

FORM TP 2014124



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MAY/JUNE 2014

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ACCOUNTING

UNIT 1 – Paper 02

2 hours 45 minutes

23 MAY 2014 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions. Answer ALL questions.
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.

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02101020/CAPE 2014

1. (a) Douglas Spencer Ltd (DS Ltd) reported the following amounts in the shareholders' equity section of its December 2013 Statement of Financial Position:

	\$
10% Preferred Shares, no par value	
10 000 Shares authorized, 2 000 Shares issued	200 000
Common shares, \$100 par value	
100 000 shares authorized, 2 000 issued	200 000
Contributed Capital in Excess of Par (Share Premium)	25 000
Retained Earnings	450 000
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	\$ 875 000
	<hr/> <hr/>

During 2014, DS Ltd took part in the following transactions concerning shareholders' equity:

- (i) Paid the annual dividend on the preferred shares and a \$2 dividend on the common shares. These dividends had been declared on 28 December 2013.
- (ii) Issued 500 preferred shares at \$105.
- (iii) Received equipment with a market value of \$77 600 for 7 500 common shares.
- (iv) Appropriated retained earnings for plant expansion \$200 000.

Prepare journal entries to record the transactions. **Narratives are NOT required.**

[10 marks]

- (b) The National Gas Corporation sold 5 000 shares of Mango Pulp Company on 27 March 2013 for \$17.50 per share, incurring \$1 590 in brokerage commission. The shares had originally been bought for \$28.00.

Prepare the journal entry to record the sale of the shares.

[5 marks]

- (c) (i) Give TWO reasons why it became necessary to develop IFRS for SMEs.

[4 marks]

- (ii) There are several Institutes of Chartered Accountants in the Caribbean whose main function is to ensure that their members adopt and implement the International Accounting Standards (IAS) (IFRS for SMEs). Name ONE such institute.

[1 mark]

- (d) The owner of Mentyre's Enterprise is in the process of reviewing the procedures and practices that exist in his organization. He has discovered the following situations:
1. The storeroom clerk hangs the key to the storeroom on a nail in front of his door when he goes for lunch.
 2. The purchasing manager is also responsible for receiving goods and maintaining the records of the goods received.
 3. The company cheques are not pre-numbered.
 4. Two cashiers use the same cash register.
 5. Paid invoices are stored in the accountant's unlocked desk drawer.
 6. The cashier checks off the day's receipts and makes the bank lodgement.

For EACH of the situations outlined above and using the format provided in Table 1 as an insert:

- (i) Identify the Internal Control Principle that is being violated. **[5 marks]**
- (ii) Suggest ONE corrective measure that could be employed and give your reason. **[10 marks]**

Situation 1 has been completed for you as an example.

Total 35 marks

2. West Coast Eatery is a fast food restaurant that is operated as a partnership of three individuals. The three partners share profits equally. The following selected account balances are for 2012 before any closing entries are made.

	Dr \$	Cr \$
Calvin Capital		55 000
Sylvia Capital		60 000
Leroy Capital		5 000
Calvin Drawing	15 000	
Sylvia Drawing	15 000	
Leroy Drawing	30 000	
Income Summary (Profit & Loss Account)		90 000

- (a) Prepare a Statement of Partners' Equity for the current year ended 30 September. Assume that no partner has made any additional investments during the year. **[10 marks]**
- (b) Assuming that Calvin and Sylvia spend the same amount of time in the business, why might Leroy be given the same portion of the profits as the other two partners? **[1 mark]**
- (c) State THREE factors that the partners should consider when deciding how to distribute the profits of the partnership? **[3 marks]**
- (d) Distinguish between corporations and partnerships in terms of the following characteristics:
- (i) Owners' liability for debts of the business
 - (ii) Transferability of ownership interest
 - (iii) Continuity of existence **[6 marks]**

- (e) The new accounting clerk employed at Chin's Haberdashery located at 27 Barnett Street, has made several errors in the preparation of the first set of financial statements. Below is the Income Statement she prepared for the year ending 30 September 2013.

