PRINCIPLES OF A/C COUNTS
FOR CARIBBEAN EXAMINATIONS
Principles of Accounts
for Caribbean Examinations
First published in Jamaica, 2011 by
Ian Randle Publishers
11 Cunningham Avenue
Box 686
Kingston 6
www.ianrandlepublishers.com

© 2011, Lystra Stephens-James, Nigel Cooper, Lesley Burrows, Kirk Philip

National Library of Jamaica Cataloguing-in-Publication Data

Principles of Accounts for Caribbean Examinations / Lystra Stephens-James … [et al]

p. ; cm.


1 Accounts – Examinations, questions, etc.
I Stephens-James, Lystra

657.076 dc 22

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form, or by any means electronic, photocopying, recording or otherwise without prior permission of the author or publisher.

Cover and book design by Ian Randle Publishers
Printed in United States of America
CONTENTS

Preface .............................................................................................................................................. vii

The School Based Assessment ......................................................................................................... ix

1. Basics in Accounting .............................................................................................................. 1

2. Basic Features and Records ............................................................................................... 12

3. Accounting for a Business ................................................................................................... 19

4. Introduction to the Ledger Accounts .................................................................................... 29

5. Books of Original Entry ........................................................................................................ 54

6. Day Books, Ledgers and the Trial Balance .......................................................................... 90

7. Preparation of Unadjusted Financial Statements for a Sole Trader .................................... 112

8. End of Year Adjustments .................................................................................................... 130

9. Inventory (Stock) Valuation ................................................................................................ 149

10. Introduction to Ratio Analysis ............................................................................................ 161

11. Control Systems: Errors and Suspense Accounts ............................................................. 175

12. Control Systems: Control Accounts .................................................................................. 183

13. Incomplete Records ........................................................................................................... 196

14. Bank Reconciliation Statements ........................................................................................ 212

15. Partnership Accounting ..................................................................................................... 224

16. Accounting for Corporations .............................................................................................. 243

17. Accounting for Co-operative Societies ............................................................................... 254

18. Accounting for Non-Profit Organisations ........................................................................... 272

19. Manufacturing Accounts ..................................................................................................... 290

20. Payroll Accounting ............................................................................................................. 305
Glossary of Terms ........................................................................................................................... 318
Glossary Activity ............................................................................................................................ 331
PREFACE

This text is primarily produced for students preparing for the Caribbean Examinations Council’s (CXC) Caribbean Secondary Education Certificate (CSEC) Principles of Accounts examination.

It reviews basic principles in an interactive way to sustain interest in Accounting and achieve success in the CXC CSEC Principles of Accounts examination, while providing teachers with the support they need.

Each chapter begins with objectives that contain supporting information on learning outcomes. A few of the unique features of this text are A Look Ahead, A Look at This Chapter and A Look at the Previous Chapter. The book features:

- Demonstration problems with related activities
- A glossary
- Alternative terms
- Summaries
- Teacher assignments with answers, which will be all shown within the chapter and at the end (These will be shown distinctively in bold or coloured prints)
- Multimedia teaching aids
- References to teaching material suitable for students
- Links to a website with resources for both teachers and students and an question and answer section including answers to the questions found in this text.

The authors have arranged the text in the same order as the CXC CSEC Principles of Accounts Syllabus and it is written in such a way as to match in full the learning outcomes and subject content.

Although this text has been primarily produced for the CXC CSEC Principles of Accounts Syllabus, it will also be a forerunner to students and teachers of CAPE Accounting.

We are indebted to the following persons who were responsible for preparing the manuscript: Victor Stewart, Davi Ramkallan and Usha Bessesar. Our heartfelt thanks go to Mrs Lisa Cooper, Mrs Briget Scott, and Mr Dennis Noel for reading our transcript and making helpful suggestions. Finally, we thank our families and friends for their support which allowed us to complete this textbook.

Best wishes and much success,

LYSTRA B. STEPHENS-JAMES
LESLEY BURROWS
NIGEL COOPER
KIRK PHILIP
This deals with the School Based Assessment (SBA) for secondary school students for the Caribbean Examination Council’s CSEC Principles of Accounts syllabus. It provides general and specific objectives and requirements of the SBA.

GENERAL OBJECTIVES
An SBA is one of several learning/teaching tools. It satisfies several objectives including:

- Assessing the student’s level of knowledge, skills and attitudes associated with accounting.
- Encouraging cooperative learning.
- Applying accounting principles and procedures to real life situations.

Students gain marks as mandated by the Caribbean Examinations Council CSEC syllabus. A maximum mark of 20% may be earned by a student whose work is assessed by teachers in line with the standards set out the Caribbean Examinations Council.

At the end of selected chapters in this text, the reader will be exposed to a scenario in which they will be asked to provide solutions for a business started by Jane Brown.
Answers to the questions in this book are available on the website.

Visit highschoolaccounts.weebly.com for multiple choice questions and many other resources for teachers and students.

Remember to ask the authors a question online through our website.
Introduction

Welcome to the wonderful world of accounting! For the next few years you will be learning the principles of accounting.

