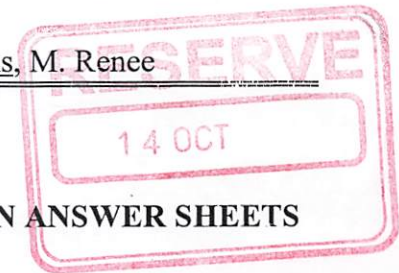


**SIR ARTHUR LEWIS COMMUNITY COLLEGE
DIVISION OF TECHNICAL EDUCATION AND MANAGEMENT STUDIES**

EXAMINATION SESSION : April 2008, Final Examination
TUTOR(S) : Mrs F. Beerom-Henry
PROGRAMME TITLE : Associate Degree – Business Administration
PROGRAMME CODE : 3BS-ABA-AD
COURSE TITLE : **Advanced Financial Accounting** #A30
COURSE CODE : **ACC204**
CLASS : Year 2
DATE : **Thursday April 24, 2008**
TIME : 9 a.m.
DURATION : 2 ½ hrs
ROOM : TRT-0R-03, TRT-0R-02
INVILGILATOR(S) : F. Paul, L. Joseph
L. McVane-Simmons, M. Renee



INSTRUCTIONS

CANDIDATES ARE REQUIRED TO WRITE ONLY ID# ON ANSWER SHEETS

Read **all** questions carefully.

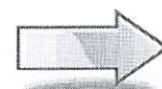
There are **four (4)** long answer questions PLUS a bonus question in this paper.

Candidates are required to answer **ALL** long answer questions. There is no penalty for not attempting the bonus question.

Present and future value tables are provided. Do not write on tables. Return tables to invigilator at end of exam. Use of silent electronic calculators is permitted.

Begin each question on a new foolscap page. Borrowing or lending is prohibited.

GO TO NEXT PAGE WHEN INSTRUCTED



Instruction: Answer all questions.

Question 1 (30 marks)

A)

Megaplex Theatre is located at Choc Mall. A cashier's booth is located near the entrance to the theatre. Three cashiers are employed. One works from 1 – 5 p.m. and another from 5 – 9 p.m. The two shifts are rotated among the three cashiers. The cashiers receive cash from customers and operate a machine that ejects serially numbered tickets. The rolls of tickets are inserted and locked into the machine by the theatre manager at the beginning of each cashier's shift.

After purchasing a ticket, the customer takes the ticket to an usher stationed at the entrance of the theatre lobby some 60 feet from the cashier's booth. The usher tears the ticket in half, admits the customer, and returns the ticket stub to the customer. The other half of the ticket is dropped into a locked box by the usher.

At the end of each cashier's shift, the theatre manager removes the ticket rolls from the machine and makes a cash count. The cash count sheet is initiated by the cashier.

At the end of the day, the manager deposits the receipts in total in a bank night deposit vault located in the mall. The manager also sends copies of the deposit slip and the initialled cash count sheets to the theatre company's treasurer/financial controller for verification and to the company's accounting department. Receipts from the first shift are stored in a safe located in the manager's office

Required:

i) Identify each internal control principle and its application to the cash receipts transactions of the Megaplex Theatre.

(16 marks)

ii) If the usher and the cashier decide to collude to misappropriate cash, identify two actions they might take?

(2 marks)

Continued.....

Question 1 cont'd

B)

On March 31, 2008, Megaplex Theatre's bank account as per its cash book showed the following balance.

BANK				No. 101	
Date	Explanation	Ref.	Debit	Credit	Balance
March 31	Balance				13,287

The bank statement from One National Bank on that date showed the following balance.

ONE NATIONAL BANK

<u>Checks and Debits</u>	<u>Deposits and Credits</u>	<u>Daily Balance</u>
XXX	XXX	3/31 13,332

A comparison of the details on the bank statement with the details in the cash account revealed the following facts:

- i) The statement included a debit memo of \$35 for the printing of additional company checks.
- ii) March 12th ticket sales of \$1,720 were deposited in the bank. The cash book entry and the deposit slip were incorrectly made for \$1,820. The bank credited Megaplex's account for the correct amount of \$1,720.
- iii) Outstanding checks at March 31st totalled \$1,225, and deposits in transit were \$2,100.
- iv) On March 18th, the company issued check no. 1181 for \$911 to pay Brydens for supplies of popcorn. The check which cleared the bank in March was incorrectly journalized and posted by Megaplex's accounts clerk as \$119.
- v) A \$4,000 note receivable plus \$80 interest was collected by the bank for Megaplex on March 31st. The bank charged a collection fee of \$25.
- vi) Included with the cancelled checks was a check issued by Autoplex Company to Mega-Mix Company for \$900. This amount was incorrectly deducted from Megaplex's account by the bank.
- vii) On March 31st, the bank statement showed that the check for \$1,308 received from Gros Football Club was dishonoured.