Statement of Comprehensive Income
As at 30 September 2013

	\$		\$		\$
Sales			230 000		
Add: Sales Returns and Allowances			940		
Net Sales			230 940		230 940
Cost of Goods Sold:					
Merchandise Inventory, 01 October 2012			81 000		
Purchases	90 140				
Purchases Returns, Allowances	4 146				
Net Purchases			85 994		
Cost of Goods Available for Sale			166 994		
Add: Merchandise Inventory, 30 September 2013			54 800		
Cost of Goods Sold			221 794		221 794
Gross Profit					9 146
Operating Expenses:					
Wages			57 020		
Interest Expense			500		
Supplies Expense			1 950		
Freight In			3 000		
Sales Discounts			880		
Office Equipment at Cost			50 000		
Furniture & Fittings at Cost			144 000		
Depreciation – Office Equipment			2 500		
Interest Income			(1 240)		
Depreciation – Furniture and Fittings			4 000		
Total Operating Expenses			262 610		262 610
Income from Operations and Net Income					(253 464)

The owner is convinced that he should not have made a loss and is worried that if he reports this loss to the Inland Revenue Department he will be assessed and the tax rate of 25% applied. He has asked you to review the Income Statement presented and make the necessary corrections applying the stated tax rate.

Prepare a Multi-step Income Statement in accordance with IAS1 (Section 6 of IFRS for SMEs). **[15 marks]**

Total 35 marks

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3. (a) (i) Name TWO users of the Statement of Cash Flows. [2 marks]
- (ii) State ONE reason why EACH user named in (a) (i) above would need a Statement of Cash Flows. [2 marks]

(b) Classify the following list of items using the headings **operating activity (indirect method)**, **investing activity**, **financing activity** and **significant non-cash investing and financing activity**:

- (i) Loss on sale of fixed asset
- (ii) Issuance of bonds for land
- (iii) Conversion of bonds into common stock
- (iv) Purchase of land
- (v) Redemption of bonds
- (vi) Payment of dividends
- (vii) Depreciation
- (viii) Receipt of dividends on stock investment
- (ix) Interest payments on bonds payable
- (x) Issuance of common stock

[10 marks]

(c) An extract from the Statement of Comprehensive Income (Income Statement) of Margaritaville Company for the year ended 30 June 2010 is as follows:

	\$	\$
Sales		1 000 000
Depreciation expense	61 000	
Other operating expenses	719 000	
Loss on sale of equipment	15 000	795 000
Income before tax		205 000
Income tax expense		51 250
Net Income		153 750

An extract from the Statement of Financial Position (Balance Sheet) at that same date is as follows:

	2010	2009
	\$	\$
Accounts payable	35 000	28 000
Accrued expenses payable	8 700	7 400
Accounts receivable	53 200	64 000
Inventory	35 000	25 000
Income tax payable	4 500	7 200

Prepare the operating activities section of the Statement of Cash Flows in accordance with IAS (Section 7 of IFRS for SMEs) using the indirect method. [8 marks]

- (d) State THREE limitations of accounting ratios. [3 marks]

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- (e) Selected data from the books of Hilton's Bakery for the year ended 31 October 2010 are as follows:

	\$
Sales	550 000
Cost of Goods Sold	250 000
Other Expenses	114 000
Interest Expense	20 000
Income Taxes Expense	28 000

The following information is also available:

1. Cash dividends declared and paid was \$ 25 000. The company only issued common stock.
2. Common stock outstanding at the end of the year were 42 000 shares.
3. The current market price for Hilton's stock is \$8 per share.

Using the information above and the formulae below (**not given in any special order**), calculate the following ratios and give ONE meaning of your result in EACH case.

- Earnings per share = $\frac{\text{Net income}}{\text{Common stock outstanding}}$
- Gross profit margin = $\frac{\text{Gross profit}}{\text{Sales}} \times 100$
- Price earnings ratio = $\frac{\text{Market price per share}}{\text{Earnings per share}}$
- Dividend payout = $\frac{\text{Cash dividends}}{\text{Net income}} \times 100$
- Times interest earned = $\frac{\text{Income before interest and tax}}{\text{Interest expense}}$

- (i) Gross profit margin [2 marks]
- (ii) Times interest earned [2 marks]
- (iii) Earnings per share [2 marks]
- (iv) Price earnings ratio [2 marks]
- (v) Dividend payout [2 marks]

Total 35 marks

END OF TEST

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