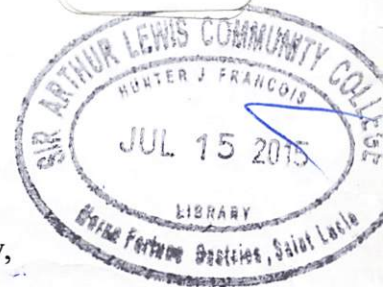


**SIR ARTHUR LEWIS COMMUNITY COLLEGE  
DIVISION OF TECHNICAL EDUCATION AND MANAGEMENT STUDIES**

DTEMS PAST PAPERS  
MANAGEMENT STUDIES

EXAMINATION SESSION : May 2007, Final Examination  
TUTOR(S) : Mrs F Beerom-Henry  
PROGRAMME TITLE : Associate Degree – Business Administration  
PROGRAMME CODE : 3BS-ABA-AD  
COURSE TITLE : Advanced Financial Accounting  
COURSE CODE : ACC204  
CLASS : Year 2  
DATE : Friday May 4, 2007  
TIME : 9 a.m.  
DURATION : 3 hrs  
ROOM(S) : CEHI-1H-02  
INVILGILATOR(S) : Ms. L Phillips, Mrs. M Lashley,  
Mrs. L Joseph

#A24



**INSTRUCTIONS**

**CANDIDATES ARE REQUIRED TO WRITE ONLY ID# ON EXAMINATIONS SCRIPTS. NO NAMES ARE REQUIRED.**

Read **all** questions carefully.

There are **five (5)** long answer questions PLUS a bonus question in this paper.

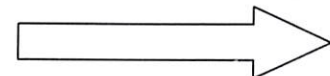
Candidates are required to answer **Question 1** and **any other three (3)** complete long answer questions. There is no penalty for not attempting the bonus question.

Present and future value tables are provided.

Use of silent electronic calculators is permitted.

Begin each question on a new foolscap page.

Borrowing or lending is prohibited.



GO TO THE NEXT PAGE

**INSTRUCTION:** Answer **Question 1** and **any other three (3)** complete long answer questions.

**Question 1 (Compulsory)**

- A) Helen, owner of Treats & More is struggling to keep up with the recording of her accounting transactions. She is spending a lot of time marketing and selling home made treats (jams, jellies, tarts, cakes, etc) and giving cake decorating classes. Her friend Michael is an accounting major who runs his own accounting service. He has asked Helen if she would like to have him do her accounting.

Helen and Michael met and discussed her business. Michael suggested that he do the following for Helen.

1. Hold cash until there is enough to be deposited. He would keep the cash locked up in his van. He would also take all of the deposits to the bank at least twice a month.
2. Write and sign all the cheques.
3. Record all of the deposits in the accounting records.
4. Record all of the cheques in the accounting records.
5. Prepare the monthly bank reconciliation.
6. Transfer all of Helen's manual accounting records to his computer accounting program. Michael maintains all of the accounting information that he keeps for his clients on his laptop computer.
7. Prepare monthly financial statements for Helen to review.
8. Write himself a cheque every month for the work he has done for Helen.

**Required:**

- i) Identify at least four (4) weaknesses that you see in the internal control system Michael is recommending.  
**(10 marks)**
- ii) Suggest at least four (4) improvements that should be made to the internal control system if Helen hires Michael to do the accounting.  
**(10 marks)**

*Continued.....*

(Question 1 cont'd)

- B) Listed below are several procedures followed by S. Arthur Company.
1. Each individual (Cherubin, Long and Prospere) who operates the cash register uses his or her own register drawer and register code.
  2. A monthly bank reconciliation is prepared by Walcott the bookkeeper.
  3. John writes cheques and Moise records cash payments for inventory.
  4. Samuel orders inventory and authorizes payment of inventory.
  5. Unnumbered sales invoices from credit sales are forwarded to the accounting department every 4 weeks for recording.
  6. Only Augier the sales manager can approve credit sales.
  7. Total cash receipts are compared to daily bank deposits by Emmanuel, who receives cash over the counter.

