AFFIX SEAL HERE

CANDIDATE – PLEASE NOTE!

You must sign below and return this booklet with the Answer Sheet. Failure to do so may result in disqualification.

Signature

FORM TP 2005121

TEST CODE **01239010**

MAY/JUNE 2005

CARIBBEAN EXAMINATIONS COUNCIL

SECONDARY EDUCATION CERTIFICATE EXAMINATION

PRINCIPLES OF ACCOUNTS

Paper 01 – General Proficiency

90 minutes

24 MAY 2005 (p.m.)

READ THE FOLLOWING DIRECTIONS CAREFULLY

1. In addition to this test booklet, you should have an answer sheet.
2. Each item in this test has four suggested answers lettered (A), (B), (C), (D). After reading each item you are about to answer, decide which choice is best.
3. On your answer sheet, find the number which corresponds to your item and blacken the space having the same letter as the answer you have chosen. Look at how it is done in the sample item below.

Sample Item

Prime cost is calculated by

(A) adding direct factory expenses to cost of materials used
(B) adding indirect factory expenses to cost of materials used
(C) subtracting direct factory expenses from cost of materials used
(D) subtracting indirect factory expenses from cost of materials used

Sample Answer

● (B) (C) (D)

The best answer to this item is "adding direct factory expenses to cost of materials used", so answer space (A) has been blackened

4. If you want to change your answer, be sure to erase your old answer completely and fill in your new choice.
5. When you are told to begin, turn the page and work as quickly and as carefully as you can. If you cannot answer an item, omit it and go on to the next one. You can come back to the harder item later. Your score will be the total number of correct answers.
6. This test consists of 60 items. You will have 90 minutes to answer them.
7. Do not be concerned that the answer sheet provides spaces for more answers than there are items in this test.
8. The use of silent electronic calculators is allowed.

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

AFFIX SEAL HERE

S121

1. Which of the following items on a balance sheet would differ MOST in presentation when comparing the books of a company and books of a sole trader?

(A) Capital
(B) Current assets
(C) Current liabilities
(D) Fixed assets

2. Tom, Percy and John formed a partnership and agreed that profits were to be shared in ratio 1:1:2 respectively. The net profit for the year was $18 900. What was John's share of the profit?

(A) $ 4 725
(B) $ 9 450
(C) $14 175
(D) $18 900

3. An employee works for 45 hours each week at $4 per hour for a 40-hour week and $6 per hour for overtime. What is his gross weekly wage?

(A) $180
(B) $190
(C) $240
(D) $270

4. Control accounts are kept to assist management in

(A) limiting expenditure
(B) increasing profits
(C) locating errors
(D) limiting drawings

5. The purchase of a motor van on credit from Things Caricom Motors Co. for use in the business should be recorded as

(A) debit Motor Van Expense Account, credit Bank Account
(B) debit Purchases Account, credit Things Caricom Motors Co. Account
(C) debit Motor Vehicle Account, credit Bank Account
(D) debit Motor Vehicle Account, credit Things Caricom Motors Co. Account

Item 6 refers to the following extract from a trading account:

	$
Opening stock	200
Sales	900
Purchases	500
Closing stock	300

6. What is the gross profit?

(A) $100
(B) $300
(C) $500
(D) $800

7. At the end of the year the capital of a business was $33 000. At the beginning of the year the capital was $28 000. During the year the owner withdrew for personal use $2 000. What is his net profit for the year?

(A) $ 5 000
(B) $ 7 000
(C) $30 000
(D) $61 000

8. A trader received an invoice for $4 000 less 25% trade discount. Subsequently he returned one-eighth $\left(\frac{1}{8}\right)$ of the goods.

What amount would be entered in his Returns Outwards Account?

(A) $375
(B) $400
(C) $450
(D) $500

9. Credit notes issued for goods returned by a customer will be entered firstly in the

(A) Returns Outward Book
(B) Returns Inward Book
(C) Sales Returns and Allowances Account
(D) Purchases Returns and Allowances Account

10. A business which owns goods valued at $500, also has a van valued at $1 000; it owes $50 for goods. What is the capital of the business?

