

CARIBBEAN EXAMINATIONS COUNCIL

SECONDARY EDUCATION CERTIFICATE
EXAMINATION

PRINCIPLES OF ACCOUNTS

Paper 1 – General Proficiency

90 minutes

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). Read each item you are about to answer and 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 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☒ A ☐ 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.

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

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SOLUTIONS

1	B A	11	A	21	B	31	A	41	C	51	D
2	B	12	B	22	B	32	A	42	B	52	B
3	B	13	C	23	B B	33	C	43	A	53	D
4	C	14	B	24	C	34	A	44	B	54	D
5	B	15	A	25	B	35	B	45	B D	55	A
6	C	16	B	26	D	36	A	46	C	56	D
7	A	17	D	27	B	37	C	47	B	57	C
8	A	18	B	28	C	38	C	48	D	58	D
9	C	19	A	29	B	39	C	49	C	59	C
10	A	20	B	30	B	40	D	50	A	60	D

1. The accounting cycle entails the following procedures:

- I. Posting to the Ledger.
- II. Making adjusting and closing entries.
- III. Journalizing.
- IV. Preparation of final accounts.
- V. Extracting a trial balance.

Which of the following is the correct sequence in which the procedures should be followed?

- (A) III, I, II, V, IV
- (B) III, I, V, II, IV
- (C) I, III, V, II, IV
- (D) III, I, V, IV, II

2. The term 'book-keeping' can be described as

- (A) recording the assets and liabilities of a business
- (B) recording the transactions of a business
- (C) recording the profits made by a business
- (D) recording the closing stock of a business

3. An increase in drawings will result in

- (A) an increase in long-term liabilities
- (B) a decrease in capital
- (C) a decrease in current liabilities
- (D) an increase in capital

Items 4 - 7 refer to the balance sheet below.

Balance Sheet of Boots' Sports Store
as at December 31, 1991.

	\$	\$		\$
Capital	12 000		Land & building	9 000
Add Net Profit	4 000		Motor van	5 000
	<u>16 000</u>		Fixtures & fittings	600
Less Drawings	500	15 500	Stock	450
Creditors		2 100	Debtors	250
			Bank	2 000
			Cash	300
				<u>17 600</u>
		<u>17 600</u>		

4. The total fixed assets are

- (A) \$ 9 000
- (B) \$ 14 000
- (C) \$ 14 600
- (D) \$ 15 050

6. The working capital is

- (A) \$ 300
- (B) \$ 450
- (C) \$ 900
- (D) \$ 2 300

5. The total current assets are

- (A) \$ 2 550
- (B) \$ 3 000
- (C) \$ 3 600
- (D) \$ 8 600

7. The acid test ratio is

- (A) 1.2 : 1
- (B) 1.4 : 1
- (C) 7.0 : 1
- (D) 8.4 : 1

$$\text{Liability} + \text{Capital} = \text{Assets}$$

Assets		Liabilities & Capital	
1000	1000	1000	1000
2000	2000	2000	2000
3000	3000	3000	3000
4000	4000	4000	4000
5000	5000	5000	5000
6000	6000	6000	6000
7000	7000	7000	7000
8000	8000	8000	8000
9000	9000	9000	9000
10000	10000	10000	10000

8. Which of the following expresses the balance sheet equation?

(A) Liabilities = Assets - Capital
(B) Assets = Liabilities - Capital
(C) Liabilities = Assets + Capital
(D) Capital = Assets + Liabilities

9. The balance sheet of a business BEST shows

(A) what the business owes
(B) what the business owns
(C) what the business owes and owns
(D) everything about the business

10. Which of the following are nominal accounts?

I. Wages
II. Creditors
III. Purchases
IV. Furniture

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

11. Which journal entry is required in the books of B. Jones who started a business by depositing \$8 000 into the business bank account?

(A) Debit Bank Account
Credit Capital Account
(B) Debit Bank Account
Credit B. Jones Current Account
(C) Debit Capital Account
Credit Bank Account
(D) Debit B. Jones Account
Credit Capital Account

12. The following deductions are made from the salary of an employee

DEDUCTIONS	
Income Tax	35%
National Housing	2%
Education Tax	1%

What is the total amount which should be deducted from an employee's salary of \$1 800 per month?

(A) \$486
(B) \$684
(C) \$846
(D) \$648

13. Peter, Gail and John formed a partnership. When the partnership deed was drawn up no mention was made as to how profits and losses were to be divided. How should the profits be shared among them?

