

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

EXAMINATION SESSION : April 2008 Final Examinations
TUTORS : Mrs. F. Beerom-Henry, Ms. U. Joseph,
Mr. F. Ephraim
PROGRAMME CODE : 3BS-ABA-AD
PROGRAMME TITLE : Applied Arts Business Administration
COURSE CODE : ACC102
COURSE TITLE : Financial Accounting II
CLASS (ES) : Year II
DATE : Wednesday, 23rd April 2008
COMMENCEMENT TIME : 9:00 a.m.
DURATION : 3 hours
INVIGILATOR(S) : E. Louisy, F. Paul, L. Joseph, M. Renee
L. Phillips, M. Lashley
ROOM : CEHI-1H-02, CEHI-1R-02

#A31



INSTRUCTIONS

- Read **all** questions and instructions carefully.

SECTION I (COMPULSORY)

Answer **ALL** questions in this section.

SECTION II (OPTIONAL)

Answer any **two (2)** complete questions in this section.

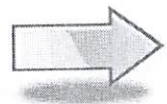
SECTION III (MULTIPLE CHOICE)

There are twenty-five (25) multiple choice items in this section.

Choose the letter **a, b, c or d** that carries the best response and **list** it on the foolscap sheet provided.

- Borrowing or lending is **prohibited**.
- **All cell phones must be turned off and placed in bags at front of room.**
- **Remove all calculator covers and place in bags at front of room.**

GO TO NEXT PAGE WHEN INSTRUCTED



Section 1

Instruction: Answer all questions in this section.

Question 1 (25 marks)

The following are comparative balance sheets for Space Co. as at December 31

	<u>2006</u>			<u>2007</u>		
	\$	\$	\$	\$	\$	\$
Fixed Assets (cost)		6,125			7,045	
<i>less</i> Depreciation to date		<u>3,035</u>	3,090		<u>2,655</u>	4,390
 <u>Current Assets</u>						
Stock		4,585			6,020	
Debtors	4,020			3,155		
<i>less</i> Prov. for Bad Debts	<u>80</u>	3,940		<u>145</u>	3,010	
Bank		500			-	
Cash		<u>3,510</u>			<u>940</u>	
		12,535			9,970	
 <u>Current Liabilities</u>						
Bank overdraft		-		135		
Proposed dividends	2,000			1,500		
Taxation	1,990			900		
Creditors	<u>1,135</u>	<u>5,125</u>	<u>7,410</u>	<u>720</u>	<u>3,255</u>	<u>6,715</u>
			10,500			11,105
 Debentures			<u>1,500</u>			<u>0</u>
			<u>9,000</u>			<u>11,105</u>
 <u>Financed by</u>						
Issued share capital			5,000		6,750	
General Reserve			1,875		2,875	
Retained Earnings			<u>2,125</u>		<u>1,480</u>	
			<u>9,000</u>		<u>11,105</u>	

Additional notes:

- Tax for the year 2007 was \$1,035.
- Dividend proposed was \$1,500.
- A transfer of \$1,000 was made to general reserve.
- Fixed assets costing \$1,080 which were depreciated \$900 were sold for \$100 during the year 2007.

Required:

Prepare the **Cash Flow Statement** in good style for the year ended December 31, 2007.

Question 2**(15 marks)**

Harry and Paul are in a partnership sharing profits and losses in the ratio 3:2. They decided to admit James as a partner on March 1, 2008 when the profit sharing ratio became 3:2:1. The Balance Sheet on February 29, 2008 was:

	\$	\$	\$
<u>Assets</u>			
Goodwill			12,000
Furniture	6,000	2,000	4,000
Vehicles	<u>6,500</u>	<u>2,500</u>	<u>6,000</u>
	<u>14,500</u>	<u>4,500</u>	<u>22,000</u>
 <u>Current Assets</u>			
Stock		2,000	
Debtors		1,200	
Bank		<u>2,500</u>	
		5,700	
 <u>Current Liabilities</u>			
Creditors		<u>300</u>	<u>5,400</u>
			<u>27,400</u>
 <u>Financed by</u>			
Capital: Harry			16,400
Paul			<u>11,000</u>
			<u>27,400</u>

