



JANUARY 2015

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 ALL your answers in the spaces provided in the booklet.
3. Silent electronic calculators may be used, but ALL necessary workings should be clearly shown.
4. EACH question is worth 20 marks.
5. Do NOT write in the margins.
6. 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 page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**
7. **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).**

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

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1. Walter presented the following transactions for the month of March 2013.

March	
01	Balance brought forward, Cash \$270; Bank overdraft \$2 965
03	Mary, who has an account balance of \$10 000, paid her account in full by cheque after deducting 2% cash discount.
05	Paid electricity expense by cheque \$900
08	Received a loan of \$4 000 by cheque from a friend
10	Cash Sales \$2 300
11	Paid Langain a creditor \$2 910 by cheque having deducted a 3% cash discount
15	Transferred \$2 500 from Bank to Cash
17	Paid wages in cash \$3 200
22	Andy, a creditor, was paid \$1 425 in cash after allowing Walter a discount of \$75.
28	Cash withdrawn for personal use \$300

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- (a) Prepare Walter's Three-Column Cash Book on page 3 for the month of March and balance the cash book appropriately. (11 marks)

SECTION I
Answer the THREE questions in this section.
Write ALL your answers in the spaces provided in this booklet.

Three-Column Cash Book for Question 1. (a)

Walter's Three-Column Cash Book

Date	Details	Discounts Allowed	Bank \$	Cash \$	Date	Details	Discounts Received	Bank \$	Cash \$

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GO ON TO THE NEXT PAGE

(b) Complete the **form provided below** to indicate the sources of information used in the preparation of Control Accounts. *The first item has been done for you as an example.*

Form for Question 1. (b)

Preparation of Control Accounts		
No.	Item	Source of Information
0.	Total credit sales	Sales Day book
1.	Total amount for goods bought on credit	
2.	Total amount for accounts which proved uncollectible	
3.	Total value of inventory sent back by credit customers	
4.	Total amount received from creditors for settling accounts promptly	
5.	Total value of inventory sent back to credit suppliers	

(5 marks)

(c) After preparation of a company's Control Accounts, the following errors were discovered:

- (i) Credit purchases of \$6 000 had been posted to K. Hosein's account instead of to P. Hussain's account.
- (ii) Credit sales of \$5 290 was credited to the Sales Account as \$5 920.

Prepare journal entries in the **form provided below** to correct the errors above. (**Narratives are not required.**)

General Journal

Date	Details	f	Debit (\$)	Credit (\$)

(4 marks)

Total 20 marks

2. Shardi and Marti entered into a partnership on 01 January 2014 with the following assets at start:

		\$
Shardi	Cash	50 000
	Equipment	25 000
Marti	Cash	20 000
	Vehicle	30 000

(a) Prepare journal entries in the form provided below to record the capital of the partners at 01 January 2014.

**Shardi and Marti
General Journal**

Date	Details	f	Debit (\$)	Credit (\$)

(c) Calculate Shardi's net worth in the partnership after the **first six months** of operations.

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(3 marks)

(d) Using your answer from (c) above, write a brief comment to assess the performance of Shardi's initial investment.

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(1 mark)

Total 20 marks

3. Ava Telesford provided the following list of balances for her assets, liabilities and capital on 30 April 2014.

	\$	\$
		80 000
Motor vehicles		6 100
Cash in hand		25 000
Accounts Receivable (debtors)		68 000
Loans		200 000
Land and building		2 500
Provision for bad debts		
Accumulated depreciation:		
Motor vehicle	22 000	
Land and building	54 000	
Inventory at hand		42 000
Accounts payable		30 500
Bank overdraft		7 900
Fixtures and fittings		24 200
Accrued expenses		2 950
Prepaid rent		4 000
Capital		156 800

Additional information:

- Included in the loan of \$68 000 is an amount of \$8 000 which is payable within the year.
- Depreciation on motor vehicle was omitted for the year. Motor vehicle is depreciated at the rate of 20% per year using the straight line method.
- Net income (profits) for the year up to 30 April 2014 was \$49 450.
- Ava made drawings of \$1 000 **per month** for the past year and an additional \$800 in goods (inventory).

Prepare a classified Statement of Financial Position (Balance Sheet) for Ava Telesford as at 30 April 2014. (Use the order of permanence in classifying assets.)

Total 20 marks

SECTION II

Answer any TWO questions from this section.

Write ALL your answers in the spaces provided in this booklet.

4. Quella TrueLife, an insurance agency, earns commissions on policies sold. The firm operates from a building which it rents from Citizens Realtors. Quella Truelife's accountant, Mary Jane, reports the following information for the period ended 31 December 2014.

	\$
Commissions received paid into bank	351 600
Commissions to be collected	28 200
Commissions received in advance	19 400
Rent paid	46 650
Rent owing to landlord	17 150

- (a) From the above information, prepare T-accounts in the **space provided below** for EACH of the following items:

(i) Commissions

(ii) Rent

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(Show clearly the amounts that will be transferred to the agency's Income Statement.)

(8 marks)

- (b) Quella Truelife owns the following assets, both of which were purchased on 01 January 2013.

