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MAY/JUNE 2005

CARIBBEAN EXAMINATIONS COUNCIL

SECONDARY EDUCATION CERTIFICATE EXAMINATION

PRINCIPLES OF ACCOUNTS

Paper 02 – General Proficiency

3 hours

24 MAY 2005 (a.m.)

1. **Answer ALL the 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 working should be clearly shown.**

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

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SECTION I

Answer ALL questions in this section.

1. (a) The following Trial Balance (including the heading) has errors.

Trial Balance for year ended December 30, 2004

	Dr $	Cr $
Sales	69 039	
Purchases		41 175
Carriage		2 572
Drawings		3 900
Rent	3 311	
Salaries and wages	15 375	
Bad debts		438
Provision for bad debts	65	
Debtors	6 060	
Creditors		3 235
Stock (January 1, 2004)		5 963
Cash at bank	589	
Provision for depreciation	9 500	
Equipment at cost	29 000	
Capital		
	132 939	83 827

Redraft the Trial Balance correctly and include the capital amount. **(7 marks)**

(b) Show the journal entries necessary to record the following items in the books of M. Ramjeet: **(Suitable narrations must be used.)**

April 1 Office furniture bought by Ramjeet for $3 000 was returned to the supplier, Furniture & More, as it was the wrong order.

April 5 A water bill of $75 for Ramjeet's home was incorrectly recorded in the books of the business. The error is now being corrected.

April 10 L. Townsend, a debtor who owed Ramjeet $300, has been declared bankrupt. The court ordered Townsend to pay $0.50 for every dollar owed. Ramjeet received a cheque for the amount.

April 13 Ramjeet removed stock valuing $450 from the business for his personal use.

April 20 Motor vehicle valuing $100 000 bought on credit from Y.S. Garage. A cheque for $30 000 was made to Y.S. Garage as down payment.

(9 marks)

(c) State whether the error made on April 05, and each of the transactions on April 10, 13 and 20 would **increase**, **decrease** or have **no effect** on the profit of the business. **(4 marks)**

Total 20 marks

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2. (a) Oliver Bentley maintains control accounts in his general ledger. He prepared a Sales Ledger Control Account for January 2004, with information derived from his subsidiary books. The debit balance shown in the Sales Ledger Control Account at January 31, 2004, does not agree with the list of debtors extracted from the sales ledger at that date. The value of debtors according to the sales ledger at January 31, 2004, was $14 872.

The following errors were subsequently discovered:

1. K. Boodraj, a bad debtor whose account had been written off in 2003, sent a cheque for $198. The amount was entered in the sales ledger.

2. In January a page of the sales returns day book had been overcast by $200.

3. Discounts received of $156 had been mistakenly entered in the discounts allowed column of the cash book in January 2004.

4. A debit balance of $824 on S. McCalla's account in the sales ledger had been set off against his account in the purchases ledger. This entry had not been recorded in either control account.

5. A $58 discount allowed to Ram Sookie had been correctly entered in the cash book but had not been entered in Ram's account.

(i) Calculate the total of the debtors' balances at January 31, 2003, **after** the errors have been corrected. (**Show your workings.**) **(4 marks)**

(ii) Calculate the total debtors' balance in Bentley's Sales Ledger Control Account for the month of January 2004, **before** the errors had been corrected. **(8 marks)**

(b) On April 1, 2004, a business purchased a machine costing $224 000. The machine has a life expectancy of approximately 40 months. At the end of that time the machine is expected to have a trade-in value of $24 000. The financial year of the business ends on December 31, each year.

(i) Use the formula for calculating annual depreciation on the 'Straight-line Method' to determine the annual depreciation on the machine. **(2 marks)**

(ii) Calculate the depreciation charge at the end of the first year. **(1 mark)**

(iii) Show the depreciation account for the first two years. **(5 marks)**

Total 20 marks

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3. Chris and Dorcas are in partnership. Their capital and current accounts as at January 1, 2004, are as follows:

	Capital Balances	**Current Balances**
	$	**$**
Chris	40 000	5 000 (Credit)
Dorcas	60 000	3 000 (Credit)

	Drawings
	$
Chris	17 000 (on June 30)
Chris	17 000 (on December 30)
Dorcas	12 000 (on April 30)
Dorcas	12 000 (on August 31)
Dorcas	12 000 (on December 31)

The partnership agreement provides for the following:

1. Profits and losses are shared between Chris and Dorcas in the same ratio as their capital.

2. Chris is to be credited with a salary of $6 000 per annum.

3. Interest on capital at 8 per cent per annum is allowed.

4. Interest on drawings is charged at 10 per cent per annum.

The profit for the year is $95 950.