It was agreed between Harry and Paul that the assets and liabilities were to be revalued as follows:

- Vehicles - \$4,000; Furniture - \$7,000 (some of which had been found to be genuinely antique); Stock – some of which originally cost \$200 was damaged and considered to be of no value.
- Creditors - \$500.
- No provision was made for doubtful debts and it was agreed that a provision of 10% of debtors was to be created.

The adjustments were made in the books at 29 February 2008 and James was admitted as a partner on the following day when he paid \$12,000 cash into the firm's bank account for his capital.

The new partnership decided not to retain goodwill on the books.

Required: Prepare the following:

- | | | |
|----|--|-----------|
| a) | Goodwill account | (2 marks) |
| b) | Partners' Revaluation account | (7 marks) |
| c) | Partners' Capital account (columnar form). | (6 marks) |

Question 3**(15 marks)**

The following information relates to the retail shop of Mr. Small, who does not keep a complete set of books. The balances below were however extracted from his records.

	<u>Jan. 1, 2007</u>	<u>Dec. 31, 2007</u>
Office Equipment (NBV)	1,600	1,440
Trade Creditors	800	1,300
Trade Debtors	2,200	2,640
Accrued rent	-	100
Stock	3,180	3,400
Bank	2,260	?
Cash	160	?

His records also revealed the following:

- Sales were on a credit basis. \$20,000 was received as follows: \$19,000 by cheque and \$1,000 by cash from customers. Bad debts were estimated at \$660.
- Amounts paid to suppliers by cheque during the year totaled \$14,000. Discount received totaled \$900.
- There was no sale or purchase of equipment during the year.
- Expenses paid during the year were as follows:

	By cheque	By Cash
	\$	\$
Rent	400	100
Sundry expenses	360	

- He took \$200 cash for his personal use during the year.

REQUIRED:

- Prepare a **Trading and Profit Loss Account** for the year ended December 31, 2007. (11 marks)
- Calculate Mr. Small ending **cash and bank** balances. (4 marks)

Show all necessary workings.

Section 2

Instruction: Answer any two (2) questions in this section.

Question 4

(10 marks)

The summarized Trading and Profit and Loss Account for a business and its partial Balance Sheet as at January 31, 2008 are as follows:

Trading and Profit and Loss for the year ended January 31, 2008

	\$	\$
Sales		260,000
Less Cost of sales:		
Opening Stock	8,000	
Add Purchases	<u>153,000</u>	
Cost of goods available for sale	161,000	
Less closing stock	<u>5,000</u>	
		<u>156,000</u>
Gross profit		104,000
Less expenses		<u>65,000</u>
Net profits		<u>39,000</u>

(Partial)Balance Sheet as at January 31, 2008

Fixed assets		190,000
Current assets	109,000	
Less current liabilities		
Creditors	66,000	
Accrued expenses	<u>14,000</u>	
	<u>80,000</u>	<u>29,000</u>
Net assets employed		<u>219,000</u>

Required: Compute the following ratios:

- a) Stock turnover (1 mark)
- b) Working capital ratio (1 mark)
- c) Return on capital employed for 2007 (1 mark)
- d) Acid test ratio (2 marks)
- e) Creditors ratio (in days) (2 marks)
- f) If the business decides that its markup must be 33 1/3%, with its current level of sales determine what would be the value of its cost of sales. (3 marks)

[Total 10 marks]

Question 5

(10 marks)

Mr Charles and Mr Harris entered a joint venture dealing in ceramic tiles. They agreed to share profits and losses equally. The transactions connected with this venture were:

