

Year	Name of Method	Depreciation Expense (Formula and answer)
1		
2		
	Balance b/d	

(5 marks)

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Warwreck's owner has agreed that the **reducing balance method** should be used for the calculation of depreciation on the wrecking trucks.

(ii) Using the information on page 17 and the form below, calculate the amount that should appear in the Provision for Depreciation Account as at 31 August 2016.

Depreciation Expense on Wrecking Trucks using Reducing Balance Method

Working Column	Working Column	Working Column
Depreciation Expense – Year 1	Depreciation Expense –Year 2	Depreciation Expense – Year 3

(7 marks)

At the end of the second year, the owner of Warwreck Car Wrecking Company had recorded a balance of $86 900 in his personal account in the general ledger.

(iii) Prepare the journal entry to correct this balance in Warwreck's owner's personal account. (**Be sure to label your journal correctly and include the relevant date and a narrative.**)

DATE	DETAILS	Debit ($)	Credit ($)

(5 marks)

Total 20 marks

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5. Authentic Sandals is the manufacturer of sturdy leather and fibre sandals which are popular with tourists. Each pair of sandals is packaged in a unique three-colour string bag, designed and made especially for Authentic Sandals. The following information was taken from the books for the period 1 June 2015 to 31 May 2016.

	Leather ($)	Fibre ($)	Bags ($)
Opening stock	14 600	22 300	2 500
Purchases	471 300	47 100	8 000
Closing stock	16 500	11 900	2 300

Other costs were as follows:

Bag designer wages	$5 per bag purchased
Sandals stitchers' wages	$111 000
Accrued stitchers' wages	$11 500
Insurance on factory equipment	$ 4 200
Factory equipment at cost	$34 000
Factory building at cost	$160 000

Additional information include the following:

(i) All factory assets are to be depreciated at the rate of 20% per annum.

(ii) Half of the insurance is a prepayment for next year.

(a) (i) Using the worksheet set out below, prepare a statement to show the cost of raw materials consumed by Authentic Sandals for EACH raw material.

	Leather ($)	Fibre ($)

(7 marks)

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(ii) Prepare a statement to show the total direct expenses incurred for bags.

(3 marks)

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(b) Beginning with the total cost of raw materials consumed, prepare the Manufacturing Account for Authentic Sandals for the period ending 31 May 2016, showing a separate amount for

- total direct labour cost
- total indirect costs
- total cost of production.

(10 marks)

Total 20 marks

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6. Miracle Charity Group

Miracle Charity Group is a non-trading organization which provides temporary shelter for persons who have lost their homes. On 1 September 2015, the 300 members of Miracle Charity Group owned the following assets and liabilities.

	$
Bank overdraft	13 400
Foodstuff inventory	16 375
Shelter furniture	48 555
Government grants owing to the group	23 595
Shelter building	120 000
15 members with subscriptions in arrears	12 150
Wages owing	15 205

(a) Prepare a Classified Balance Sheet of Miracle Charity Group as at 1 September 2015.

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(5 marks)

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During the year ended 31 August 2016, Miracle Charity Group recorded the following cash-based activities.

	$
Purchased foodstuff	93 680
Received full subscriptions from 275 members	222 750
Received arrears from 10 members	8 100
Received government grants	83 595
Purchased new furniture	12 445
Added ten rooms to building	98 000
Paid wages	45 865
Paid for painting of old rooms	1 675

(b) Prepare a Receipts and Payments Account for Miracle Charity Group for the year ended 31 August 2016.

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(6 marks)

At the end of the year, members requested a report on the financial position of the group. Additional information which will affect the report include the following:

(i) Foodstuff in the amount of $17 110 on hand as at 30 June.

(ii) Building and furniture owned at the end of the year are depreciated at 20% of original costs plus all capital expenditure costs per year.

(c) Prepare part of the report for the members of the Miracle Charity Group for the year ended 31 August 2016 to show the following amounts. **(Show all working clearly.)**

(i) The amount of foodstuff consumed for the year

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(ii) The total depreciation expense to be subtracted

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(iii) The amount of subscriptions paid per member

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(iv) The amount of subscriptions outstanding from all members at year end

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(9 marks)

Total 20 marks

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7. F and W Company Limited

In December 2015, Fern and Willis, who had been thinking about starting a business together, asked you the following questions.

(a) (i) List TWO advantages of creating a limited liability company rather than a partnership.

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(2 marks)

(ii) List TWO disadvantages of creating a limited liability company rather than a partnership.

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(2 marks)

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(b) (i) To start up F and W Company Limited, from 1 January 2016, Fern and Willis paid out $20 000 in registration fees and legal fees and collected money for

- 100 000 $1 ordinary shares
- 75 000 $2 12% preference shares
- 10 000 $5 20% debentures.

Using the form below, prepare F and W's Bank Account to show the balance of receipts and payments as at 1 January 2016.

Bank Account

Date	Details	$	Date	Details	$

(5 marks)

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(ii) By the end of the first year of operation, F and W Company Limited had $191 000 in profit before paying the amount owed to debenture holders. Fern and Willis agreed

- to keep $100 000 of the profit for asset replacement activities and
- pay in cash all monies owed in dividends to preference shareholders as well as 30 cents on every ordinary share.

Prepare the detailed Appropriation Account for F and W Company Limited for the year ended 31 December 2016. (**Show all working clearly**.)

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(9 marks)

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(iii) List FOUR items which will appear in the Capital section of F and W's Statement of Financial Position as at 31 December 2016.

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(2 marks)

Total 20 marks

END OF TEST

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

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CANDIDATE'S RECEIPT

INSTRUCTIONS TO CANDIDATE:

1. **Fill in all the information requested clearly in capital letters.**

TEST CODE: | 0 | 1 | 2 | 3 | 9 | 0 | 2 | 0 |

SUBJECT: PRINCIPLES OF ACCOUNTS – Paper 02

PROFICIENCY: GENERAL

REGISTRATION NUMBER: | | | | | | | | | | |

FULL NAME: _____

(BLOCK LETTERS)

Signature: _____

Date: _____

2. **Ensure that this slip is detached by the Supervisor or Invigilator and given to you when you hand in this booklet.**

3. **Keep it in a safe place until you have received your results.**

INSTRUCTION TO SUPERVISOR/INVIGILATOR:

Sign the declaration below, detach this slip and hand it to the candidate as his/her receipt for this booklet collected by you.

I hereby acknowledge receipt of the candidate's booklet for the examination stated above.

Signature: _____
Supervisor/Invigilator

Date: _____

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