

FORM TP 2022146



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CARIBBEAN EXAMINATIONS COUNCIL
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ACCOUNTING

UNIT 1 – Paper 02

2 hours 45 minutes

20 MAY 2022 (a.m.)

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READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions. Answer ALL questions.
2. Write your answers in the booklet provided.
3. You may use a silent, non-programmable calculator to answer questions.
4. ALL working must be clearly shown.

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MODULE 1

ACCOUNTING THEORY, RECORDING AND CONTROL SYSTEMS

1. (a) List THREE advantages of IFRS for SMEs. **[3 marks]**
- (b) The consultant developing the procedures manual for the Blue Star Charitable Trust has recommended the following internal control procedures for the proper handling of cash.
- Outline the internal control principle that is applicable to EACH of the procedures labelled (i)–(iv).
- (i) The trust’s cheques should be prenumbered. **[2 marks]**
- (ii) The cheque signatories for the trust are the chief accountant and the trust’s operations manager. **[2 marks]**
- (iii) All blank cheques are stored in a fireproof safe in the chief accountant’s office. **[2 marks]**
- (iv) The assistant accountant is designated as the person who is authorized to record cash transactions in the computerized accounting system. **[2 marks]**
- (c) (i) State the TWO primary users of general purpose financial reporting, according to the IASB Framework. **[2 marks]**
- (ii) Distinguish between the ‘comparability’ and ‘understandability’ of useful financial information. **[4 marks]**

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(d) The following list of balances relates to the Angola Coffee Corporation as at 1 July 2019

Ordinary share capital @ \$200	\$ 3 200 000
5% cumulative preference shares @ \$230	\$ 115 000
Share premium	\$ 600 000
Retained earnings	\$ 8 000 000
8% debenture (2019/2020)	\$ 900 000

No preference or ordinary dividends were paid during the financial year ended 30 June 2019.

During the year ended 30 June 2020, the company performed well financially and engaged in the following transactions:

- 30 January Purchased 600 shares of Charley's Pancake Co. at \$175 per share plus paid a brokerage commission of 1½ % of the transaction.
- 4 April Issued bonus of one for every five common shares.
- 13 May Purchased 5 000 shares of Sharp Telecommunication Inc. for a total consideration of \$176 750, inclusive of a brokerage commission of 1% of the transaction.
- 30 June Paid debenture interest and redeemed the debenture at par.
- 30 June Paid total preference dividends.
Declared and paid interim common share dividends at \$10 per share.

Prepare the journal entries for the transactions noted above.

[18 marks]

Total 35 marks

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MODULE 2

PREPARATION OF FINANCIAL STATEMENTS

2. (a) Outline TWO operating principles of a co-operative. **[4 marks]**
- (b) The Fairfield Sports Club was established as a non-profit organization. The club promotes community development through its various sporting and outreach activities. Its main sources of income are membership fees, donations and monthly cake sales. The treasurer of the club prepared the following receipt and payment account for the year ended 31 December 2019.

Receipt and Payment A/C

Balance b/f 1 January 2019	15 000	Office staff wages	66 000
Membership fees	140 000		
Receipt from cake customers (credit)	27 000	Rent and rates	28 000
Cake sale (cash)	97 000	Cake purchases (cash)	22 000
Proceeds from sale of motor van (1 January 2019)	10 000	Payment to cake suppliers	27 000
		Purchase of motor van (1 January 2019)	73 000
		Motor expenses	12 000
		Balance c/f 31 December 2019	61 000
	<u>289 000</u>		<u>289 000</u>

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The following information was also supplied by the treasurer.

- The assets and liabilities as at

	1 January 2019	31 December 2019
Membership fees owing	14 400	16 200
Membership fees prepaid	—	7 200
Inventory of cakes	8 500	4 500
Owing from cake customers (debtors)	1 800	2 300
Owing to cake suppliers (creditors)	2 500	1 200
Sport equipment (net book value)	62 000	54 000
Motor van (see Note 1)		

Note 1: The motor van sold on 1 January 2019 had cost \$40 000 at 1 January 2017 when it was purchased and had been depreciated at 20% on the reducing balance method. The new van is to be depreciated on the same basis as the previous one.

