

FORM TP 2015124



TEST CODE **02101020**

MAY/JUNE 2015

**CARIBBEAN EXAMINATIONS COUNCIL**  
**CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®**

**ACCOUNTING**

**UNIT 1 – Paper 02**

*2 hours and 45 minutes*

**22 MAY 2015 (a.m.)**

**READ THE FOLLOWING INSTRUCTIONS CAREFULLY.**

1. This paper comprises **THREE** questions.
2. **EACH** question is worth 35 marks.
3. **ALL** questions are **COMPULSORY**.
4. Begin **EACH** answer on a new page.
5. You may use a silent, non-programmable calculator to answer questions.
6. **ALL** working must be clearly shown.

**DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.**

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1. B. Ross started operations on 1 June 2014 with a motor car purchased three years ago for \$120 000. The latest valuation estimated the worth of the car at \$75 000. On the same day, B. Ross opened a chequing account at a local bank with \$20 000, \$15 000 of which was proceeds of a loan from M. Brown.

After the first six months of operations, B. Ross recorded drawings of \$17 300 and a loss of \$21 500.

- (a) State the meaning of the following accounting concepts:
- (i) Historical cost **[2 marks]**
  - (ii) Prudence **[2 marks]**
- (b) What amount should B. Ross record for the motor car in the books of the business? **[2 marks]**
- (c) Identify and explain the concept which allows B. Ross to record the motor car invested in the business as a non-current asset. **[4 marks]**
- (d) Show the journal entries required to record the formation of B. Ross' business on 1 June 2014. **[6 marks]**
- (e) Show the closing entries to record the loss and the drawings for the period. **[3 marks]**
- (f) The management of B. Ross intends to operate in a paperless environment and hires a trainee accountant. Within the first week on the job, the trainee accountant is seen to be consistently using Blackberry Messenger while working. In addition, the trainee occasionally logs on to Facebook using the computer on which financial information is stored.

Outline THREE controls that the management can implement to ensure the integrity of its accounting records. **[6 marks]**

(g) **Using Table 1 provided as an insert**, show the effect of EACH of the following transactions in the Cash Book and Statement of Comprehensive Income of BisNess Ltd for the year ended 30 June 2014, if the accruals basis of accounting is used. One example has been done for you on the insert.

- (i) Paid rent of \$12 000 for six months ending 30 September 2014.
- (ii) Bad debts of \$1 500 written off during the accounting year.
- (iii) Fixtures purchased for \$74 000 on 2 July 2013 by cheque.
- (iv) Depreciation on fixtures purchased on 2 July 2013 is charged at a rate of 15% using the straight line method.
- (v) Invoice for electricity amounting to \$3 700 for the month of June 2014 not received nor paid.

**[10 marks]**

**Total 35 marks**

2. (a) Amar and Mohan are equal partners in a retail clothing business. They each contributed \$240 000. Afterwards, it was agreed that Lee should join the partnership with all three partners sharing profits equally. For the purpose of admitting the new partner, the goodwill in the business was valued at \$180 000. Goodwill is not to be maintained in the accounts. Lee brought in cash of \$160 000 into the business.

Prepare the capital accounts of the partnership showing clearly the adjusted balances after the admission of the new partner. **[11 marks]**

- (b) Distinguish between 'corporations' and 'co-operatives' in terms of the following characteristics:
- (i) Transferability of ownership interest
  - (ii) Voting rights
  - (iii) Purpose
  - (iv) Legislation
- [8 marks]**



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**ACCOUNTING**

**UNIT 1 – Paper 02**

Question No. .... 1 (g) (i–v) .....

Candidate No. ....

**TABLE 1: EFFECTS OF TRANSACTIONS ON CASH BOOK  
AND STATEMENT OF COMPREHENSIVE INCOME**

|         | <b>Transaction</b>   | <b>Cash Book</b>     | <b>Statement of Comprehensive Income</b> |
|---------|--|----------------------|--|
| Example | Paid a monthly salary of \$10 500 to an employee who quit on 31 December 2014                                | Decrease by \$10 500 | Expense of \$10 500                      |
| (i)     | Paid rent of \$12 000 for six months ending 30 September 2014  |                      |  |
| (ii)    | Bad debts of \$1 500 written off during the accounting year  |                      |  |
| (iii)   | Fixtures purchased for \$74 000 on 2 July 2013 by cheque   |                      |  |
| (iv)    | Depreciation on fixtures purchased on 2 July 2013 is charged at a rate of 15% using the straight line method |                      |  |
| (v)     | Invoice for electricity amounting to \$3 700 for the month of June 2014 not received nor paid                |                      |  |

**[10 marks]**

**TO BE ATTACHED TO YOUR ANSWER BOOKLET**

- (c) An extract of the adjusted Trial Balance for Point Dex Ltd as at 31 May 2014 is provided below.

|                                       | <b>\$ 000</b> |
|---------------------------------------|---------------|
| Sales                                 | 750 000       |
| Inventory (31 May 2014)               | 145 300       |
| Gross purchases                       | 345 700       |
| Returns outwards                      | 34 100        |
| Discounts received                    | 1 700         |
| Allowance for doubtful accounts       | 4 500         |
| Accounts receivable                   | 105 000       |
| Accounts payable                      | 79 750        |
| Property, plant and equipment at cost | 1 375 400     |
| Accumulated depreciation              | 466 800       |
| Selling and distribution cost         | 125 435       |
| Investment in Aral Ltd                | 350 000       |
| Investment income                     | 35 000        |
| Depreciation charge                   | 101 000       |
| Administrative cost                   | 234 195       |
| Research cost                         | 15 670        |
| Inventory (1 June 2013)               | 77 400        |
| Tax payable                           | 7 500         |
| 15% loan (2025)                       | 735 000       |
| General reserve                       | 1 500         |
| Dividends paid                        | 670 000       |
| Retained earnings                     | 825 760       |

