FORM TP 2013025

TEST CODE **01239020**

JANUARY 2013

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

PRINCIPLES OF ACCOUNTS

Paper 02 – General Proficiency

3 hours

08 JANUARY 2013 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. Answer ALL questions in Sections 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. (a) On 1 May 2012, the owner of a business started with $80 000 in the bank. Below are his three Balance Sheets on 1 May, 2 May and 3 May 2012.

Balance Sheet as at 1 May 2012			
	$		$
ASSETS		CAPITAL	
Bank	80 000	Capital	80 000

Balance Sheet as at 2 May 2012			
	$		$
ASSETS		CAPITAL	
Bank	72 500	Capital	80 000
Equipment	7 500		
	80 000		80 000

Balance Sheet as at 3 May 2012			
	$		$
ASSETS		CAPITAL	
Bank	67 500	Capital	75 000
Equipment	7 500		
	75 000		75 000

Describe the transaction that occurred on

(i) 2 May **(2 marks)**

(ii) 3 May **(2 marks)**

(b) R. Robin commenced operation of a small restaurant on 1 June 2011 with an operating capital of $307 800. He did not set up a proper accounting system. However, he provided the following information certified by his accountant:

	31 May 2012
	$
Building	260 000
Furniture and fixtures	15 000
Vehicles	48 500
Machinery and equipment	40 000
Receivables (debtors)	11 600
Payables (creditors)	8 900
Inventory	14 200
6-month loan	2 300
Mortgage	140 000
Cash	3 200
Bank	2 600

Using the **order of permanence**, draw up a classified Balance Sheet (Statement of Financial Position) for R. Robin at the close of the business on 31 May 2012. The closing capital must be included. **(11 marks)**

(c) R. Robin advises that during the first year of operation, he withdrew $65 000 from the business.

Using information on closing capital, calculate R. Robin's profit for the year. **Show your working clearly.** **(5 marks)**

Total 20 marks

2. The following information has been extracted from the books of Threaker and Waitley who have been in partnership for several years.

Partners' Capital Account at 1 January 2012:

Threaker	$80 000
Waitley	$100 000

Partners' Current Account at 1 January 2012:

Threaker	$4 800	Cr
Waitley	$7 300	Dr

Partners' Drawings for the year ended 31 December 2012:

Threaker	$44 000
Waitley	$36 000

Net profit for the year ended 31 December 2012 = $172 000.

The partnership agreement between Threaker and Waitley provides for the following:

(i) Partners are to receive interest at a rate of 10% per annum on their opening capital account balances.

(ii) Interest at a rate of 5% per annum is to be charged on partners' drawings during the year.

(iii) Waitley is to receive a partnership salary of $1 500 **per month**.

(iv) The balance of the net profit or loss is to be transferred to partners in the ratio 2:3.

(a) Prepare the partnership Profit and Loss Appropriation Account for the year ended 31 December 2012. **(8 marks)**

(b) Prepare Current Accounts for the partnership as at 31 December 2012. **(10 marks)**

(c) Share the profit of the business between Threaker and Waitley as if there was no partnership agreement. **(2 marks)**

Total 20 marks

3. James Johnson operates a small retail shop next to his home in Spice Town. He does not keep proper accounting records but was able to provide the following information as at 31 December 2012.

Bank A/c

	$		$
Balance b/d	12 800	Drawings	6 500
Receipts from debtors	190 500	Wages	21 200
		Rent	16 000
		Payment to creditors	136 100
		Sundry expenses	7 000
		Balance c/d	16 500
	203 300		203 300
Balance B/d	16 500		

Additional information	**31 December 2011**	**31 December 2012**
	$	$
Cash in hand	1 500	600
Rent prepaid	4 000	0
Wages owing	600	1 000
Inventory	30 200	28 600
Equipment at cost	75 000	75 000
Accumulated depreciation	20 100	27 600
Accounts payable (creditors)	13 200	14 400
Accounts receivable (debtors)	20 400	18 100

(a) Using all relevant information prepare James Johnson's Statement of Affairs as at 31 December 2011 to determine his capital. **(7 marks)**

(b) Calculate by means of an account or statement:

(i) Total credit purchases for the year. **(3 marks)**

(ii) Total credit sales for the year. **(3 marks)**

(c) Prepare James Johnson's Income Statement for the year ended 31 December 2012. **(7 marks)**

Total 20 marks

SECTION II

Answer any TWO questions in this section.

4. K.A.M. Enterprise provided the following summary of their income statement for the year ended 31 December 2012.

K.A.M. Enterprise
Income Statement for the year ending 31 December 2012

	$	$
Sales revenue		75 000
Beginning inventory	12 000	
Purchases	40 000	
	52 000	
Less ending inventory	(8 000)	
Cost of goods sold		44 000
Gross profit		31 000
Expenses		21 000
Net income		10 000

The following list of balances was also provided.

	$
Capital	50 000
Buildings	26 500
Inventory	8 000
Accounts payable (creditors)	10 000
Cash	6 500
Bank overdraft	5 000
Accounts receivable (debtors)	14 000
Motor vehicles	20 000

(a) Using the vertical style of presentation, prepare a classified Balance Sheet for K.A.M. Enterprise as at 31 December 2012. **(10 marks)**

(b) Using the income statement given and the classified balance sheet prepared, calculate the following ratios:

- Net income margin
- Return on capital invested
- Current ratio **(5 marks)**

(c) Using the current ratio, comment on the liquidity position of K.A.M. Enterprise. **(1 mark)**

(d) The following ratios were provided for TRU Brothers Enterprise, which operates a similar business:

- Net income margin 15%
- Return on capital invested 18%

Using these ratios and those calculated in (b) above, make two different comments comparing the performance of K.A.M. Enterprise and TRU Brothers Enterprise. **(2 marks)**

(e) TRU Brothers Enterprise has recorded the following changes in stock during December 2012.