(a) Prepare the partnership profit and loss appropriation account for the year ended December 31, 2004. **(10 marks)**

(b) Prepare the partnership **capital** and **current** accounts as at December 31, 2004. **(9 marks)**

(c) Explain the meaning of a debit balance on a partner's current account. **(1 mark)**

Total 20 marks

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SECTION II

Answer any TWO questions in this section.

4. McNaughton Tools is a small manufacturing establishment. At the end of the accounting year, February 28, 2004, the following information was available.

	$
Stocks, March 1, 2003	
Raw materials	27 000
Finished goods	35 000
Work-in-progress	7 500
Factory wages (direct)	150 000
Factory salaries	25 700
Purchases of raw materials	36 300
Returns outwards	500
Factory power and fuel	83 200
Sales	532 800
Insurance	4 400
Administrative expenses	120 000
Returns inwards on finished goods	3 000
Stocks, 28 February, 2004	
Raw materials	15 600
Finished goods	20 000
Work-in-progress	13 200
Machinery at cost	100 000

You are given the following additional information:

1. Machinery is to be depreciated at the rate of 25 per cent per annum
2. Factory power and fuel is in arrears of $720
3. Insurance, which is to be divided in the ratio 3:1 between the factory and the office, is prepaid in the amount of $200.

(a) Prepare a manufacturing account for the year ended February 28, 2004, showing clearly the following:

(i) The cost of raw materials consumed (used up)

(ii) The prime cost

(iii) Factory overheads

(iv) The total cost of production **(14 marks)**

(b) Prepare a Trading and Profit and Loss Account for year ended February 28, 2004. **(4 marks)**

(c) (i) Calculate the gross profit to sales ratio. **(1 mark)**

(ii) Calculate the rate of turnover. **(1 mark)**

Total 20 marks

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5. The balances below remained in the books of Stanigar Ltd after the preparation of the Trading and Profit and Loss Account for year ended June 30, 2004.

	$
Net profit	319 400
Debtors	86 000
Creditors	38 000
Interim dividend paid to ordinary shareholders	20 000
Fixed assets at cost	548 000
Accumulated depreciation	27 400
Unappropriated profits bought forward	55 000
Ordinary shares ($2 each)	100 000
5 per cent preference shares ($3 each)	40 000
Stocks (June 30, 2004)	66 000
Bank overdraft	15 000
Prepaid expenses	3 500
Interest on loan outstanding	56 000
Cash balance	2 300
Directors fees outstanding	45 000
14 per cent loan	30 000

The directors of Stanigar Ltd recommended the following:

1. That TWO reserves be set up, namely,

   (i) a general reserve of $15 000, and

   (ii) a reserve of $7 000 for asset replacement.

2. Ordinary shareholders be paid a final dividend of 20 cents per share.

3. Preference shareholders dividend be paid.

(a) Prepare, in **vertical format,** the Profit and Loss Appropriation Account of Stanigar Ltd. **(7 marks)**

(b) Prepare, in **vertical format,** the Balance Sheet of Stanigar Ltd. **(12 marks)**

(c) Explain the meaning of the term '14 per cent' beside the word "loan". **(1 mark)**

Total 20 marks

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6. The Bridge Town Cricket Club had the following assets and liabilities at January 1, 2004.

Sports equipment $20 000, stocks of refreshments $1 000, creditors for refreshment $5 500, bank balance $10 000, subscriptions owing $500.

During the year the following receipts and payments were made by the treasurer of the cricket club.

Receipts	$
Subscriptions - Year ended 2003	500
Subscriptions - Year ended 2004	23 000
Subscriptions - Year ended 2005	600
Sale of refreshments	25 800
Sale of raffle tickets	4 200

Payments	$
Printing of raffle tickets	400
Payment to creditors	15 200
Purchase of sports equipment	12 600
Wages: Groundsman	4 000
Sales girl	3 000
Utilities	8 000
Rent	12 000

Additional information at December 30, 2004, reveals that:

1. Subscriptions owing for year ended 2004 is $440.
2. Utility bills still outstanding $345.
3. Stocks of refreshment at December 30, 2004, was $6 250.
4. Sports equipment is to be depreciated at the rate of 10 per cent per annum.
5. Creditors for refreshment $2 170.
6. Rent prepaid at December 30, 2004, was $300.