Additional notes:

- Point Dex Ltd depreciates all assets at a rate of 10% per annum using the reducing balance method. Depreciation is normally allocated at 40% to distribution and 60% to administration.
  - Corporation tax is 25%.
- (i) Prepare a Statement of Comprehensive Income for Point Dex Ltd for the year ended 31 May 2014. **[11 marks]**
- (ii) Identify the figures to be included in
- a) Current assets
  - b) Current liabilities

which would appear in the Statement of Financial Position as at 31 May 2014.

**[5 marks]**

**Total 35 marks**

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3. The financial statements for Sisco Ltd for the income year to 30 June 2012 are given below.

Statement of Comprehensive Income

|                       | \$ 000    | \$ 000            |
|-----------------------|-----------|-------------------|
| Revenue               |           | 17 234            |
| Cost of sale          |           | <u>(11 930)</u>   |
| Gross profit          |           | 5 304             |
| Operating expense     | 3 218     |                   |
| Loss on sale of NCA   | <u>30</u> |                   |
|                       |           | <u>(3 248)</u>    |
|                       |           | 2 057             |
| Interest on loan      |           | <u>48</u>         |
| Profit before tax     |           | 2 009             |
| Tax                   |           | <u>(1 110)</u>    |
| Profit for the period |           | <u><u>899</u></u> |

Statement of Financial Position

|                               | \$ 000       | \$ 000                 |
|-------------------------------|--------------|------------------------|
| <b>Non-current asset</b>      |              |                        |
| Property, plant and equipment |              | 6 181.50               |
| <b>Current assets</b>         |              |                        |
| Inventory at close            | 560          |                        |
| Accounts receivable           | 1 540        |                        |
| Bank                          | <u>1 216</u> |                        |
| Total current assets          |              | <u>3 316</u>           |
| Total assets                  |              | <u>9 497.50</u>        |
| <b>Equity and liability</b>   |              |                        |
| <b>Equity</b>                 |              |                        |
| Ordinary share \$1            |              | 4 250                  |
| Share premium                 |              | 400                    |
| Retained earnings             |              | <u>77.50</u>           |
| <b>Total equity</b>           |              | 4 727.50               |
| <b>Non-current liability</b>  |              |                        |
| 6% loan                       |              | 1 620                  |
| <b>Current liability</b>      |              |                        |
| Trade payables                | 1 980        |                        |
| Accruals                      | <u>1 170</u> |                        |
|                               |              | <u>3 150</u>           |
|                               |              | <u><u>9 497.50</u></u> |

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- (a) Prepare common size statements for Sisco Ltd. From these, prepare a report to analyse the performance of the company. Your report should focus on liquidity and profitability by using at least TWO ratios in EACH category. **Calculate ratios to two decimal places.** [14 marks]

**HINT:** You may use the following formulae:

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$$

$$\text{Net profit margin} = \frac{\text{Net profit before interest and tax}}{\text{Sales revenue}} \times 100$$

$$\text{Return on capital employed} = \frac{\text{Operating profit}}{\text{Capital employed}} \times 100$$

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Acid test (quick ratio)} = \frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$$

- (b) List THREE limitations of ratio analysis. [3 marks]
- (c) Section 32 of the IFRS for SMEs defines Events after the End of Reporting Period as ‘any event that provides evidence of conditions that existed at the end of the reporting period’.
- (i) Outline TWO examples of events that would be disclosed in the financial statements as required by Section 32. [4 marks]
- (ii) Explain the meaning of ‘conditions that existed at the end of the reporting period’ and give ONE example. [4 marks]



- (d) (i) List **THREE** duties of the receiver in a bankruptcy situation. **[3 marks]**
- (ii) In dealing with the claims of an insolvent business, the liquidator must first pay any outstanding National Insurance/Social Security funds which had been withheld from wages, followed by claims of secured creditors, claims of partly secured creditors and lastly unsecured claims, before dealing with shareholders. The list falls into three categories shown in the headings in Table 2 below.

Copy Table 2 into your answer booklet. Complete the table to show how items a) to g) should be classified.

- a) Unsecured bank loan.
- b) Accounts receivable of \$40 000 has been pledged as security for a note payable of \$120 000.
- c) Wages and salaries payable.
- d) Robin has used her shares in The Cable Inc. valued at \$75 000 as security for a business loan of \$75 000.
- e) The utility bill for the Water Authority.
- f) Davis' Garage has a charge on a car owned by Philip Patel as a result of a high court judgement.
- g) Accounts payable.

**TABLE 2**

| <b>Secured Claims</b> | <b>Partly Secured Claims</b> | <b>Unsecured Claims</b> |
|-----------------------|------------------------------|-------------------------|
|                       |                              |                         |
|                       |                              |                         |
|                       |                              |                         |
|                       |                              |                         |

**[7 marks]**

**Total 35 marks**

**END OF TEST**

**IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.**