- Mr Charles purchased tiles costing \$12,000 and received a cheque from Mr Harris for half of this sum.
- Mr Charles incurred the following expenses: transport \$200; insurance \$400.
- Mr Harris sold \$15,000 worth of tiles and Mr Charles sold \$3,000 worth of tiles.
- Selling expenses were paid as follows: Mr Charles \$300 and Mr. Harris \$100.
- Mr Harris purchased additional tiles costing \$7,000.
- Mr Harris sold tiles for \$10,000 and sent a cheque to Mr Charles for \$4,000.
- The motor van that was used for the venture broke down so Mr Harris agreed to use his own van until cessation of the joint venture at an agreed charge of \$2,000.
- Unsold tiles in Mr Charles' possession were taken over by him at a valuation of \$2,000.
- The necessary settlements were made and the venture came to an end.

Required:

Prepare the following:

- a) The **Joint Venture** Account in the books of **each** party to the venture. (7 marks)
- b) The **Memorandum** Account. (3 marks)
- [Total 10 marks]

Question 6

(10 marks)

On January 1, 2008, Jeff Thomas of Bridgetown Barbados consigned 120 souvenir mugs to Basso Enterprises, Castries St Lucia, having made the following payments:

Cost of merchandise	\$1,800
Carriage to port	120
Insurance	600

Basso Enterprises is entitled to a commission of 5 per cent on sales, paid port charges of \$190 and freight at a rate of \$5 per mug.

The agent sold 60 mugs at \$25 and 30 mugs at \$32, the balance remained in stock on March 31, 2008, Thomas's accounting year end.

On March 31, 2008 Basso Enterprises forwarded an Account Sales with a sight draft for the amount due.

Continued

REQUIRED:

- a) Prepare the consignment account as it would appear in the books of Thomas. (5 marks)
- b) Prepare in good form, the Account Sales from Basso Enterprises. (5 marks)
- [Total 10 marks]

Section 3

Instruction: Choose the letter **a, b, c** or **d** that carries the best response and **list** it on your foolscap sheet. (25 marks)

1. D, E and F were in partnership sharing profits and losses in the ratio 3: 2: 1. F retired and D and E remained partners sharing profits equally. The entries in the firm's book to record the adjustment to goodwill valued at \$ 30,000 will be
- A. Debit the capital accounts of D and E with \$2,500 each and credit F's capital account with \$5,000.
 - B. Credit the capital accounts of D and E with \$5,000 each and debit F's capital account with \$5,000.
 - C. Debit E's account with \$5,000 and credit F's capital account with \$5,000.
 - D. Debit F's capital account with \$5,000 and credit E's capital account with \$5,000.
2. Dissolution of a partnership results in:
- A. the business ceasing operations
 - B. all the liabilities being paid off
 - C. all the assets being sold/taken over
 - D. all of the above be done
3. The journal entry to record dissolution costs is
- | <u>Debit</u> | <u>Credit</u> |
|---------------------------|------------------------|
| A. Realization a/c | Partners' Capital a/cs |
| B. Realization a/c | Cash/Bank a/c |
| C. Cash/Bank a/c | Realization a/c |
| D. Partners' Capital a/cs | Realization a/c |
4. When a business purchases stock on credit, its acid test ratio
- A. increases
 - B. remains unchanged
 - C. decreases
 - D. it is not possible to tell from the information
5. The current ratio is primarily an indication of an entity's
- A. current and future level of profitability
 - B. current level of efficiency
 - C. short-term liquidity
 - D. growth potential