Accounting is the process of recording, summarising, analysing and interpreting money related activities to permit individuals, families, and businesses to make informed judgments and decisions. The recording phase of accounting is called bookkeeping. This plays a vital role in accounting and will be dealt with in later chapters.

In your everyday life, sometimes several times a day, you may encounter aspects of accounting. But how do we use the process of accounting?

We use it:

- to measure wealth accumulation
- to assist in decision-making
- to report on how profitably acquired funds were used (the need to assess stewardship)
- to invest in start up and expansion of a business
The Business Operating Cycle

Some Opportunities in Accounting

There are several job opportunities in accounting. These can be classified under the following headings.

Financial
Managerial
Taxation

Some of the specific tasks include auditing, budget analysis, financial accounting, management accounting and tax accounting.

Financial

Auditing
Auditing involves checking accounting ledgers and financial statements within businesses and government. This work is becoming increasingly computerised. Auditing is the bread and butter work of accounting. This work can involve significant travel and allows you to really understand how money is being made in the company that you are analysing. It’s a great background!

Budget Analysis
Budget analysts are responsible for developing and managing an organisation’s financial plans. There are many jobs in this area in both the government and private industry.

Financial Accounting
Financial accountants prepare financial statements based on general ledgers and participate in important financial decisions involving mergers and acquisitions and planning long term financial projections. The work can be varied over time. One day you may be running spreadsheets. The next, you may be visiting a customer or supplier to set up a new account and discuss business. This work requires a good understanding of both accounting and finance.
Fundamentals in Accounting

Accounting Framework

Accountants operate under an accounting framework which is made up of two main parts:

1. A regulatory framework
2. A practical framework

Concepts

The Financial Accounting practice is governed by concepts and rules known as Generally Accepted Accounting Principles (GAAP). Accountants adopt these principles to make the financial information relevant, reliable and comparable. These basic concepts are part of a Regulatory Framework. Some of them, (the concepts, assumptions and guidelines) are used to prepare financial statements and the others, (the detailed rules) are used when reporting business events called transactions.

Therefore, students of accounting must understand all of these principles to effectively prepare accounting information. The most important principles are listed below and will be discussed and revisited throughout this text.
<table>
<thead>
<tr>
<th>GAAPs Term</th>
<th>Principle (Definition)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Measurement</td>
<td>Only items that can be measured in monetary terms are to be recorded.</td>
</tr>
<tr>
<td>Historical Cost</td>
<td>Items are to be recorded at their purchase price.</td>
</tr>
<tr>
<td>Going Concern</td>
<td>This is the assumption that the business will continue in existence for an indefinite time period.</td>
</tr>
<tr>
<td>Objectivity</td>
<td>The values used by the accountant must be based on facts that can be tested by anyone.</td>
</tr>
<tr>
<td>Consistency</td>
<td>The same procedure for treating similar items should be maintained at all times.</td>
</tr>
<tr>
<td>Business Entity (Legal Personality)</td>
<td>In the eyes of the law the business is a separate legal person from its owner(s). Therefore separate accounts must be kept for the business.</td>
</tr>
<tr>
<td>Prudence (Conservatism)</td>
<td>The business owner must not record a profit before it is earned but may record a loss if it is likely to occur.</td>
</tr>
<tr>
<td>Duality (Double Entry)</td>
<td>Every transaction affects at least two (2) accounts, once as a debit and once as a credit.</td>
</tr>
</tbody>
</table>
GAAPs Term (cont.) | Principle (Definition) (cont.)
--- | ---
Materiality | When recording, we record items that are sizeable or represent a large part of the business or which have changed considerably in value.
Accruals (Matching) | When calculating profit or loss for a period, all revenue and expenses must be taken into account whether or not cash was actually paid or received.
Periodicity | Accounts are prepared for a specific time period usually 1 month, 3 months, 6 months or 1 year.

Table 1.2: GAAP Terms

Users of Accounting Information

Accounting is often referred to as ‘the language of business’ because it communicates information to help persons make informed decisions. The table below shows a list of users and the reasons for which they need accounting information.

<table>
<thead>
<tr>
<th>Users</th>
<th>Why accounting information is needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners and Managers</td>
<td>• To provide them with complete financial information on the business’ performance and financial position in order to make important decisions that affect its continued operations.</td>
</tr>
<tr>
<td>Employees/ Trade Unions</td>
<td>• To make bargaining for better wages and conditions with management easier.</td>
</tr>
<tr>
<td>Prospective Investors/ Financial Analysts</td>
<td>• To assess the attractiveness of investing in a business. • To be provided with data that will assist in making decisions on whether to keep or dispose of their investment in the business.</td>
</tr>
<tr>
<td>Financial Institutions (banks and other lending companies)</td>
<td>• To decide whether to grant a company a loan for expansion and/or other significant expenditures.</td>
</tr>
<tr>
<td>Government Entities (tax authorities)</td>
<td>• To determine the amount of taxes and other duties to be paid.</td>
</tr>
</tbody>
</table>