**Required:**

Indicate whether each procedure is an example of good or weak internal control. If it is an example of good internal control, indicate which internal control principle is being followed. If it is an example of weak internal control, indicate which internal control principle is violated. Use a table like the one below.

<u>Procedure</u>	<u>IC Good or Weak?</u>	<u>Related IC Principle</u>
1.		
2.		
3.		
4.		
5.		
6.		
7.		

(10 marks)  
[Total 30 marks]

## Question 2 (Optional)

- A) Identify the term for each of the following common accounting acronyms.
- |           |          |
|-----------|----------|
| i) AICPA  | iv) IASB |
| ii) FASB  | v) SEC   |
| iii) GAAP |          |

(5 marks)

- B) i) Sears Company sells two products, drills and saws. Each carries a one year warranty.
- **Drills** – product warranty costs, based on past experience, will normally be 1% of sales.
  - **Saws** – Product warranty costs cannot be reasonably estimated because this is a new product line. However, the marketing manager believes that product warranty costs are likely to be incurred.

How should the company report the estimated product warranty costs for each of the two products? Give rationale for your answer. (4 marks)

- ii) West Company sells computers. The company also offers its customers 2-year warranty contracts. During 2007 the company sold 10 000 warranty contracts at \$120 each and spent \$150 000 servicing warranty contracts. It estimates an additional \$850 000 will be spent in the future to service the warranties.

Prepare the journal entries to record:

- (a) the sale of contracts
- (b) the cost of servicing the warranties
- (c) the recognition of warranty revenue in 2007 on the basis of cost incurred and estimated cost
- (d) the recognition of warranty revenue in 2007 on the straight line basis

(5 marks)

- iii) To stimulate sales of Alladin breakfast cereal, Craft Company places one coupon in each box. Five coupons are redeemable for a premium consisting of a children's hand puppet. In 2007, the company purchases 40 000 puppets at \$1.50 each and sells 440 000 boxes of Alladin at \$3.75 a box. From past experience with similar offers, the company estimates that 40% of the coupons issued will be mailed back for redemption. During 2007, 105 000 coupons are presented for redemption.

Prepare the journal entries that should be recorded in 2007 relative to:

- (a) purchase of puppets
- (b) sale of boxes of Alladin
- (c) redemption of coupons
- (d) estimated liability for premium

(6 marks)

[Total 20 marks]

### Question 3 (Optional)

- A) Identify which of the following qualitative characteristic of accounting information is best described in each item below.  
*(predictive value; feedback value; timeliness; verifiability; neutrality; comparability; consistency; representational faithfulness)*
- i) The annual reports of *Best Buy Co.* are audited by certified public accountants.
  - ii) *Black & Decker* and *Sunbeam Corporation* both use the FIFO cost flow assumption.
  - iii) *Starbucks Corporation* has used straight-line depreciation since it began operations.
  - iv) *Motorola* issues its quarterly reports immediately after each quarter ends.
  - v) *AT&T* quarterly report provides quality information that confirms users' earlier expectations.
- (5 marks)**
- B) On January 1, 2007, Aumont Company sold 12% bonds having a maturity value of \$500,000 for \$537 907, which provides the bondholders with a 10% yield. The bonds are dated January 1, 2007 and mature January 1, 2012, with interest payable December 31 of each year. Aumont Company allocates interest and unamortized discount or premium on the effective interest basis. *(round to nearest whole number)*
- i) Prepare the journal entry at the date of the bond issuance. **(3 marks)**
  - ii) Prepare a schedule of interest expense and bond amortization for 2007 – 2009. **(3 marks)**
  - iii) Prepare the journal entry to record the interest payment and amortization for 2007. **(3 marks)**
  - iv) Prepare the journal entry to record the interest payment and amortization for 2009. **(3 marks)**
  - v) Assume the company uses the straight line method to amortize any discount or premium, prepare the journal entry to record the interest payment and amortization for 2009. **(3 marks)**
- [Total 20 marks]**

**Question 4 (Optional)**

- A) Classify the following items into the two groups shown below.  
*conservatism; comprehensive income; materiality;  
investments by owners; cost-benefit*

Constraints on Financial Reporting

Elements of Financial Statements

**(5 marks)**

- B) i) During its first year of operations, Collin Reye corporation had the following transactions pertaining to its common stock which has a stated value of \$5/share.