6. Del Crede commission implies that
- the goods sent on consignment are to be sold on credit
 - the trader to whom the goods are sent is responsible for any bad debts
 - additional money is given to the agent to take care of bad debts
 - the money is received by the trader to cover bad debts.
7. In a limited company, the following are shown in the appropriation account:
- | | |
|-----------------------------|------------------------------|
| (I) Debenture Interest | (II) Proposed Dividends |
| (III) Transfers to Reserves | (IV) Directors' Remuneration |
- (I) and (II) only
 - (I) and (IV) only
 - (II) and (III) only
 - (II) and (IV) only
8. A private limited company may not
- issue bonus shares
 - issue debentures
 - make rights issue
 - offer its shares to the public
9. What is the order of priority which a company must give to any payment of dividends and interest?
- Debenture interest, ordinary dividends, preference dividends
 - Debenture interest, preference dividends, ordinary dividends
 - Preference dividends, debenture interest, ordinary dividends
 - Preference dividends, ordinary dividends, debenture interest
10. The riskiest form of investment in a limited company is in
- Debentures
 - Ordinary Shares
 - Non Cumulative Preference Shares
 - Cumulative Preference Shares
11. The safest form of investment in a limited company is
- Debentures
 - Ordinary shares
 - Preference shares
 - Reserves
12. A Company has authorized share capital of 100,000 ordinary shares of \$0.50. It has issued 60,000 of the shares. The directors propose to pay a dividend of 7%. The total dividends will amount to
- \$8,000.00
 - \$3,500.00
 - \$4,200.00
 - \$2,100.00

13. The issued capital of a company is
- A. always the same as the authorized share capital
 - B. the same as preference share capital
 - C. equal to the reserves of the company
 - D. none of the above
14. The proposed dividends represent
- A. an item that will appear on the Balance Sheet
 - B. the debenture interest accrued up to the date of the account
 - C. the dividend already paid to shareholders
 - D. the debenture interest paid in advance as of the date of the account
15. A company's share premium maybe defined as
- A. the excess of the issue price of shares over the par value of the shares
 - B. the excess of current market value of a property/business over its net book value
 - C. the excess of profit carried forward in the balance sheet
 - D. the amount set aside from profit for a specific or general purpose
16. In which document would a company include its rules governing the rights of members when submitting documents to the Registrar of Companies upon registration?
- A. Memorandum of Association
 - B. Prospectus
 - C. Articles of Association
 - D. Balance Sheet
17. Which of the following best describes the purpose of a Cash Flow Statement?
- A. To show the total profit of the business
 - B. To verify the movements in cash and cash equivalents of the business
 - C. To verify the movements in cash of the business
 - D. To determine the cash balance of the business
18. In a firm's Statement of Cash Flow, which of the following would appear as a cash inflow from investing activities?
- A. The repayment of a bank loan
 - B. The depreciation charge for the current year
 - C. Money received as a result of selling a fixed asset
 - D. Money received as a result of issuing new shares
19. In preparing a company's statement of cash flows in compliance with IAS 7 which, if any, of the following items could form part of the calculation of cash flow from financing?
- (I) Proceeds of sale of machinery
 - (II) Loss on sale of machinery
 - (III) Net income before taxes
- A. (I) only B. (II) only C. (III) only D. none of them

20. In a Statement of Cash Flows, which item is a cash inflow?
A. An increase in stock
B. A decrease in trade creditors
C. An increase in trade debtors
D. An issue of shares
21. A Statement of Affairs is similar to a
A. Balance Sheet
B. Statement of Cash Flows
C. Bank Statement
D. Bank Reconciliation Statement

Refer to the following data to answer the next 4 questions.

A partnership of A and B sharing profits in the ratio 2: 1 had the following assets and liabilities: Machinery \$20,000; Vehicles \$10,000; Stock \$3,000; Creditors \$3,000 and Bank \$1,000. Their capitals were: A- \$21,000 and B - \$10,000. The partnership was dissolved. Net assets realized \$45,000.

22. What was the total profit or loss upon realization?
A. \$14,000 profit
B. \$10,000 loss
C. \$15,000 profit
D. \$ 5,000 loss
23. What was B's share of the profit/loss on realization?
A. \$5,000
B. \$10,000
C. \$15,000
D. none of these
24. How much will B receive or pay in to dissolve the partnership?
A. \$0
B. \$5,000
C. \$11,000
D. \$15,000
25. How much will A receive or pay in to dissolve the partnership?
A. \$31,000
B. \$26,000
C. \$11,000
D. \$16,000

End of Examination