	Units	Cost Price ($)
Opening Stock	500	14
<u>Purchases</u>		
4 December	500	10
10 December	700	12
14 December	300	11
Sales – 22 December	1 400	

Calculate the value of TRU Brothers Enterprise's ending inventory, using the First In, First Out method of stock valuation. **(N.B. State amount of units in inventory at close.)** **(2 marks)**

Total 20 marks

5. GlenRoy Enterprises consists of two small businesses. Glen Co. which makes fresh fruit juices and Roy Co. which packages dried fruits into different combinations called Fruitysnaks. On 31 December 2012, the following balances were prepared by the two firms.

	GLEN CO.	**ROY CO.**
Opening stock	$	$
Fresh fruits	1 340	
Dried fruits		2 490
Purchases		
Fresh fruits	145 670	
Dried fruits		271 000
Closing stock		
Fresh fruits	2 850	
Dried fruits		5 470
Wages	51 800	31 500
Salaries of supervisors	30 560	18 900
Transportation-in of fresh fruits	5 950	
Insurance	2 430	2 300
Juicing machines	26 900	
Packaging machines		30 900
Provision for depreciation:		
Juicing machines	5 380	
Packaging machines		6 180
Maintenance expenses	4 100	3 810
Packaging expenses		17 900
Delivery costs to supermarkets		7 520
Advertising expense		2 080
Opening work in progress	3 710	
Closing work in progress	3 100	
Sales		406 500

Notes:

(i) Electricity expense of $10 400 and rent expense of $47 000 are shared equally between the two firms.

(ii) Depreciation on all fixed assets is calculated at 10% on cost.

(a) Prepare the Manufacturing Account of Glen Co. for the year ended 31 December 2012 showing clearly:

- the cost of raw materials consumed
- prime cost
- factory overheads
- cost of production **(10 marks)**

(b) Prepare the Income Statement (Trading and Profit and Loss Account) of Roy Co. for the year ended 31 December 2012 showing clearly the cost of sales and total expenses. **(10 marks)**

Total 20 marks

6. The Merry Men Sports and Social Club presented the following information regarding their business.

Merry Men Sports and Social Club
Receipts and Payments Account for the year ended 31 October 2012

	$		$
Bal b/d	9 000	Rent	2 400
Members' subscriptions	5 400	Purchases of bar supplies	12 600
Gifts	200	Bar expenses	4 700
Interest on savings	350	Luncheon expenses	2 800
Bar takings	22 500	Lawn mower	5 000
Luncheon tickets	4 500	Other expenses	1 900
		Bal c/d	12 550
	41 950		41 950

Additional information:

	1 Sept 2011	**31 Oct 2012**
	$	**$**
Subscriptions in arrears	340	460
Subscriptions in advance	290	220
Owing to bar suppliers	3 400	3 650
Bar inventory	1 200	1 800
Rent owing	0	200
Valuation of club furniture	26 500	24 200

Note: The list of balances does not include the lawn mower bought during the year which is depreciated at 10% per annum on cost.

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(a) Prepare the Subscriptions Account for the year ended 31 October 2012. **(5 marks)**

(b) Prepare the Creditors' Account for the bar to determine purchases. **(3 marks)**

(c) Prepare the club's Income and Expenditure Account for the year ended 31 October 2012. **(9 marks)**

(d) (i) State the name of the section of the balance sheet in which subscriptions in arrears appears. **(1 mark)**

(ii) State the name of the term used in place of 'Capital', in non-trading organizations. **(1 mark)**

(iii) Show the total value of the club's non-current assets. **(Show working.)** **(1 mark)**

Total 20 marks

7. MMC Company Ltd. has an authorized share capital of 300 000 ordinary shares of $2 each and 100 000 six per cent (6%) preference shares of $3 each. On 1 January 2012, the company issued the following:

200 000 ordinary shares at $2.50 each
80 000 six per cent preference shares at $3.25 each

All shares were fully subscribed (sold).

(a) (i) Prepare the journal entry to record the issue of the shares. **(5 marks)**

(ii) State ONE difference between ordinary shares and preference shares. **(1 mark)**

(b) MMC Company Ltd. generated revenue of $755 800 and a net profit of $302 600 for the year ended 31 December 2012. The company has decided to share the net profit as follows:

Transfer to general reserve fund	$90 000
Dividends paid: Ordinary shareholders Preference shareholders	 $55 000 Their entitlement

Prepare a statement of MMC Company Ltd's Profit and Loss Appropriation Account for the year ended 31 December 2012. **(6 marks)**

(c) (i) Calculate for MMC Company Ltd:

a) Return on the capital invested at 1 January 2012 **(2 marks)**

b) Dividend rate (percentage) for ordinary shareholders **(4 marks)**

(ii) The following ratios are averages of the industry:

Company's return on capital invested	30.82 %
Ordinary shareholders' dividend rate	10.5 %

Compare your answers from the ratios calculated for (c) (i) above, to the industry averages given above, and write a statement on MMC's performance for EACH ratio. **(2 marks)**

Total 20 marks

END OF TEST

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