Table 1.3: Users of Accounting Information

Accounting as a Process

In order to ensure that accurate, reliable and consistent accounting information is provided, it must be systematically processed. That means that the financial dealings of the firm/business must go through a process of:
1. Preparing, sorting and classifying source documents
2. Journalising – recording in journals, also known as books of original entry, day books, subsidiary day books and books of prime entry
3. Posting – sending from books of prime entry to ledger accounts
4. Preparing trial balance – transfer balances from ledger accounts to a trial balance
5. Making adjusting entries and correcting errors
6. Preparing adjusted trial balance
7. Preparing final accounts

Figure 1.3: The Accounting Cycle

This diagram is known as the ACCOUNTING CYCLE.
Bookkeeping in Practice

Bookkeeping is the recording of transactions and events. The starting point of bookkeeping is the transaction. A transaction is a deal between the business/individual and another party. Written evidence of a transaction is provided in a business document sometimes called a source document. Source documents should have the date on which the transaction took place, the parties involved, the value and material of the transaction. Source documents will be dealt with in more detail in Chapter 5.

Chapter Summary

Bookkeeping is just one part of accounting. Bookkeeping identifies and communicates information on transactions and events.

• Accounting, in addition to bookkeeping, includes the processes of analysis and interpretation. Accounting activities consist of:

  1. Sorting and classifying (Selecting transactions and events)
  2. Recording (Journalising and posting)
  3. Communicating (Preparation of, analysis, and Interpretation of reports)

• Accounting, also called ‘the language of business,’ communicates information to help persons make informed decisions. Such persons include:

  Government entities – to ascertain the accuracy of taxes.
  Employees – to discuss promotion.
  Prospective Investors – to assess the viability of an investment.
  Owners – to make decisions about expansion.
  Banks – to grant a loan.

• Generally Accepted Accounting Principles include:

  – Money Measurement
  – Historical Cost
  – Going Concern
  – Objectivity
  – Consistency
  – Business Entity/Legal Entity
  – Prudence/Conservatism
  – Duality/Double Entry
  – Materiality
  – Accruals/Matching
  – Periodicity
Practice Questions

1. Identify various ways in which accounting can be used in a family and by you as a student.

2. Listed below are several users and phrases associated with the accounting information needed. Pair each item from List A with their appropriate term from List B.

   **LIST A**
   - government entities
   - employees
   - prospective investors
   - owners
   - banks

   **LIST B**
   - 1) to make decisions about expansion
   - 2) to assess the viability of an investment
   - 3) to discuss promotion
   - 4) to grant a loan
   - 5) to ascertain the accuracy of taxes

3. Classify which of the following accounting activities relate specifically to bookkeeping OR to accounting.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Bookkeeping/Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Journalising – Recording in books of prime entry</td>
<td></td>
</tr>
<tr>
<td>Sorting and classifying source documents</td>
<td></td>
</tr>
<tr>
<td>Preparing final accounts</td>
<td></td>
</tr>
<tr>
<td>Posting – sending from books of prime entry to ledger accounts</td>
<td></td>
</tr>
<tr>
<td>Preparing trial balance – transfer balances from ledger accounts to a trial balance</td>
<td></td>
</tr>
<tr>
<td>Making adjusting entries and correcting errors</td>
<td></td>
</tr>
<tr>
<td>Preparing adjusted trial balances</td>
<td></td>
</tr>
<tr>
<td>Analysing final accounts</td>
<td></td>
</tr>
</tbody>
</table>

4. Identify any THREE users of accounting information and state their interest in the accounts.
5. Using the table below, number the following steps in the Accounting Cycle in their correct sequence.

<table>
<thead>
<tr>
<th>Step</th>
<th>Sequence Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepare the Trial Balance</td>
<td></td>
</tr>
<tr>
<td>Prepare the Trading and Profit &amp; Loss Account</td>
<td></td>
</tr>
<tr>
<td>Journalise</td>
<td></td>
</tr>
<tr>
<td>Analyse Source Documents</td>
<td></td>
</tr>
<tr>
<td>Prepare the Balance Sheet</td>
<td></td>
</tr>
<tr>
<td>Post to the Ledger</td>
<td></td>
</tr>
</tbody>
</table>

Multiple Choice

1. The accounting cycle uses the following procedures.
   I. Extracting a trial balance
   II. Analysing source documents
   III. Posting to the ledger
   IV. Journalising
   V. Preparation of final accounts

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

(a) II, V, III, I, IV
(b) I, II, III, IV, V
(c) II, IV, III, I, V
(d) III, V, II, I, IV

2. Which of the following tasks would NOT be normally carried out by an accountant?
   I. Extracting the trial balance
   II. Drawing a balance sheet
   III. Auditing the accounts
   IV. Keeping the Journals


(a) I and IV only  
(b) II and III only  
(c) I and II only  
(d) II and IV only

3. Which of the following are NOT external users?  
   a. Managers  
   b. Creditors  
   c. Bankers  
   d. Investors

4. The accounting concept that a business is distinct from its owners is:  
   a. Business entity  
   b. Double entry bookkeeping  
   c. Matching  
   d. Going concern

5. Which of the following ensures that accountants must match revenue with expenses?  
   a. Separate entity  
   b. Matching  
   c. Consistency  
   d. Prudence

Visit www.highschoolaccounts.weebly.com for answers to these questions.