(A) $1 050
(B) $1 450
(C) $1 500
(D) $1 550

11. The working capital of A. Young and Sons is $15 500, and Current Assets are $16 500. What are the total Current Liabilities?

(A) $ 1 000
(B) $15 500
(C) $16 500
(D) $32 000

Item 12 refers to the following information:

	$		$
Transfer to statutory reserve	24 000	Surplus for the year b/d	80 000
Transfer to special reserve	5 600	Undistributed surplus b/f from last year	11 170
Proposed dividend 5%	20 000		
Undistributed surplus carried to next year	?		
	91 170		91 170

12. What is the undistributed surplus to be carried to the next year?

(A) $11 170
(B) $41 570
(C) $49 600
(D) $91 170

Item 13 refers to the following Sales Ledger Control Account.

SALES LEDGER CONTROL ACCOUNT

2001		$	2001		$
April 1	Balance b/d	3 550	April 30	Bank	1 700
April 30	Sales for the month	?		Discounts Allowed	100
				Returns Inwards	300
				Bad debts	400
				Balance c/d	3 100
		5 600			5 600

13. What was the value of sales for the month of April?

(A) $ 2 050
(B) $ 3 100
(C) $ 3 550
(D) $ 5 600

Item 14 refers to the following Balance Sheet of T. Lagoon:

T. Lagoon Balance Sheet as at December 31, 1993

	$		$
Capital	23 000	Fixtures and fittings	1 000
Add net profit	800	Motor vans	20 000
	23 800	Stock	13 000
Less drawings	2 000	Debtors	2 000
	21 800	Cash	100
Creditors	6 300		36 100
Bank overdraft	8 000		
	36 100		

14. What is Lagoon's working capital?

(A) $ 500
(B) $ 600
(C) $ 750
(D) $ 800

15. On December 31, 2002, the Balance Sheet of Mr J. W. Ward showed the following:

Fixed assets	$80 000
Current assets	$35 000
Liabilities	$30 750

What is Ward's capital?

(A) $45 250
(B) $65 000
(C) $80 000
(D) $84 250

16. The MAIN reason why a sole proprietor may consider joining with one or more other persons to form a partnership is

(A) he can work less if many people are doing the same job
(B) the business would attract more customers
(C) the business would get additional capital and management skills
(D) the business would be recognised by the government

Item **17** refers to the following information.

			Dr $	Cr $	Balance $
Dec.	1	Bal. b/f			60
	5	Cheque		90	
	14	Unit Trust: Standing order	100		
	20	P. Palmer: Credit transfer		30	
	29	Bank charges	85		

17. What does the closing Bank Statement balance represent?

(A) An overdraft
(B) A direct debit
(C) A credit transfer
(D) A positive balance

18. Which of the following assets is the MOST liquid?

(A) Cash
(B) Debtors
(C) Equipment
(D) Stock

19. The items raw materials stock, work in progress stock, and finished goods stock, are MOST likely seen together on the balance sheet of a

(A) supermarket
(B) bus company
(C) garage
(D) shoe factory

20. A retailer purchases goods worth $3 000. He receives 30% trade discount and 5% cash discount. What did he pay?

(A) $1 995
(B) $2 095
(C) $2 100
(D) $2 850

21. A proprietor wins a motor van valued $10 000 and decides to put it into the business. Which of the following is the correct entry?

(A) Debit Motor Vehicles Account, Credit Drawings Account

(B) Debit Capital Account, Credit Motor Vehicles Account

(C) Debit Motor Vehicles Account, Credit Capital Account

(D) Debit Bank Account, Credit Capital Account

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22. Herbert paid Smith and Co. $380 to settle an account of $400. What entries should be made in Herbert's books?

		$	$
(A)	Dr. Smith & Co. A/c	400	
	Cr. Herbert A/c		400
(B)	Dr. Discount Allowed	20	
	Dr. Cash A/c	380	
	Cr. Smith & Co. A/c		400
(C)	Cr. Smith & Co. A/c		380
	Dr. Cash A/c	20	
(D)	Dr. Smith & Co. A/c	400	
	Cr. Cash A/c		380
	Cr. Discount Received A/c		20

Item 23 refers to the following information.