(a) Prepare a statement to show the opening capital (Accumulated Fund) of the Bridge Town Cricket Club. **(5 marks)**

(b) Prepare the following for the Bridge Town Cricket Club:

(i) Subscriptions account **(5 marks)**

(ii) Refreshment Trading account **(3 marks)**

(iii) Income and Expenditure Account for the year ended December 31, 2004 **(7 marks)**

Total 20 marks

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7. (a) James Sigler is a garage mechanic who will visit the customer at home to find the source of trouble and then, if necessary, advise the customer to send the vehicle to his business place for repairs. When out on a job James Sigler is paid at the "customer care" rate. When in the garage he works an eight-hour shift from 8.00 a.m. to 4.00 p.m. with an hour for lunch. Any additional hours registered by the automatic clock are considered overtime hours.

The following are two documents recording his work for the week ending May 6, 2005.

CAR DOCTOR ENTERPRISES **JOB # 9**
DEPARTMENT: Customer Care
TIME SHEET

MECHANIC: ***James Sigler*** **Clock # 16** ☐

Date / time started / ended: May 2, 2005, 8.00 a.m. - 1 p.m.
Description of work required:

1. *Travel to and from customer's premises - 45 mins.*
2. *Check source of problem - 3 hours*
3. *Advise customer to send in for repairs - 15 mins*

S Dale	*Foster Khan*	*Trev Leeson*
Signature: Operator	Signature: Customer	Signature: Supervisor

Remarks: Hours to be paid at customer care rate of pay.

CAR DOCTOR ENTERPRISES CLOCK CARD					**CLOCK # 16 NAME : JAMES SIGLER WEEK ENDING MAY 6, 2005**	
	IN	**OUT**	**IN**	**OUT**	**IN**	**OUT**
MONDAY MAY 2			1.00	4.00		
TUESDAY MAY 3	8:00	12:00	1.00	4.00		
WED MAY 4	8.00	12.00	1.00	4.00	5.00	7.00
THURS MAY 5	8.00	12.00	1.00	4.00	5.00	8.00
FRIDAY MAY 6	8.00	12.00	1.00	4.00	5.00	7.00

Additional Information:

1. "Customer Care" rate is $20 an hour.
2. Regular work hours (8:00 a.m. to 4:00 p.m.) are $12 an hour, and one-and-one-half ($1\frac{1}{2}$) the regular rate is paid for overtime work done.
3. The firm deducts the following: PAYE 10 per cent; Health Security 5 per cent and a savings plan contribution of 5 per cent of weekly wages.

(i) Complete the table **on the answer sheet provided** to arrive at the number of hours worked by James Sigler in the week ended May 6, 2005. **(9 marks)**

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(ii) Complete the pay slip for James Sigler for the week ended May 6, 2005, **on the answer sheet provided**. **(7 marks)**

(iii) Give TWO possible reasons for charging a higher rate for 'customer care' jobs. **(2 marks)**

(c) Write suitable terms for the following definitions:

(i) A long-term loan which companies sometimes offer as a means of raising capital.

(ii) An arrangement with the bank requiring it to pay out from your account, fixed amounts on specific dates. **(2 marks)**

Total 20 marks

END OF TEST

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

Answer Sheet for Question 7 (i)

CAR DOCTOR ENTERPRISES WEEKLY WORK RECORD			
EMPLOYEE NAME		**FOR WEEK ENDED:**	
	CUSTOMER CARE JOB TICKET	**REPAIR SHOP CLOCK CARD**	
	HRS	**REGULAR HOURS**	**OVERTIME HOURS**
MONDAY			
TUESDAY			
WEDNESDAY			
THURSDAY			
FRIDAY			
TOTAL HOURS			

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

Answer Sheet for Question 7 (ii)

CAR DOCTOR ENTERPRISES
EMPLOYEE PAY SLIP

NAME	**JAMES SIGLER**						**Employee No. 16**
WEEK ENDED							
CUSTOMER CARE DEP'T				**REPAIR SHOP**			
Care Hours	Hourly rate	Total Pay Customer Care	Regular Hours	Reg Hourly Rate	Overtime Hours	Overtime Hourly Rate	Total Pay Repair Shop
	$	$		$	$		$
GROSS PAY							$
Income Tax	Health Security	Savings					Total Deductions
$	$	$					$
NET PAY							$