SECTION A

Answer ANY TWO questions in this section.

1. "My company can survive in this competitive business environment without producing any financial statements. As manager, I am the only user of the company's financial statements anyway and can operate with only an Income Statement." Discuss the fallacies of this statement. **[25 marks]**

2. (a) Describe the role of the International Accounting Standards Committee. **[12 marks]**

(b) Discuss the importance of the International Accounting Standards (IAS) in the Caribbean and the role of the Institute of Chartered Accountants of the Caribbean (ICAC) in the standard-setting process and the development of accounting standards. **[13 marks]**

3. Discuss the differences and similarities in the roles of the internal and external auditor. **[25 marks]**

SECTION B

Answer the following question in this section.

4. Sherwood McCaskie is the owner and operator of a small mini-mart trading as Ashdon Mini-Mart in Belmopan, Belize. The business has been in operation for a number of years. Mr McCaskie is desirous of incorporating the business, and needs to prepare a prospectus outlining the performance of the business last year as well as a history of the business. His part-time book-keeper has prepared the following income statement for Ashdon Mini-Mart.

Ashdon Mini-Mart
Income Statement
December 31, 1998

Revenue	$	$
Sales		702 000
Less: Freight-in	17 200	
Discounts	4 100	21 300
Net sales		680 700
Other revenues		1 300
Expenses		
Purchases	470 000	
Selling expenses	100 000	
Administrative expenses	50 000	
Sherwood's drawings	12 000	
Total expenses		632 000
Net income		50 000

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Mr McCaskie is not satisfied with the income statement presented above and has asked an accountant to review the books. The accountant discovered the following facts:

1. Sales include \$10 000 of deposits from customers for future sales orders.
2. Discounts consist of Discount received \$7 200 and Discount allowed \$11 300.
3. Other revenues contain two items: Interest expense \$4 000 and Interest revenue \$5 300.
4. Purchases include Freight-out \$14 000 and Purchase returns \$9 000.
5. Ending inventory increased \$20 000 from a beginning inventory of \$35 000.
6. Selling expenses consist of sales salaries \$76 000, advertising expense \$10 000, depreciation on store equipment \$7 500 and sales commissions expense \$6 500.
7. Administrative expenses consist of office salaries \$19 000, utilities expense \$8 000, rent expense \$16 000, and insurance expense \$7 000. Insurance expense includes \$1 200 of insurance applicable to 1999.
8. The accountant also discovered that some credit sales invoices totalling \$15 000 were not entered in the sales book.
9. Mr McCaskie has a mortgage on the mini-mart and the mortgage interest of \$12 000 which is due for payment on January 1, 1999, was not accrued by the book-keeper. This interest is for the period January 1, 1998 to December 31, 1998. (Interest is paid in arrears.)

(a) Prepare a detailed income statement for Ashdon Mini-Mart for the year ended December 31, 1998. **[19 marks]**

In addition to an income statement, the accounting firm has been asked to prepare a Balance Sheet to show the assets, liabilities and capital of the Mini-Mart as at December 31, 1998. The interviews conducted and an examination of the business records reveal the following.
The land and buildings were acquired some five years ago at a cost of \$250 000 and were financed by a mortgage of \$150 000, the balance being paid in cash out of the personal funds of Mr McCaskie. The current balance on the mortgage is now \$135 000. Monet, Apple and Vince realtors have estimated that the fair value of the building is \$400 000.

The records of the Mini-Mart show the following pieces of equipment at their historical costs; coolers \$35 000, shelving \$25 000, cash registers \$23 000, office furniture \$8 000 and computers \$8 000. The book value of these assets total \$71 000. The estimated fair value of the assets is as follows:

Coolers	\$22 000
Shelving	\$10 000
Cash registers	\$10 000
Office furniture	\$9 000
Computers	\$6 000

The current assets of the Mini-Mart consisted of inventory, accounts receivable as per credit sales invoices discovered, and cash in the bank consisting of a current account balance of \$2 800 and a term deposit of \$16 000.

Mr McCaskie has invested in mutual funds for the business. The current value of this investment is \$6 000. The cash surrender value of his insurance policy, which is paid from his business funds is \$5 700.

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Current liabilities include accounts payable of $18 000, accrued expenses including mortgage interest totalling $15 000.

The capital balance at the beginning of the year stood at $174 800.
The Current Assets and Current Liabilities are correctly stated at their fair values.

(b) Prepare the Balance Sheet at December 31, 1998 taking into account the above information together with the information given in relation to the income statement.

[16 marks]

(c) The company that is being formed has shares with a par value of $5 each Calculate the number of shares to which Mr McCaskie is entitled. **[7 marks]**

(d) Give reasons to show why Mr McCaskie should OR should not incorporate his business. **[8 marks]**

SECTION C

Answer BOTH questions in this section.

5. Financial considerations are important, but are by no means the only issues which should be taken into account in the decision-making process in an organization.

(a) Identify FIVE non-financial issues that can be important for business decision-making. **[4 marks]**

(b) Discuss in detail THREE of the non-financial issues which you have identified, as they relate to business decision-making.

[21 marks]

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6.

Sharma's Corporation
Balance Sheet
December 31,

ASSETS	1998 $	1997 $
Cash	46 000	15 000
Debtors	47 000	55 000
Stock	144 000	110 000
Prepaid expenses	1 000	5 000
Investments	115 000	127 000
Plant	715 000	505 000
Accumulated depreciation	(103 000)	(68 000)
	965 000	749 000
LIABILITIES		
Creditors	50 000	43 000
Accruals	12 000	9 000
Income tax payable	3 000	5 000
Bonds payable	295 000	245 000
STOCKHOLDERS' EQUITY		
Common stock $15 par value	276 000	200 000
Paid in capital in excess of par	189 000	115 000
Retained earnings	140 000	132 000
	965 000	749 000

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Sharma's Corporation Income Statement
December 31, 1998

	$	$
Sales		698 000
Cost of goods sold		520 000
Gross profit		178 000
Operating expenses (including depreciation $37 000)		147 000
Operating income		31 000
Other income	18 000	
Other expenses	(33 000)	(15 000)
Net income		(16 000)

Additional information:-

(a) Sold investments classified as long-term for $102 000, the original cost being $90 000. Purchased some investment.

(b) Sold plant assets that cost $10 000 with a book value of $8 000 for $5 000. New plant assets were purchased.

(c) Issued $100 000 of bonds at face value in a non-cash exchange for plant assets.

(d) Repaid $50 000 of bonds at face value on maturity.

(e) Issued common stock with a face value of $76 000 for $150 000.

(f) Paid cash dividend $8 000.

(g) Gains and losses on sale of assets are included in the other income and expenses respectively.

Prepare for Sharma's Corporation a statement of cashflows at December 31, 1998.

[25 marks]

END OF TEST