Appropriation Account

	$		
Taxation Reserve	10000	By balance	894.50
Preliminary expenses	250	Net profit	26106.50
Transfer to General Reserve	4000		
Preference share dividend	1200		
Ordinary share dividend	6000		

23. What conclusions could be drawn from the above Appropriation Account?

I. The company has recently come into existence.
II. The company is engaged in profitable enterprise.
III. The company is not doing very well.
IV. More dividends can be given to the ordinary share holders.

(A) II and IV only
(B) III and IV only
(C) I, II and IV only
(D) I, III and IV only

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24. A business operates its petty cash on the imprest system. At the beginning of the month, the petty cashier was given $200 out of which she spent $152. How much will she be reimbursed?

(A) $ 48
(B) $152
(C) $200
(D) $352

25. Which of the following entries in the three-column cash book are contra entries?

(A) Dr Cash, Cr Cash
(B) Dr Cash, Cr Bank
(C) Cr Cash, Cr Bank
(D) Dr Bank, Cr Bank

26. Which of the following statements BEST describes the 'double entry' system of book-keeping?

(A) A ledger account must have two sides.
(B) An account must be written twice in the ledger.
(C) Each transaction must have a debit entry and a credit entry.
(D) Each transaction must be written in two subsidiary books.

GO ON TO THE NEXT PAGE

27. Morris purchases $1 000 worth of furniture for office use and enters it in the Journal as purchases. How will this error affect his Balance Sheet?

(A) Fixed assets and net profit will be decreased by $1 000.
(B) Fixed assets and net profit will be increased by $1 000.
(C) Current assets and net profit will be increased by $1 000.
(D) Current assets and net profit will not be affected.

28. Which of the following would be prepared in order to reveal the net earnings of a business?

(A) Trading Account
(B) Balance Sheet
(C) Trial Balance
(D) Profit and Loss Account

29.

W's Capital	$300
X's Capital	$200
Y's Capital	$100
Z's Capital	$300

W, X, Y and Z are partners sharing profits and losses in proportion to their capital. The capital of each is shown in the table above.

What is Z's share of a profit of $7 200?

(A) $ 800
(B) $ 1 200
(C) $ 1 800
(D) $ 2 400

30. A photo-copying machine valued at $5 000 is depreciated at 10% per annum using the 'straight-line method'. What is its book value after two years?

(A) $4 000
(B) $4 050
(C) $4 500
(D) $4 980

31. According to the Partnership Act, if there is no Deed of Partnership, the amount of profit to be received by each partner would be

(A) 5% on capital invested
(B) in proportion to capital invested
(C) in equal share
(D) 5% of net profit

32. The balance on a creditor's account is entered in the Balance Sheet under the heading

(A) current assets
(B) current liabilities
(C) fixed assets
(D) capital

33. The purchase of a new delivery van for $65 000 was entered in the Purchases Day Book. What is this error called?

(A) Error of Omission
(B) Error of Commission
(C) Error of Principle
(D) Compensating Error

34. Which of the following statements indicate correct entry in ledger accounts?

I. All assets on the Debit side
II. All liabilities on the Credit side
III. All expenses on the Credit side
IV. All gains on the Debit side

(A) I and II only
(B) II and III only
(C) III and IV only
(D) I and IV only

35.

Gross Profit %	45%
Sales	$9000

From the table above, what is the gross profit?

(A) $4000
(B) $4050
(C) $4950
(D) $9000

36. A trader sent Mr Jones an invoice charging him for 10 articles at $68 instead of $65. Which note should the trader subsequently send to Mr Jones to rectify the error?