Required

- (i) Prepare the statement of profit and loss for the cake sales held by the club for the year ended 31 December 2019. **[8 marks]**
- (ii) Prepare the income and expenditure account for the Fairfield Sports Club for the year ended 31 December 2019. **[8 marks]**
- (c) A member of the Fairfield Sports Club projects a significant increase in cake sales and the possibility of selling other baked products through contracts with the club, local schools and supermarkets. She is contemplating establishing a bakery either as a partnership with two of her brothers or as a private limited company.

Distinguish between a ‘partnership’ and a ‘private company’ in terms of EACH of the following features.

- Liability of owners **[2 marks]**
- Taxation at the ownership level **[2 marks]**
- Continuity of existence **[2 marks]**

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- (d) Nazarene Ltd has authorized ordinary shares of 4 000 000 at \$2 par value, of which 400 000 shares are in issue. The following balances were extracted from the company's books as at 31 December 2018.

	DR	CR
	\$	\$
Non-current assets	1 050 000	
Current assets	890 000	
Current liabilities		260 000
Ordinary share capital @ \$2		800 000
8% preference shares @ \$1		200 000
Share premium		300 000
Retained earnings		380 000
	<u>1 940 000</u>	<u>1 940 000</u>

During the year ended 31 December 2019, the company earned net profit of \$120 000.

The following transactions took place during the year.

- 1 March Issued one bonus \$2 ordinary share for every four shares held at that date.
- 15 December Declared interim dividends of \$0.15 per ordinary share, payable on 15 January 2020.
- 15 December Paid the total preference share dividends due.

Required

Prepare the shareholders equity section of the statement of financial position as at 31 December 2019. **[9 marks]**

Total 35 marks

MODULE 3

FINANCIAL REPORTING AND INTERPRETATION

3. (a) The trial balance for Johns Hall Ltd as at 31 December 2018 is as follows.

	DR	CR
	\$	\$
Retained earnings		519 000
Ordinary share @ \$1.50		375 000
4% preference shares @ \$3.00		270 000
General reserve		50 000
10% mortgage		650 000
Sales		3 000 000
Purchases	1 200 000	
Trade receivables	180 000	
Trade payables		149 000
Inventory @ 1 January 2018	78 000	
General administrative expenses	290 000	
General selling and distribution cost	170 000	
Wages and salaries	120 000	
Long-term investment	959 200	
Land	950 000	
Equipment	700 000	
Provision for depreciation on equipment as at 1 January 2018		350 000
Marketable securities	250 000	
Investment revenue		67 000
Building	500 000	
Interim preference dividend	5 800	
Mortgage interest	50 000	
Provision for depreciation on building as at 1 January 2018		23 000
	<u>5 453 000</u>	<u>5 453 000</u>

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Additional Information

- (i) Closing inventory was valued at cost, \$65 000, with net realizable value \$90 000.
- (ii) It is the company's policy to depreciate fixed assets as follows:
 - Equipment, 15% on the reducing balance basis. Depreciation is apportioned 70% to administrative expenses and 30% to selling and distribution costs.
 - Buildings, 2% on the straight-line basis. Depreciation is apportioned 60% to administrative expenses.
- (iii) Wages and salaries are apportioned 80% to administrative expenses and 20% to selling and distribution costs. At the end of the year, it was identified that 10% of wages and salaries was prepaid.
- (iv) The mortgage was acquired in 2012 for a period of 20 years.
- (v) Land was revalued at \$1 400 000 on 31 December 2018.
- (vi) The corporation tax rate is 30%.

Required

Prepare the statement of comprehensive income for the year ended 31 December 2018 for publication in accordance with the provisions of International Accounting Standard 1 as far as the information permits. **[20 marks]**

- (b) Outline THREE limitations of the statement of financial position. **[6 marks]**

- (c) As a financial analyst, you are presented with the following ratios for Johns Hall Ltd as well as the industry averages.

	Industry Averages	2015	2016	2017
Current ratio	3:1	2.8:1	3.25:1	3.90:1
Acid-test ratio	2:1	1.95:1	1.8:1	1.5:1
Debt-to-equity ratio	0.25:1	0.45:1	0.50:1	0.95:1
Times interest earned	10:1	8.29:1	7.95:1	6:1

For EACH of the following ratios, analyse the performance of the company over the three-year period 2015 to 2017, recommending ONE way in which any **negative** performance could be improved.

- (i) Acid-test ratio **[3 marks]**
- (ii) Debt-to-equity ratio **[3 marks]**
- (iii) Times interest earned **[3 marks]**

Total 35 marks

END OF TEST

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