(A) In proportion to capital contributed.
(B) In ratio to how much work is done by each partner.
(C) Divided equally among the three partners.
(D) Divided in accordance with each partner's age.

14. 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

15. A businessman bought a new typewriter for \$6 000. He paid \$4 000 in cash and traded in his old typewriter. What is the entry to record this transaction?

(A) Dr. new typewriter \$6 000
Cr. old typewriter \$2 000
Cr. cash \$4 000
(B) Dr. old typewriter \$2 000
Dr. cash \$4 000
Cr. new typewriter \$6 000
(C) Dr. new typewriter \$4 000
Dr. cash \$2 000
Cr. old typewriter \$6 000
(D) Dr. old typewriter \$2 000
Dr. cash \$4 000
Cr. new typewriter \$6 000

16. 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

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$$\text{Stockturn} = \frac{\text{cost of goods sold}}{\text{Average stock}} = 9$$

$$\text{cost of good sold} = 9 \times \text{Average stock}$$

$$= 9 \times \frac{3500 + 4200}{2} = 34650$$

17. Which of the following is used to check the arithmetical accuracy of the entries in the General Ledger?

(A) The Cash Book
(B) The Bank Statement
(C) The Balance Sheet
(D) The Trial Balance

18. Which of the following describe systems used in keeping stock records?

I. LIFO
II. Perpetual
III. FIFO
IV. Periodic

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

19. The following information appeared in the books of a trader:

Stock at start	\$ 700
Purchases	\$1 800
Sales	\$3 000
Gross profit	\$ 800

What is the closing stock?

(A) \$ 300
(B) \$ 500
(C) \$1 700
(D) \$2 200

20. The following is an extract from a trader's Balance Sheet:

Capital at start	\$100 000
Add Net profit	50 000
	<u>150 000</u>
Less Drawings	25 000
	<u>125 000</u>

The return on capital invested is

(A) 33 1/3%
(B) 40%
(C) 50%
(D) 80%

21. A trader adds 33 1/3% to his cost price in order to arrive at his selling price. If his sales for the year amounted to \$24 000, what was his gross profit for the year?

(A) \$ 4 000
(B) \$ 6 000
(C) \$ 8 000
(D) \$10 000

Item 22 refers to the following information which relates to the business of T & T Ltd.

Opening stock (cost price)	\$3 500
Closing stock (cost price)	\$4 200
Rate of stock Turnover	\$ 9

22. How much is the cost of stock sold?

(A) \$31 500
(B) \$34 650
(C) \$36 800
(D) \$37 800

23. On May 1, a petty cashier received an imprest of \$150. During the month petty cash expenses amounted to \$77.00 and \$2.00 was received from a member of staff who made a personal telephone call. How much cash is needed to restore the imprest on May 31?

(A) \$ 73.00
(B) \$ 75.00
(C) \$ 77.00
(D) \$150.00

24. A credit bank balance in the Cash Book indicates that

(A) there is a balance in the bank
(B) too much cash is paid out of the office
(C) the bank balance is overdrawn
(D) too many discounts were allowed

25. Which of the following is recorded in the debit column of the Cash Book?

(A) Cash Purchases
(B) Cash Receipts
(C) Cash Payments
(D) Cash Discount Received

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26. A discount received of \$12.00 was posted to the wrong side of the Discount Received Account. What would be the adjusting entry?

(A) Debit Discount Received \$24.00
 (B) Credit Discount Received \$12.00
 (C) Debit Discount Received \$12.00
 (D) Credit Discount Received \$24.00

27. A. Smart sold goods on credit to B. Sharpe. How would this transaction be recorded in the books of B. Sharpe?

(A) Dr. A. Smart A/c
 Cr. Sales A/c
 (B) Dr. Purchases A/c
 Cr. A. Smart A/c
 (C) Dr. Purchases A/c
 Cr. B. Sharpe A/c
 (D) Dr. B. Sharpe A/c
 Cr. Sales A/c

B Sharpe

A Sn

Items 28 - 30 refer to the following information:

Trinbago Ltd. Orange Street San Juan, Trinidad			
To: XYZ Co. Ltd. Plum Road D'Abadie, Trinidad			
Invoice No.: A009		Date: January 1st, 1992	
		Unit Price	Total
20	cases Guava Wine	70.00	\$1 400.00
40	cases Cherry Brandy	75.00	3 000.00
60	cases Rum Punch	60.00	3 600.00
Less 20% trade discount			
Terms: net 30 days, 2 1/2% 15 days.			