Asset	Method of Depreciation	Rate per Annum (%)	Cost Price (\$)
Vehicles	Reducing balance	25	200 000
Office equipment	Straight line	15	78 500

Taking the date of purchase into consideration, complete the **form provided below** to show the annual depreciation and the Net Book Value of both assets as at 31 December 2014.

Assets	Vehicles	Office Equipment
Method of depreciation	Reducing balance	Straight line
Rate per annum	25%	15%
Cost price	\$200 000	\$78 500
Working Column		
Depreciation for year ended 31 Dec 2014		
Net Book Value as at 31 Dec 2014		

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5. Bubbles Manufacturing Limited is the proposed name of a firm to be set up for making specialty cakes. The owner is calculating the possible labour costs for a six-month period. The standard elements of these costs are as follows.

Job Names	Number of Workers	Pay Arrangement	Remarks
Designers	2	\$6 000 per month each	
Bakers	5	\$24 per hour	Overtime to be paid at the rate of time and a half
Decorators	3	\$200 per unit	

- (a) Name TWO jobs which will be treated as direct labour costs in the Manufacturing Account of Bubbles Manufacturing Limited.

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(2 marks)

- (b) State TWO methods of payment used by Bubbles Manufacturing Limited.

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(2 marks)

- (c) In the first six months of operation, Bubbles Manufacturing Limited records the following:

Type of Labour	Productivity	Remarks
Designers	6 months worked	
Bakers	138 hours per worker per month	40 hours additional overtime in total
Decorators	Average of 40 units per worker per month	

Calculate the total cost in the **form provided below** of all labour used by Bubbles Manufacturing Limited over the six-month period. (**Show the working used to arrive at the cost of EACH type of labour.**)

**Bubbles Manufacturing Limited
Worksheet**

Type of Labour	Working Column	\$
Designers		
Bakers		
Decorators		
Total \$		

(9 marks)

- (d) Calculate the average cost of labour for EACH specialty cake made by Bubbles Manufacturing Limited over the six months. (**Show working clearly.**)

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(3 marks)

- (e) Lisa Maundy is a part-time worker with Bubbles Manufacturing Limited. She works sometimes as a baker and sometimes as a decorator, as needed by the firm, and is paid at a special rate. During the first month of operation, her employee record card showed the following.

Name	Baker	Decorator
Lisa	10 hours at overtime rate	20 units

The firm is required to withhold 10% of an employee's gross pay as Social Security and Lisa has asked that the firm send \$250 to her Credit Union every month.

Calculate Lisa's **gross pay** and **net pay** for the first month. (Label the amounts clearly and show the working used to arrive at EACH amount.)

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(4 marks)

Total 20 marks

6. Stennart Downs has provided the following information for his company although he does not keep proper accounts.

Details	30 November 2013	30 November 2014
	\$	\$
Fixed assets at net book value	61 820	63 360
Inventory	13 680	14 760
Accounts receivable	4 300	5 070
Accounts payable	3 190	2 790

Combined Cash and Bank Account

The following information is also available.

	\$		\$
Opening cash in hand	210	Opening bank overdraft	2 840
Accounts receivable	130 900	Accounts payable	52 200
Additional capital	6 000	Miscellaneous expenses	21 280
		Drawings	21 800
		Machinery	8 580
		Closing cash in hand	330

(a) Using the information provided, draw up Stennart Downs' Opening Statement of Affairs.

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(5 marks)

(b) Stennart Downs reports a gross income of \$80 950 for the year ended 30 November 2014.

Draw up an extract from the Balance Sheet showing, in detail, the changes in Stennart Downs' Capital for the year.

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(5 marks)

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(c) Calculate EACH of the following for Stennart Downs:

(i) Credit sales for the year

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(3 marks)

(ii) Credit purchases for the year

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(3 marks)

(iii) Depreciation expense for the year. (Show working clearly.)

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(4 marks)

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Total 20 marks

7. Sonja and Jorn, partners in the firm Simple Solutions, discuss the incorporation of their business into a limited liability company.

(a) Explain to the partners ONE difference between EACH of the following pairs of terms using ONE sentence for EACH pair of terms:

(i) Authorized share capital and issued share capital

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(2 marks)

(ii) Preference Share and Ordinary Share

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(2 marks)

(b) Outline TWO advantages to the partners of becoming a limited liability company.

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(2 marks)

- (c) On 01 January 2015, the capital balances of Sonja and Jorn were \$89 700 and \$95 300 respectively.

Draw up the journal entries (narratives included) in the **form provided below** to record the following decisions made by Sonja and Jorn on 01 January 2014:

- (i) Each partner purchased Ordinary Shares with a par value of \$1 per share in Simple Solutions Company Limited using their closing Capital balances.
- (ii) Jorn was issued 2 500 \$2 debentures at an interest rate of 10%. Jorn paid the amount due in cash.

Date	Details	f	Debit (\$)	Credit (\$)

Date	Details	f	Debit (\$)	Credit (\$)

(8 marks)

(d) On 31 December 2014, Simple Solutions Company Limited recorded a net income before debenture interest of \$105 500. The Board of Directors agreed to the following:

- Payment of debenture interest
- Transfer of \$15 000 to General Reserve
- Payment of dividends at the rate of 30% of the par value of shares

Prepare the Appropriation Account for Simple Solutions Company Limited for the year ended 31 December 2014.

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