Jan. 10	Issued 80 000 share for cash at \$6 per share.
Mar. 1	Issued 5 000 shares to attorneys in payment of a bill for \$35 000 for services rendered in helping the company to incorporate.
Apr. 1	Issued 24 000 shares for land. The asking price of the land was \$190 000 and its fair value was \$120 000.
Sept. 11	Issued 10 000 shares of common stock and 100 shares of \$100 par value preferred stock for a lump sum of \$90 000. The market value of the preferred stock is \$170 per share.

Prepare the journal entries to record each of the above transactions. **(5 marks)**

- ii) Joe Dumas Company has outstanding 40 000 shares of \$5 par common stock which had been issued at \$30 per share. The company then entered into the following transactions. (The company uses the cost method to account for treasury shares)

1. Purchased 5 000 treasury shares at \$45 per share
2. Resold 2 000 of the treasury shares at \$49 per share
3. Retired 1 000 of the treasury shares

Prepare journal entries to record each of the items above. **(5 marks)**

- iii) The outstanding capital of Edna Millay corporation consists of 2 000 8% \$100 par value preferred stock and 5 000 \$50 par value common stock. The company has retained earnings of \$90 000, all of which is to be paid out in dividends this year. Preferred dividends were not paid during the 2 years preceding the current year.

- (a) How much should each class of stock receive if the preferred stock is cumulative and fully participating? (*round to nearest whole number*)
- (b) Prepare the journal entry at the declaration date.

**(5 marks)**

**[Total 20 marks]**

**Question 5 (Optional)**

- A) Classify the following items into the two groups shown below.  
*going concern; historical cost; revenue recognition;  
periodicity; full disclosure*

Basic Principles of  
Accounting to record transactions

Basic Assumptions underlying  
the financial accounting structure

**(5 marks)**

- B) i) Nagel-Siebert Trucking company is considering adding another truck to its fleet because of a purchasing opportunity. The company can buy the new truck for \$154 000 cash payable upon delivery. The company estimates that the truck will produce a net cash flow per year of \$40 000 for 5 years, at which time it will be sold for an estimated salvage value of \$35 000. The company's discount rate for evaluating capital expenditure is 15%. Should the company commit to the purchase of this truck? **(4 marks)**
- ii) Greg Norman Enterprises leases property to Tiger Woods, Inc. Because Tiger Woods, Inc. is experiencing financial difficulties, Greg Norman Enterprises agrees to receive five equal payments of \$10 000 at the end of each year, deferred for 3 years. What is the amount owed to Greg Norman Enterprises by Tiger Woods, Inc.? **(3 marks)**
- iii) The Government of St Lucia, having recently issued a \$20 million, 15-year bond issue, is committed to make annual sinking fund deposits of \$600 000. The deposits are made on the last day of each year and yield a return of 12%. Will the fund at the end of 15 years be sufficient to retire the bonds? What will be the excess or deficiency? **(4 marks)**
- iv) Hernandez Railroad Co. is about to issue \$100 000 of 10-year bonds paying an 8% interest rate, with interest payable semiannually. The discount rate for such security is 10%. How much can Hernandez expect to receive from the sale of these bonds?

**(4 marks)**

**[Total 20 marks]**

**BONUS QUESTION**

List the four (4) categories of Standards of Ethical Conduct for Accountants as identified in your bonus handout.

**[5 marks]**

**END OF EXAMINATION**