

1. /
2 to 3
B

(a) The ELEVEN transactions listed (i to xi) below were completed by Office Cleaners Inc. during the year 2009.

- (i) The organizers paid in cash and in turn received 10 000 no-par shares.
- (ii) Office Cleaners Inc. borrowed cash from the local bank.
- (iii) Office Cleaners Inc. purchased a delivery truck, paid 75% in cash and the balance is due in 6 months.
- (iv) Revenues earned were collected cash in full.
- (v) Expenses incurred were paid cash in full.
- (vi) Revenues earned, on credit (cash will be collected later).
- (vii) Expenses were incurred on credit (cash will be paid later).
- (viii) A cash dividend to shareholders was declared and paid.
- (ix) All the credit amount in (vii) was paid.
- (x) A spare tyre was stolen from the company truck which was not insured.
- (xi) At the end of 2009, the truck was depreciated by a dollar amount (an expense).

For EACH transaction above, make the appropriate entries **on the answer sheet provided**. Enter in the table a D for debit and a C for credit to reflect the increases and decreases in the assets, liabilities, owners' equity, revenues, withdrawals and expenses. Separate accounts are given for owners' equity.

The first transaction, (i), has been completed on the insert as an example.

[10 marks]

GO ON TO THE NEXT PAGE

- (b) "A country should develop its own accounting standards."

State whether you agree or disagree with this statement and outline FIVE reasons to support your position. **[10 marks]**

- (c) Stephanie Sealy has recently been hired as manager of the Big Banana Restaurant, which has stores located at the seaport and airport of Any Island in the Caribbean. During her first month, she visits both locations and observes the following internal control situations:

1. Each store has one cash register. In any one shift, the same employee takes the customer order, accepts payment and then prepares the order.
2. Since only one employee uses the cash register, that employee is responsible for counting the cash at the end of the shift and verifying that the cash in the drawer corresponds to the amount of sales recorded by the cash register.
3. Stephanie sees an employee putting two cases of beer in his car. Not to cause a scene, she simply says to him, "I don't think you are putting those cases on the right shelf. Don't they belong inside the restaurant?" The employee returns the cases to the stockroom.

For EACH situation described above:

- (i) Outline the weakness in internal control. **[6 marks]**
- (ii) Explain the changes that are required in order to strengthen internal control. **[9 marks]**

Total 35 marks

2. (a) Assume that you are the new Accountant at Carib Realty and you have been presented with the following Balance Sheet and Income Statement for the company.

**Carib Realty
Balance Sheet
As at July 31, 2008**

	\$	\$
ASSETS		
Current assets		
Cash	10 560	
Accounts payable	13 580	
Supplies	3 300	
Prepaid insurance	9 600	
Land	120 000	
	<hr/>	
Total current assets		157 040
Property, plant and equipment		
Building	313 400	
Equipment	86 000	
	<hr/>	
Total property, plant and equipment		477 240
Total assets		<hr/> <u>634 280</u>
LIABILITIES		
Current liabilities		
Accounts receivable	27 500	
Accumulated depreciation – building	173 400	
Accumulated depreciation – equipment	36 960	
Net income	50 000	
	<hr/>	
Total Liabilities		287 860
SHAREHOLDERS' EQUITY		
Wages payable	2 680	
Share capital	110 000	
Retained earnings	233 740	
	<hr/>	
Total Shareholders' Equity		346 420
Total liabilities and shareholders' equity		<hr/> <u>634 280</u>

GO ON TO THE NEXT PAGE

Carib Realty
Income Statement
For the year ended July 31, 2008

	\$	\$
REVENUE		
Unearned revenue	39 000	
Depreciation expense - buildings	24 000	
Depreciation expense - equipment	4 500	
Insurance expense	8 050	
Rental fees	33 150	
	<hr/>	
		108 700
EXPENSES		
Advertising	1 000	
Utilities	9 000	
Property tax	10 000	
Salaries and wages	21 000	
Supplies	1 700	
Commissions income	11 000	
Bank interest	5 000	
	<hr/>	
		58 700
		<hr/>
NET INCOME		<u>50 000</u>

Both the Balance Sheet and Income Statement have errors.

- (i) Prepare the corrected Balance Sheet in good form. [20 marks]
- (ii) Prepare the corrected Income Statement in good form. [10 marks]
- (b) Define EACH of the following terms:
- (i) Public company
- (ii) Statutory company
- (iii) Private company [5 marks]

Total 35 marks

GO ON TO THE NEXT PAGE

3. The firm of Hussein and Daughters is developing its annual financial report at September 30, 2008. The statements below are complete except for the Statement of Cash Flows.

	Comparative	
	2007	2008
Balance Sheet		
Cash	30 000	79 000
Inventory	45 000	53 000
Accounts receivable	15 000	12 000
Investment (Shares in T Limited)	20 000	8 000
Machinery and equipment (net)	75 000	64 000
	<u>185 000</u>	<u>216 000</u>
Accounts payable	16 000	13 000
Income taxes payable	5 000	12 000
Long term note payable	45 000	30 000
Share capital (11 000 and 12 000 shares)	117 000	124 000
Retained earnings	2 000	37 000
	<u>185 000</u>	<u>216 000</u>
Income Statement		
Revenue		180 000
Cost of goods sold		(89 000)
Depreciation expense		(10 000)
Remaining operating expenses		(32 000)
Income tax expense		(8 000)
Gain on disposal of machine		3 000
		<u>44 000</u>

The following additional information is available:

1. Machinery which had a book value of \$8 000 was sold for \$11 000 cash.
2. Long term investment (shares of T Ltd.) was sold for \$12 000 cash and the carrying value was \$12 000.
3. Equipment was acquired for \$7 000.
4. Principal payment on debt was \$15 000.
5. A cash dividend of \$9 000 was declared and paid.

GO ON TO THE NEXT PAGE

- (a) Prepare the Statement of Cash Flows for 2008 in accordance with International Accounting Standards 7 (IAS 7). **[20 marks]**
- (b) Calculate TWO liquidity and THREE profitability ratios for the company and comment on the performance. **[10 marks]**
- (c) List FIVE limitations of financial statement ratio analysis. **[5 marks]**

Total 35 marks

END OF TEST