MODULE 1

ACCOUNTING THEORY, RECORDING AND CONTROL SYSTEMS

1. (a) (i) Outline the MAIN objective of 'general purpose financial reporting', according to the IASB Framework. **[2 marks]**

(ii) Explain EACH of the following limitations of financial statements:

- Use of accounting policies **[3 marks]**
- Use of estimates and aggregation **[3 marks]**

(b) (i) Distinguish between 'accrual basis accounting' and 'cash basis accounting'. **[4 marks]**

(ii) Identify TWO reasons why an organization would use 'accrual basis accounting' instead of 'cash basis accounting'. **[2 marks]**

(c) Stephens Ltd had the following equities and liabilities as at 31 December 2016.

	$
Ordinary shares @ $0.50	100 000
Share premium	20 000
Retained earnings	325 000
8% debenture (2022– 2023)	200 000
Redeemable 5% $1 preference shares 2017 @ $1.00	50 000
9% debenture (2017–2018)	80 000

The following transactions occurred during 2017.

03 January	Bonus issue of share of 1 for 4
01 April	Issued 20 000 ordinary shares of 0.50 par for $1.50
30 September	Redeemed $50 000 preference shares at par with a new issue of 100 000 ordinary shares at par of $0.50
28 November	Redeemed the total 9% debenture at par

Required

Prepare the journal entries to record the 2017 transactions for Stephens Ltd. **[12 marks]**

(d) Stephens Ltd traditionally uses a manual accounting system. Describe how the introduction of an integrated computerized accounting system will impact the company in terms of

(i) recording information **[3 marks]**

(ii) access to records **[3 marks]**

(iii) independent internal verification. **[3 marks]**

Total 35 marks

MODULE 2

PREPARATION OF FINANCIAL STATEMENTS

2. (a) Distinguish among the following types of companies: public, private and statutory. **[6 marks]**

(b) The following trial balance for D & G Construction Company Ltd was prepared by an inexperienced bookkeeper. This Trial Balance was prepared after the preparation of the Statement of Comprehensive Income as at 31 December 2016, but before the Statement of Financial Position.

	Dr ($)	Cr ($)
Cash at bank	715 000	
Inventory at 31 December 2016	1 580 000	
Accounts receivables	1 300 000	
Prepayments	200 000	
Property at 31 December 2016	2 700 000	
Property – accumulated depreciation		675 000
Motor vehicles at 31 December 2016	520 000	
Motor vehicles – accumulated depreciation		230 000
Furniture and fixtures at 31 December 2016	1 225 000	
Furniture and fixtures – accumulated depreciation		545 000
Long-term investments	2 500 000	
Accounts payables		250 000
Deferred income		200 000
Corporation tax payable		400 000
Debenture interest payable		230 000
10% debentures (repayable in 2025)		1 850 000
Director's loan		450 000
Ordinary shares (of $0.50 par value)		1 500 000
Share premium		250 000
Retained earnings at 01 January 2016		2 380 000
Profit for the year		1 780 000
	10 740 000	10 740 000

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The following additional information is also available.

- Depreciation is to be provided for as follows:

– Property	2% per year on cost
– Motor vehicles	20% per year on cost
– Furniture and fittings	15% per year on the reducing balance

- As a result of the changing economic climate, management has decided that it would be prudent to make a provision for doubtful debts. Accordingly, a provision of 10% of receivables should be made.

- On 04 January 2017, items costing $120 000, ordered from a supplier in December, were received. These goods are not included in the trial balance **on page 4**.

- Shareholders agreed on a final ordinary dividend of $0.075 per share for 2016, which should be provided for.

- Deferred income is made up of grant income of $1 000 000 received from the government in 2012. This grant should be released to income evenly over a five-year period; however, in error, no amount was released to income in the current year.

Required

(i) Calculate the revised profit for the year ended 31 December 2016. **[4 marks]**

(ii) Prepare a Statement of Retained Earnings for the year ended 31 December 2016. **[2 marks]**

(iii) Prepare the Statement of Financial Position for D & G Construction Company Ltd as at 31 December 2016, as far as the information permits.

N.B. You are required to submit your working to show the make-up of the figures in the Statement of Financial Position. **[19 marks]**

(iv) Explain ONE reason for your treatment of the goods received in January 2017 as outlined in Bullet 3 above. **[2 marks]**

(v) Briefly state the purpose of a 'Statement of Financial Position'. **[2 marks]**

Total 35 marks

MODULE 3

FINANCIAL REPORTING AND INTERPRETATION

3. On 10 March 2016, Castries Corporation issued its financial statements for the year ended 31 December 2015. The following events took place early in 2016.

- On 10 January, 25 000 ordinary shares of $2 par value were issued.
- On 01 March, the Tax Authority determined that Castries Corporation's taxes payable for 2015 was $38 000. At 31 December 2015, corporation taxes payable were recorded at $22 000.
- On 01 February, the corporation declared dividends on ordinary shares of $1.20 per share held at 31 December 2015.
- On 15 January, one of the corporation's major customers who owed $85 000 went into bankruptcy.
- On 04 March, a court case brought against the corporation by a past employee was settled. Castries had made a provision of $150 000 at 31 December 2015 in anticipation of the settlement. The magistrate in the matter awarded the plaintiff $230 000.

Required

(a) Identify how EACH of the five post-balance sheet events in the bulleted list above should be reflected in Castries Corporation's financial statements for the year ended 31 December 2015. **[7 marks]**

(b) (i) Outline the effect of inflation on EACH of the following:

- Depreciation
- Profit **[4 marks]**

(ii) Describe TWO alternative methodologies to historical cost accounting that can be used during periods of inflation. **[6 marks]**

(c) The following statement was extracted from the books of Castries Corporation for the year ended 31 December 2017.

Castries Corporation

Statement of Comprehensive Income for the Year Ended 31 December 2017

	2016		2017	
	$	$	$	$
Sales revenue		380 000		520 000
Opening inventory	25 000		32 000	
Purchases	160 000		220 000	
	185 000		252 000	
Closing inventory	32 000		40 000	
		153 000		212 000
Gross profit		227 000		308 000
Administrative expenses	45 000		60 000	
Selling and distribution costs	62 000		75 000	
		107 000		135 000
Profit before interest and tax		120 000		173 000
Finance cost		15 000		15 000
Profit before tax		105 000		158 000
Tax		26 250		39 500
Profit after tax		78 750		118 500

Additional information

- These were the selected assets and liabilities as at 31 December:

	2016	2017
	$	$
Trade payables	36 000	54 000
Tax	10 000	6 000
Inventory	32 000	40 000
Receivables	62 000	68 000
Cash and cash equivalents	150 000	184 000
5% Secured loan	300 000	300 000
Ordinary share capital at $2 each	80 000	80 000
8% Preference shares at $1 each	25 000	25 000
Retained earnings	270 000	374 500

- 80% of all sales are made on credit and 10% of purchases are made on a cash basis.

- The following dividends were paid during the period.

	2016	2017
	$	$
Ordinary	6 000	12 000
Preference	2 000	2 000
	8 000	14 000

- The market price for each ordinary share at the end of 2017 was $28.50.

Required

Calculate the following ratios for Castries Corporation for the year 2017.

(i)	Dividend payout	**[2 marks]**
(ii)	Price earnings	**[4 marks]**
(iii)	Average collection period	**[3 marks]**
(iv)	Average payment period	**[3 marks]**
(v)	Debt-to-equity ratio	**[3 marks]**
(vi)	Interest coverage ratio	**[3 marks]**

Total 35 marks

END OF TEST

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