Required:

Prepare the bank reconciliation statement at March 31st, 2008.

(12 marks)

Question 2 (25 marks)

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

Prepare the all the necessary journal entries that should have been recorded in 2007 relative to the premium plan.

(10 marks)

- B) James Bond 007 Corporation issued \$400,000 7% 10-year bonds on January 1, 2008, for \$429,757. Interest is payable each July 1, and January 1. The Corporation uses the effective interest method with an effective rate of 6% to amortize any premium or discount.
- (i) Prepare a partial amortization schedule (2 years) for bond premium or discount.
 - (ii) Prepare the January 1, 2008 journal entry to record the bond issuance.
 - (iii) Prepare the July 1, 2009 journal entry to record bond interest and amortization.
 - (iv) Prepare all relevant journal entries at December 31, 2009.

(15 marks)

Question 3 (20 marks)

A) From the list below, fill in the blanks with the accounting principle, assumption, or related item that best completes the sentence. List your answers on your foolscap sheet. *An item may be used once, more than once or not at all.*

- | | | | |
|---------------|-----------------|------------------------|-------------|
| comparability | feedback value | matching concept | periodicity |
| consistency | full disclosure | materiality convention | reliability |
| conservatism | historical cost | revenue recognition | relevance |

1. _____ and _____ are the two primary qualities that make accounting information useful for decision making.
2. Information that helps users confirm or correct prior expectations has _____.
3. _____ enables users to identify the real similarities and differences in economic phenomena because the information has been measured and reported in a similar manner for different enterprises.
4. The _____ would allow the expensing of all repair tools when purchased, even though they have an estimated life of 3 years.
5. The _____ characteristic requires that the same accounting method be used from one accounting period to the next, unless it becomes evident that an alternative method will bring about a better description of a firm's financial situation.
6. _____ guides accountants to select the accounting treatment that is least likely to overstate income and assets.
7. Parenthetical balance sheet disclosure of the inventory method utilized by a particular company is an application of the _____ principle.
8. Corporations must prepare accounting reports at least yearly due to the _____ assumption.
9. Recording and reporting inflows at the end of production is an allowable exception to the _____ principle.

(10 marks)

Continued

Question 3 cont'd

B) The following business transactions occurred during the current year for New-Look Inc.

- i) Merchandise inventory that cost \$620,000 was reported on the balance sheet at \$690,000, this being the expected selling price less estimated selling costs (\$710,000 - \$20,000). The following journal entry was made to record this increase in value.

Merchandise Inventory	70,000	
Revenue		70,000

- ii) Because of a "fire sale," equipment obviously worth \$200,000 was acquired at a cost of \$155,000. The following entry was made.

Equipment	200,000	
Cash		155,000
Revenue		45,000

- iii) The company is being sued for \$500,000 by a customer who claims damages for personal injury apparently caused by a defective product. Company attorneys feel extremely confident that the company will have no liability for damages resulting from the situation. Nevertheless the company decides to make the following entry.

Loss from Lawsuit	500,000	
Liability fro Lawsuit		500,000

Required:

In each situation discuss the appropriateness of the journal entries in terms of generally accepted accounting principles (GAAPs).

(10 marks)

Question 4 (10 marks)

A company that is seeking to expand is faced with the following options for capital expenditure on a new building. As the company's consultant you are provided with the following data and asked to make a selection.

OPTION A – Purchase a building that has 25 years of useful life for a cash price of \$600,000.

OPTION B – Lease for 25 years a suitable building that will incur annual lease payments of \$69,000 to be made at the beginning of the year.

OPTION C – Purchase a building for \$650,000 cash. Since this building is larger than what is really needed, it is possible to sublet the excess space for 25 years at a net annual rent of \$7,000. Rental payment will be received at the end of each year.

Required:

Evaluate each option rationally and provide the company with a suitable recommendation.

(10 marks)

BONUS QUESTION (5 marks)

List the three (3) essential characteristics of a liability.

END OF EXAMINATION