

SECTION A

Answer Question 1 and ONE other question in this Section.

1. (a) Describe the roles and functions of an external auditor and of an internal auditor. [8 marks]
- (b) State clearly in what ways these roles and functions are similar and also different. [7 marks]

~~2~~ Accounting information has the following characteristics.

- (i) Relevance — Influence decisions. It is predictive of any
value. *Timely*
- (ii) Reliability — Complete & faithful. Verifiable, free material
error. free bias and prudent.
- (iii) Consistency — applies the same accounting treatment to
similar events.
- (iv) Comparability — able to discern and evaluate similarity
of transactions.

c (a) Explain what is meant by EACH of the four characteristics. [8 marks]

d (a) Discuss with examples how EACH of the four characteristics listed above relates to the needs of the users of an entity's financial statements. [12 marks]

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3. (a) Discuss the following accounting principles/concepts using an appropriate example to illustrate EACH principle discussed.
- (i) Matching
- (ii) Revenue recognition
- (iii) Materiality
- (iv) Business entity [16 marks]
- (b) Briefly state how a computerized accounting system may affect accounting concepts and principles. [4 marks]

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SECTION B

Answer the following question in this section.

4. (a) Mr King owns a large tailoring establishment in King's Village. He never hired an accountant but keeps notes in his diary of every transaction in each year, dating back to 1970. At the beginning of 2000 Mr King decided to retire. However, he wants the business to continue and is considering turning the business over to his assistant Mr Dardaine, who has worked with him since 1980. Mr King is not sure how he can maintain a financial interest in the business while remaining outside of the day-to-day operations after he retires.

Advise Mr King on the **advantages** and **disadvantages** of the various types of businesses that will allow him to maintain a financial interest in the business after he retires.

[9 marks]

- (b) The following information was extracted from the diary of Mr King for the years ending December 31, 1999 and December 31, 2000.

Account Names	2000	1999
	\$	\$
Cash (King's Tailoring)	500	205
Bank balance (Mr King)	45 000	39 525
Bank balance (King's Tailoring)	40 000	25 000
Machines (at valuation)	10 800	12 000
Inventory (materials and supplies)	1 500	1 000
Debtors/Accounts receivable	12 000	15 000
Creditors/Accounts payable	750	1 000
Motor vehicle (Mr King)	16 000	20 000
Bank loan (Mr King's vehicle)	16 500	25 000
Bank loan (tailoring machines)	3 750	7 500
Land and buildings (at valuation)	98 000	100 000

Prepare a statement showing the calculation of Mr King's equity position in King's Tailoring Enterprise at December 31, 1999 and December 31, 2000. **[6 marks]**

- (c) During an interview with Mr King the following information about the year 2000 was revealed.
- (i) Mr King withdrew \$25 000 cash from the business for personal use.
 - (ii) He recorded receipts of \$116 751 in cash from clients, of which \$15 000 related to monies owed to the business for work done in 1999.
 - (iii) He recorded expenses for electricity, water and telephone for the business totalling \$2 556 and for his home totalling \$1 000.
 - (iv) He paid salaries of \$4 000 per month to his assistants.

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- (v) He paid \$2 500 interest on the bank loan for a car for his personal use and also \$150 as interest on another bank loan for the purchase of machines for King's Tailoring.
- (vi) Mr King paid \$21 500 for materials and supplies, of which \$1 000 related to supplies purchased and used in 1999. He still owes \$750 to a vendor for supplies purchased in 2000.
- (vii) Mr King paid cash for the land and buildings in which the business is housed. Mr King banks all cash from the business. Items purchased by Mr King are paid for at the time of purchase except those bought from a vendor for which payments are made by the quarter. Mr King considers any money he withdraws as salary. He pays for any loans in his name out of his personal finances.

Using the information contained in (b) and (c) on page 4, prepare an Income Statement and Balance Sheet for King's Tailoring Enterprise for the year ending December 31, 2000. [13 marks]

- (d) On January 1, 2001 Mr King incorporated the business King's Tailoring Enterprises. He wants to determine the balance in the share capital account and the share premium account after incorporation. Mr Grant, from the accounting firm of Grant and Fields, has provided the following information pertaining to King's Tailoring Enterprise.

Account Names	Fair Market Value
	\$
Cash	500
Bank balance (King's Tailoring)	40 000
Machines	12 000
Inventory (materials and supplies)	1 200
Debtors/Accounts receivable	12 000
Creditors/Accounts payable	750
Motor vehicle (Mr King)	15 000
Bank loan (Mr King's vehicle)	16 500
Bank loan (tailoring machines)	3 750
Land and buildings	98 000

Mr King plans to keep the motor vehicle and the related loan for personal use. He will invest the remaining assets in the business in exchange for 10 000 8% preference shares with a stated value of \$5 per share and 8 500 common stock at a stated value of \$10 per share.

Prepare the balance sheet of the new company, King's Tailoring Enterprises Inc. on January 1, 2001. [7 marks]

SECTION C

Answer the following question in this section.

5. Yowching Inc. has prepared the following comparative balance sheets for 1999 and 2000:

	2000	1999
	\$	\$
Cash	112 500	76 500
Receivables	72 000	58 500
Inventory	81 000	90 000
Prepaid expenses	9 000	13 500
Fixed assets	660 000	525 000
Accumulated depreciation	(217 500)	(187 500)
Goodwill	76 500	87 000
	<hr/>	<hr/>
	793 500	663 000
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	\$	\$
Accounts payable	76 500	84 000
Accrued liabilities	27 000	21 000
Mortgage payable	0	225 000
Preferred stock	307 500	0
Common stock	300 000	300 000
Retained earnings	82 500	33 000
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	793 500	663 000
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The Accumulated Depreciation account has been credited only for the depreciation expense for the period.

The Retained Earnings account has been charged for dividends of \$81 000 and credited for the net income for the year.

The Income Statement for 2000 is as follows:

	\$
Sales	990 000
Cost of sales	<u>(549 500)</u>
Gross profit	440 500
Operating expenses	(315 000)
Gain on sale of asset	<u>5 000</u>
Net income	<u>130 500</u>

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- (a) Using the indirect method prepare a statement of cash flows for Yowching Inc. for the year ending December 31, 2000. [18 marks]
- (b) Assume that instead of net income of \$130 500 Yowching Inc. had a net loss of \$45 000 and that all other information remained the same. Calculate the net cash flow from operating activities. [3 marks]
- (c) List FIVE benefits of the statement of cash flows beyond the information contained in the balance sheet and income statement. [5 marks]
- (d) The following information related to changes in the investing, financing and operating activities of Yowching for the year 2001.
- (i) In 2001 Yowching decided to reduce share capital by redeeming all of the preferred shares outstanding.
 - (ii) Yowching then issued 5 000 10-year, 10% debentures at \$1 000 each and used some of the cash to redeem the preference shares and to pay dividends for 2001 in the amount of \$30 000.
 - (iii) A mortgage loan of \$50 000 was received from First National Bank.
 - (iv) Yowching gave a long-term loan of \$2 000 000 to an associated company, which purchased fixed assets for \$1 000 000 and sold fixed assets costing \$250 000 for \$225 000.

Prepare a statement to show the net cash flow from the investing and from the financing section of the cash flow statement for 2001. [9 marks]

END OF TEST