28. What is the meaning of the terms 'net 30 days, 2 1/2% 15 days'?

(A) No credit period is given but the debtor will receive 2 1/2% settlement discount if he pays within 15 days.
 (B) The debtor must settle his account in either 15 days or 30 days if he wants a 2 1/2% settlement discount.
 (C) A credit period of 30 days is given, but a 2 1/2% settlement discount is offered if the debt is paid within 15 days.
 (D) A credit period of 45 days, no discount if paid within 30 days but a 2 1/2% settlement discount if paid within 15 days.

29. What is the actual amount of the invoice?

(A) \$5 600
 (B) \$6 400
 (C) \$7 000
 (D) \$8 000

30. If XYZ Co. Ltd paid for the goods on January 12th, 1992 how much did they actually pay?

(A) \$5 460
 (B) \$6 240
 (C) \$6 825
 (D) \$7 800

2.5% of 6400

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$$\text{Stockturn} = \frac{\text{Cost of Goods Sold (Cost of Sales)}}{\text{Average Stock}}$$

$$\therefore \text{Stockturn} \times \text{Avg. Stock} = \text{COGS}$$

$$8 \times \frac{(3800 + 1600)}{2} = 21600$$

$$\text{Margin} = \frac{1}{3}$$

$$\text{Markup} = \frac{1}{2}$$

opening stock	3800
Add Purchases	19400
	<u>23200</u>
less closing stock	1600
Cost of Goods Sold	<u>21600</u>

$$\therefore \text{Gross Profit} = \frac{1}{2} \times 21600 = 10800$$

$$\text{Sales} = 10800 \times 3 = 32400$$

$$\text{Expenses} = \frac{16}{100} \times 32400 = 5184$$

$$\text{Net Profit} = 10800 - 5184 = 5616$$

Dec 1988 = 1 year
 " 1989 = 2 years
 " 1990 = 3 years

31. A trader received an invoice for \$4 000 less 25% trade discount. Subsequently he returned one eighth of the goods. What amount would be entered in his Returns outwards account?

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

32. Which of the following is NOT recorded in the General Journal?

(A) Cash sales
(B) Correction of errors
(C) Credit purchase of assets
(D) Opening entries

33. The following account appeared in the ledger of D. Pierre:

Rates					
<u>1991</u>				<u>1991</u>	
		\$			\$
Jan. 20	Bank	45	Jan. 1	Balance	45
April 1	Bank	90			
Oct. 1	Bank	120			

If all rates payments are made for a period of six months, what amount will be transferred to the Profit and Loss Account on December 31, 1991?

(A) \$120
(B) \$150
(C) \$210
(D) \$255

34. The following information relates to the business of T. Watts:

		\$
January 1	Debtors	8 400
January 1	Provision for	
	Bad debts	336
Dec. 31	Debtors	9 600

During the year \$350 in bad debts were written off. If the provision for bad debts is to be adjusted to 5% of debtors, what amount would be debited in the Bad Debts Account on December 31?

(A) \$350
(B) \$466
(C) \$480
(D) \$494

Items 35 - 38 refer to the following information:

Opening stock at cost price	\$3 800
Closing stock at cost price	\$1 600
Rate of stock turnover	8
Expenses as a % of sales	15
Gross profit to sales	33 $\frac{1}{3}$

35. The cost of sales is

(A) \$12 800
(B) \$21 600
(C) \$30 400
(D) \$43 200

36. The turnover is

(A) \$17 066
(B) \$28 800
(C) \$32 400
(D) \$45 600

37. The gross profit is

(A) \$ 5 689
(B) \$ 9 600
(C) \$10 800
(D) \$15 200

38. The net profit is

(A) \$ 829
(B) \$ 4 740
(C) \$ 5 940
(D) \$10 340

39. On January 1, 1988, a company issued 4000 5% cumulative preference shares at its par value \$10 each. If dividends were not paid until December 31, 1990, what amount would the company have to pay in dividends on these shares?

(A) \$2 000
(B) \$4 000
(C) \$6 000
(D) \$8 000

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Net Profit

7100

Less

Interest on Capitals

Smith 250

Brown 100

Robinson 50

400

6700

SALARY

300

6400

BALANCE OF PROFITS SHARED:

SMITH

4000

BROWN

1600

ROBINSON

800

6400

40. A businessman incurred the following expenses:

Factory repairs	\$6 000
Machinery repairs	\$2 000
New machine	\$3 000
New vehicle	\$7 000

What is the total capital expenditure?

- (A) \$ 6 000
(B) \$ 7 000
(C) \$ 8 000
(D) \$10 000
41. Which of the following principles should be used in preparing Income and Expenditure accounts?

