

1. (a) Identify FIVE groups who use financial accounting information and state ONE purpose for which EACH group uses this information. [10 marks]
- (b) Explain why a business should have an internal control system. Include FIVE reasons in your response. [5 marks]
- (c) Balandra Clothing Store retails ladies' garments. Management uses the following control procedures for cash disbursements:
1. Each week, the owner leaves 100 blank company cheques in an unmarked envelope on a shelf behind the cash register.
 2. The store manager personally approves all payments before signing and issuing cheques.
 3. The company's cheques are not numbered.
 4. After payment, bills are filed in a folder marked "Paid invoices".
 5. The company's accountant prepares the bank reconciliation and reports any discrepancies to the owner.
 6. The store maintains a petty cash fund to pay for small purchases. The fund is kept in the top drawer of a desk and can be accessed by the owner, the store manager and the treasurer.

For EACH procedure above:

- (i) Identify the weakness in internal control. [6 marks]
- (ii) Suggest a change in the procedure that will result in good internal control. [6 marks]

You may provide the responses to (c) (i) and (ii) above in tabular format as shown below:

Control procedure	Weakness in internal control	Suggested change in control procedure

- (iii) Identify FOUR internal control principles that have been violated by the procedures that are currently in place at Balandra Clothing Store. [8 marks]

Total 35 marks

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2. Carnival Company is involved in the wholesaling and retailing of household supplies. The accountant resigned immediately after the following trial balance was extracted from the books of the company as at November 30, 2007, the end of the company's fiscal year.

Account Titles	Debit (\$)	Credit (\$)
Cash	33 400	
Accounts receivable	85 400	
Allowance for doubtful accounts		18 000
Merchandise inventory	76 000	
Store supplies	11 000	
Investments	190 000	
Store equipment	170 000	
Accumulated depreciation - Store equipment		36 000
Delivery equipment	96 000	
Accumulated depreciation - Delivery equipment		18 000
Accounts payable		97 000
Utilities payable		5 600
Notes payable		120 000
Issued ordinary share capital		80 000
Share premium		140 000
Retained earnings		68 500
Sales		1 515 600
Sales returns and allowances	8 400	
Purchases	923 200	
Purchases returns, allowances and discounts		29 600
Rent and utilities expense	76 000	
Freight-in	21 600	
Salaries expense	280 000	
Advertising expense	26 400	
Delivery expense	48 000	
General expense	42 900	
Interest expense	32 400	
Loss due to flood	7 600	
Total	2 128 300	2 128 300

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An accounts clerk prepared the following additional information that should be considered in preparing the financial statements:

1. Store supplies on hand totalled \$4 000 at the end of the period.
2. Depreciation is charged on all fixed assets at the rate of 20 per cent per annum using the reducing balance basis.
3. Merchandise inventory on hand at November 30, 2007 is \$90 000.
4. Bad debts expense is estimated at 2 per cent of net sales.
5. Salaries expense is 70 per cent selling and 30 per cent administrative.
6. Rent and utilities expense is 80 per cent selling and 20 per cent administrative.
7. \$60 000 of the notes payable is due for payment the following year.
8. General expense is 100 per cent administrative.
9. The corporation tax rate is 30 per cent.
10. Accounts receivable includes \$5 500 due from a customer who went into liquidation on November 15, 2007.
11. The company suffered minor losses due to seasonal flooding.
12. The investments are government bonds that mature on December 1, 2020. The bonds pay 8 per cent interest annually and were acquired in 2006.

You have just been hired and given the trial balance and additional information above. The directors of the company need a set of financial statements for their board meeting.

Prepare a **multiple-step income statement** and **classified balance sheet** for Carnival Company for the year ending November 30, 2007. The statements should comply with the requirements of the International Accounting Standards.

Total 35 marks

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3. The Maraval Company, a local retailing firm, has been operating fairly successfully for the past five years. However, the directors are concerned about the recent performance of the business. The company's comparative balance sheets for 2006 and 2007, and the income statement for 2007 are presented below.

Balance Sheet for 2006 and 2007		
	As at December 31	
	2006	2007
	\$	\$
Cash	100 000	140 000
Accounts receivable, net	300 000	330 000
Inventory	500 000	400 000
Property, plant and equipment	1 200 000	1 400 000
Accumulated depreciation	(300 000)	(350 000)
Accounts payable (inventory only)	80 000	90 000
Income taxes payable	50 000	83 000
Dividends payable	30 000	40 000
Bonds payable	250 000	250 000
Premium on bonds payable	20 000	17 000
Common stock, no-par	700 000	750 000
Retained earnings	670 000	690 000

Income Statement	
For the Year Ending December 31, 2007	
	\$
Net sales	1 200 000
Cost of goods sold	(550 000)
Depreciation expense	(150 000)
Interest expense	(20 000)
Other operating expenses	(200 000)
Gain on equipment sale	50 000
Income tax expense	(120 000)
Net income	210 000

The following additional information is available:

1. Equipment costing \$200 000 was sold for \$150 000 during 2007, resulting in a loss of \$50 000.
2. Cash dividends of \$180 000 were paid in 2007.

(a) Prepare the statement of cash flows (SCF) using the indirect method.

[20 marks]

(b) Calculate the following ratios for Maraval Company for 2007:

- (i) Current ratio
- (ii) Acid test ratio
- (iii) Net income per cent
- (iv) Return on total assets
- (v) Debt to equity

[10 marks]

(c) Maraval Company is in the process of acquiring Gordon Limited, a company that has been experiencing financial difficulties for several months. The financial difficulties began with working capital problems but escalated recently when the company was unable to meet its loan interest and principal repayments on its long-term debt.

Describe Gordon Limited's current financial situation and give a justification for your answer.

[5 marks]

Total 35 marks

END OF TEST