

FORM TP 2016127



TEST CODE **02101020**

MAY/JUNE 2016

CARIBBEAN EXAMINATIONS COUNCIL
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ACCOUNTING

UNIT 1 – Paper 02

2 hours 45 minutes

20 MAY 2016 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

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

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

Copyright © 2014 Caribbean Examinations Council

MODULE 1

ACCOUNTING THEORY, RECORDING AND CONTROL SYSTEMS

1. (a) The regulatory framework requires companies to provide users with relevant and reliable financial statements that record the economic substance of transactions.

Using appropriate examples, explain the following accounting terms:

- (i) Substance over form [2 marks]
 - (ii) Relevance [2 marks]
 - (iii) Reliability [2 marks]
- (b) (i) List the FIVE elements of a full set of financial statements as required by IFRS for SMEs. [5 marks]
- (ii) State FOUR reasons why financial statements do not provide users with all the information they need. [4 marks]
- (iii) Give FOUR reasons why the role of the external auditor is important to users of financial statements. [4 marks]
- (c) Old Bailey Ltd is keen to ensure the accuracy of information contained in its accounting records and the safe custody of assets such as inventory and cash. State FOUR appropriate controls that may be used in EACH of the following cases:
- (i) Accounts receivable [4 marks]
 - (ii) Cash at bank [4 marks]
- (d) You are the assistant to the chief finance officer of Blooms and Shrubs Garden Centre, which is at the end of its first year of operation. The company has issued 50 000 ordinary shares of 50 cents each and 20 000 7% preference shares of \$1 each. Its profits after taxation for the year to 30 April 2016 were \$84 000. The board of directors has decided to pay preference dividends and transfer \$16 000 to a general reserve.

Prepare the following journal entries to record these events.

- (i) Issue of ordinary shares [2 marks]
- (ii) Issue of preference shares [2 marks]
- (iii) Distribution of preference dividends [2 marks]
- (iv) Transfer of profits to general reserve [2 marks]

Total 35 marks

MODULE 2

PREPARATION OF FINANCIAL STATEMENTS

2. Sian and Amin are in partnership sharing profits and losses 3:2 respectively. No drawings are allowed but EACH partner receives an annual salary of \$45 000. The partnership does not keep a full set of accounts. For the year ending 31 December 2015, the following information is provided:

	\$
Property, plant and equipment	1 500 000
Inventory at cost	137 500
Accounts receivable (net)	75 000
Accounts payable	195 000
Bank overdraft	24 800
Fixed capital: Sian	800 000
Amin	600 000
Current accounts: Sian	?
Amin	?

Additional information:

- All sales are on account and the accounts receivable represents one month of sales.
 - Inventory at 31 December 2015 increased by 10% over the inventory at 01 January 2015.
 - Gross profit and net profit is a constant 25% and 15% of sales respectively.
 - Partners' closing current account balances are assumed to be in the ratio 3:2.
- (a) (i) Prepare a partnership Statement of Comprehensive Income for the year ended 31 December 2015 including as much detail as possible. **[8 marks]**
- (ii) Prepare a partnership Statement of Changes in Owners' Equity for the year ended 31 December 2015. **[5 marks]**
-

- 2 (b) (i) List THREE possible reasons why a business partnership may be dissolved. [3 marks]
- (ii) Explain the difference between a judicial and a non-judicial dissolution of partnership. [4 marks]
- (iii) Identify THREE steps required to dissolve a partnership. [3 marks]
- (iv) Identify FOUR benefits of operating as a co-operative. [4 marks]
- (v) State TWO advantages and ONE disadvantage of a sole proprietorship. [3 marks]
- (c) Sunshine Bakery's existing share capital is \$400 000 (800 000 ordinary shares of 50 cents each). The existing shares are traded on the Barbados Stock Exchange at a price of \$2.00 each. The directors decided to make a rights issue of 2 for 5 at a price of \$1.50 each.
- (i) Calculate how many shares will be issued if all the rights are taken up. (Show all working.) [2 marks]
- (ii) Prepare the journal entry (without narrative) to record the transaction. [3 marks]

Total 35 marks

MODULE 3

FINANCIAL REPORTING AND INTERPRETATION

3. (a) M. Ralph, a sole proprietor trading as Farmers Mart, is anxious to ascertain the amount of cash generated by the business during the last accounting year. You are required to prepare a Statement of Cash Flow for the year ended 31 December 2015 from the summary information provided.

Statement of Comprehensive Income
for the year ended 31 December 2015

	\$
Net sales	425 000
Cost of sales	<u>(185 000)</u>
Gross profit	240 000
Selling and administrative expenses	<u>(208 750)</u>
Investment income	14 500
Interest expense	<u>(22 800)</u>
Profit for the period	<u>22 950</u>

Statement of Financial Position
as at 31 December 2015

	31 December 2014	31 December 2015
	\$	\$
Non-current assets	275 800	386 000
Current assets	<u>68 900</u>	<u>98 400</u>
Total assets	389 000	484 400
Non-current liabilities		
Loan	140 000	125 000
Current liabilities		
Trade payables	65 800	74 500
Expenses owing	1 400	900
Bank overdraft	<u>nil</u>	<u>15 000</u>
Net assets	<u>182 500</u>	<u>269 000</u>

M. Ralph
Statement of Changes in Owners' Equity
for the year ended 31 December 2015

	\$
Opening capital, 01 January	182 500
Cash drawings	(21 450)
Capital invested during the year	85 000
Profit for the period	<u>22 950</u>
Ending capital, 31 December	<u>269 000</u>

During the year, equipment with a book value of \$65 000 was sold for \$40 000. The loss of sales was included in administrative expenses.

Selling expenses includes an annual depreciation charge of \$53 400.

A piece of equipment valued \$143 600 was purchased during the year by cheque.

Current assets at 31 December 2014 includes cash at bank of \$45 000. [15 marks]

(b) Below are TWO independent scenarios.

Discuss the proper accounting treatment of EACH, including any required disclosures according to IFRS for SMEs Section 21: Provisions, Contingent Liabilities and Contingent Assets. Give the rationale for your answers.

Scenario 1

In August 2015, a worker was injured in the factory in an accident partially due to his own negligence. The worker has sued Rooney Co. for \$800 000. Legal counsel believes it is reasonably possible that the outcome of the suit will be unfavourable and that the settlement would cost the company between \$250 000 and \$500 000. [3 marks]

Scenario 2

A suit for breach of contract seeking damages of \$2 400 000 was filed by an author against Early Co. on 04 October 2015. Early's legal counsel believes that an unfavourable outcome is probable. A reasonable estimate of the award to the plaintiff is between \$600 000 and \$1 800 000. The potential damages are best reflected by the estimate. [7 marks]

(c) As at the year ending 31 December 2015, the liabilities outstanding of Manning Corporation included the following:

- Note payable to Third National Bank, \$300 000, due 05 January 2017.
- Cash dividends on common stock declared on 15 December 2015, \$60 000, payable on 06 January 2016.
- Note payable to Admire State Bank, \$470 000, due 06 January 2016.
- Serial bonds \$1 000 000, of which \$250 000 mature during 2016.

The following transaction is expected in 2016:

05 January: 40 000 shares of common stock will be issued for \$350 000.
\$300 000 of the proceeds will used to liquidate the note payable to
Third National Bank.

Instructions

Prepare a partial balance sheet for Manning Corporation, showing the manner in which the above liabilities should be presented at 31 December 2015. The liabilities should be properly classified as either current or long-term. Appropriate note disclosure should be included. [10 marks]

Total 35 marks

END OF TEST

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