- I. Debit expenses
II. Exclude capital items
III. Include all receipts and payments
IV. Credit income

- (A) I, II and III only
(B) I, II and IV only
(C) I, III and IV only
(D) II, III and IV only
42. 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

43. Which of the following BEST describes the need for a businessman to keep control accounts?

- (A) To ensure that all entries relating to the subsidiary ledgers have been entered
(B) To reduce the number of accounts kept in the ledger
(C) To control the employees
(D) To make all accounts equal

44. Which of the following BEST describes a quasi partner?

- (A) He takes an active part in the business.
(B) He is liable only to the extent of his investment.
(C) He is a retiree who leaves his investments as a loan in the business.
(D) He is a retiree who receives reduced profits.

45. Which payroll document summarizes all gross pay, deductions and net pay for a payroll period?

- (A) Time card
(B) Employees earnings record
(C) Income tax tables
(D) Pay slip

Items 46 - 50 refer to the following information:

Smith, Brown and Robinson are partners who share profits in the proportion of their capitals of \$5 000; \$2 000 and \$1 000 respectively.

Net profit is \$7 100
Interest on capital is 5%
Robinson is paid a salary of \$300

46. Smith's current account is credited with

- (A) \$1 150
(B) \$1 700
(C) \$4 250
(D) \$6 400

47. Brown's current account is credited with

- (A) \$1 150
(B) \$1 700
(C) \$4 250
(D) \$6 400

48. Total interest on capital amounts to

- (A) \$ 50
(B) \$100
(C) \$250
(D) \$400

49. Smith's share of the profits amount to

- (A) \$ 800
(B) \$1 600
(C) \$4 000
(D) \$6 400

50. Robinson's share of the profits amount to

- (A) \$ 800
(B) \$1 600
(C) \$4 000
(D) \$6 400

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51. Which of the following are reasons why co-operative societies are formed?

- I. To serve the interest of its members.
- II. To encourage thrift among its members.
- III. To allow its members to share in its profits.
- IV. To give members an opportunity to share in the management operations.

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

52. Which of the following are characteristics of a public limited company?

- I. The minimum number of members is seven.
- II. It restricts the right to transfer shares.
- III. It offers shares for sale to the public.
- IV. There is no limit to the size of its membership.

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

53. A public limited company issued a prospectus offering the following shares for sale at par value:

Type	Amount	Par value
Ordinary	20 000	\$2.00
5% Preference	10 000	\$5.00
5% Cumulative Preference	5 000	\$8.00

If the issue was fully subscribed, how much capital did the company raise?

- (A) \$ 40 000
- (B) \$ 50 000
- (C) \$ 90 000
- (D) \$ 130 000

Items 54 - 56 refer to the following information:

Kelly B. Hind borrows \$2 000 from his Credit Union. The rate of interest is 1% per month on the outstanding balance. Mr. Hind's instalments are \$120 per month payable at the end of each month.

54. For the first month his interest payment is

- (A) \$ 1.00
- (B) \$ 2.00
- (C) \$10.00
- (D) \$20.00

55. The amount of the principal repaid at the end of the first month is

- (A) \$100
- (B) \$110
- (C) \$118
- (D) \$119

56. The outstanding balance at the end of the second month is

- (A) \$1 881
- (B) \$1 882
- (C) \$1 890
- (D) \$1 799

57. P. Hawk has a manufacturing business, his raw materials cost \$1 900; Rates and rent total \$2 000 and factory wages amount to \$2 500.

The number of units produced is 640. What is the cost of one unit?

- (A) \$ 4
- (B) \$ 6
- (C) \$10
- (D) \$13

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58. M. Smith has a manufacturing business:
His expenses are as follows:

Factory rent	\$600
Factory lighting	\$800
Factory repairs	\$850
Factory wages	\$900

What is his total variable cost?

- (A) \$600
(B) \$850
(C) \$890
(D) \$900

59. H. Stone has a manufacturing business:
His expenses are as follows:

Factory lighting	\$1 000
Factory wages	\$2 000
Office salaries	\$2 500
General administrative expenses	\$4 000

How much is his total direct expenses?

- (A) \$1 000
(B) \$2 000
(C) \$3 000
(D) \$4 000

- 60.

Prime cost	\$10 000
Overheads	16 000
Work in progress	
January 1	3 000
Work in progress	
December 31	5 000

From the above extract what is the year's cost of production of finished goods?

- (A) \$14 000
(B) \$18 000
(C) \$21 000
(D) \$24 000

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