(A) Promissory note
(B) Advice note
(C) Debit note
(D) Credit note

37. Which of the following BEST describes a trial balance?

I. A list of Balances of Accounts
II. A Financial Statement
III. An Account
IV. A check on the accuracy of the double entry system

(A) I and II only
(B) I and IV only
(C) I, II and III only
(D) I, III and IV only

38. Mr A. Jones paid $250.00 cash for repairs to machinery. This transaction was entered in the Cash Book and posted to the Ledger. The double entry involved would be

(A) debit Cash A/c,
credit Repairs A/c

(B) debit Cash A/c,
credit Machinery A/c

(C) debit Repairs A/c,
credit Cash A/c

(D) debit A. Jones A/c,
credit Cash A/c

39. An invoice is a document made out when goods are

(A) overcharged
(B) returned
(C) undercharged
(D) sold

40. A company is allowed by law to sell 100 000 shares at $1.00 each. Half of these shares were bought by the public.

What is the authorized capital?

(A) $ 40 000
(B) $ 50 000
(C) $ 80 000
(D) $ 100 000

41. Because of an error in posting, the Purchases Account was understated by $100 in respect of goods purchased on credit. What are the journal entries necessary to correct this error?

(A) Debit Supplier,
Credit Purchases

(B) Debit Purchases,
Credit Suspense

(C) Debit Debtors,
Credit Suspense

(D) Debit Purchases Returns,
Credit Debtors

Item 42 refers to the following information.

Mohammed Patel,
Statement of Affairs
As at December 31, 1997

	$		$	$
Fixed assets	2 500	Capital at beginning	3 000	
Current assets	3 000	+ Net profit	?	
		- Drawings	300	
		Capital at end		?
		Liabilities		1 500
	5 500			5 500

42. What is his net profit for the year?

(A) $1 300
(B) $1 500
(C) $1 600
(D) $1 800

Item 43 refers to the following information.

	$
Beginning capital	30 000
Ending capital	40 000
Drawing during period	4 000
Additional investment during period	3 000

43. What is the amount of net income or loss for the period?

(A) $ 7 000
(B) $ 9 000
(C) $11 000
(D) $17 000

44. The excess of the income over the expenditure of a non-profit-making organization is called

(A) gross profit
(B) net profit
(C) accumulated fund
(D) surplus

45. Payne and Quarless decided to admit Rose as a new partner. The total capital after the admission of Rose will be $30 000, of which Rose is to contribute $10 000 for an interest in the capital. If Rose brought in cash and a motor van valued at $3 000, his admission would be recorded in the journal as

		Dr. $	Cr. $
(A)	Cash	10 000	
	Rose's capital		7 000
(B)	Rose's capital	7 000	
	Cash		7 000
(C)	Cash	7 000	
	Motor van	3 000	
	Rose's capital		10 000
(D)	Rose's capital	10 000	
	Motor van		3 000
	Cash		7 000

46. The Cash Book is BEST used for recording

(A) cash receipts and cash payments
(B) goods returned for cash
(C) goods purchased for cash
(D) goods sold for cash

47. On January 2, 1995, J. Brown, a debtor, was declared bankrupt. He owed Elmer Browne Ltd $800 for goods purchased. What effect would this have on the balance sheet of Elmer Browne Ltd?

(A) 'Closing stock' is reduced by $800.
(B) 'Closing stock' is increased by $800.
(C) 'Debtors' is increased by $800.
(D) 'Debtors' is decreased by $800.

48. Under which of the following conditions would a trial balance still balance?

I. A transaction was completely left out.
II. Both a debit and credit entry were overstated by the same amount.
III. A debit entry was left out.
IV. Both a debit and credit entry were understated by the same amount.

(A) I, II and III only
(B) I, II and IV only
(C) I, III and IV only
(D) II, III and IV only

Item **49** refers to the following information.

Manufacturing and Trading Account of John Wales and Co Ltd

	$		$
Prime cost	4 500	Trading	6 100
Factory overheads	2 500		
	7 000		
Opening stock of work progress	5 000		
	x xxx		
Less closing stock of work in progress	x xxx		
Cost of good manufactured	6 100		6 100
Opening stock	900	Sales	11 000
Cost of good manufactured	6 100		
	x xxx		
Less closing stock	1 000		
	x xxx		
Gross profit	x xxx		
	11 000		11 000

49. What is the gross profit?

(A) $ 500
(B) $ 1 400
(C) $ 2 400
(D) $ 5 000

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50. Mr Smith does not keep proper records. He began business with $10 000 in the business bank a/c. He uses his vehicle and building worth $6 000 and $15 000 respectively, as part of his business. Customers owe him $4 000. He withdrew $1 500 for personal use and owed creditors $2 000.

What is the closing capital of the business?

(A) $ 25 500
(B) $ 28 500
(C) $ 31 500
(D) $ 41 500

51. A Suspense Account was opened for an error of $30 found in the Trial Balance. Later it was observed that sales were understated by $30. This item would be corrected in the journal by

(A) Dr. Trading,
Cr. Suspense

(B) Dr. Suspense,
Cr. Goods

(C) Dr. Sales,
Cr. Suspense

(D) Dr. Suspense,
Cr. Sales

52. In a factory, raw materials used amounted to $4 000, manufacturing wages $1 200 and other direct expenses $400. What was the prime cost of articles produced?

(A) $4 400
(B) $4 800
(C) $5 200
(D) $5 600

53. Closing stock at year end is incorrectly valued. Which of the following will be affected?

I. Cost of sales
II. Gross profit
III. Net purchases
IV. Working capital

(A) I and II only
(B) III and IV only
(C) I, II and IV only
(D) II, III and IV only

54. Joyce and Keller are in partnership having capital of $14 000 and $18 000 respectively. Before admitting a new partner, Wong, with $10 000, into the business, they agreed that the partnership be valued at $42 000. The goodwill is therefore

(A) $ 1 000
(B) $ 2 000
(C) $ 8 000
(D) $10 000

55. A proprietor withdraws cash from his business for his own use. What will be the entries for this transaction?

(A) Dr. Cash A/c, Cr. Bank A/c
(B) Dr. Cash A/c, Cr. Drawings A/c
(C) Dr. Drawings A/c, Cr. Cash A/c
(D) Dr. Bank A/c, Cr. Cash A/c

56. A trader paid his client $500 by cheque. What will be the correct entry in the trader's Cash Book?

(A) Debit Bank A/c,
Credit Cash A/c

(B) Credit Bank A/c only

(C) Credit Bank,
Debit Cash A/c

(D) Credit Cash A/c only

57. The balances of the asset accounts of the Bayroe Club as at June 30, 1994 were:

	$
Premises	5 400
Equipment	1 825
Furniture	960
Bank and cash	1 640
Stock of refreshments	72

The amount of the accumulated fund was

(A) $1 640
(B) $4 497
(C) $8 185
(D) $9 897

58. K. Khan, a debtor of A and B Enterprises settles his debt of $120 less 2½% discount, by cheque. The double entry in the books of A and B Enterprises should be

(A) Dr. K. Khan $117
Dr. Discount Received $ 3
Cr. Bank $120

(B) Dr K. Khan $117
Dr. Discount Allowed $ 3
Cr. Bank $120

(C) Dr. Bank $117
Dr. Discount Allowed $ 3
Cr. K. Khan $120

(D) Dr. Bank $117
Cr. Discount Received $ 3
Cr. K. Khan $120

Item 59 refers to the following information.

V. Jones	$
Net Pay	1 200
Income Tax	300
National Insurance	50

59. What is Mr Jones' gross pay?

(A) $ 850
(B) $ 950
(C) $ 1 450
(D) $ 1 550

60. X, Y and Z have just commenced business as partners with X investing $100 000, Y - $50 000 and Z - $50 000 as their opening capitals.

However, in drafting the partnership agreement they did not treat the issue of sharing of profits.

How should the net profit of $18 000 (after all other appropriations) be shared amongst X, Y and Z?

(A) X - $9 000; Y - $4 500; Z - $4 500.
(B) X - $12 000; Y - $3 000; Z - $3 000.
(C) X - $6 000; Y - $6 000; Z - $6 000.
(D) The $18 000 would not be shared.

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