



CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ACCOUNTING

UNIT 1 – Paper 032

1 hour 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises SIX questions. Answer ALL questions.
2. Write your answers in the spaces provided in this booklet.
3. Do NOT write in the margins.
4. You may use a silent, non-programmable calculator to answer questions.
5. ALL working must be clearly shown.
6. If you need to rewrite any answer and there is not enough space to do so on the original page, you must use the extra lined page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**
7. **If you use the extra page(s) you MUST write the question number clearly in the box provided at the top of the extra page(s) and, where relevant, include the question part beside the answer.**

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

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In the Caribbean there are business entities operating which are headquartered in many different countries. Assess how accounting standards assist these entities in satisfying reporting requirements.

Three Island Ltd is a parent company which expanded and established three subsidiaries in different territories of the Caribbean. Of the three subsidiaries, two are public companies and the other a private company. The group of companies predominantly distributes canned goods and other goods across different countries in the Caribbean and the parent company is listed on the stock exchange in two of the territories. Three Island Ltd is required to use International Financial Reporting Standards (IFRS) in the preparation of its financial statements.

The following trial balance relates to one of Three Island Ltd's subsidiary, Novella Ltd.

Novella Ltd		
Trial Balance as at 31 December 2020		
	\$	\$
Retained earnings at 1 January 2020		310 000
Investment income		25 000
Ordinary share capital @ \$0.75		750 000
9% Debenture		600 000
Investment	550 000	
Sales		2 500 000
Purchases	650 000	
Trade receivables	385 000	
Trade payables		359 000
Inventory 1 January 2020	75 000	
Administrative expenses	442 000	
Selling and distribution cost	345 000	
Furniture cost	1 000 000	
Accumulated depreciation on furniture as at 1 January 2020		460 000
Motor vehicles — NBV at 1 January 2020 (cost \$2 000 000)	1 200 000	
Debenture interest paid for the year	34 000	
Cash at bank	323 000	
	<u>5 004 000</u>	<u>5 004 000</u>



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Additional information

- Inventory at 31 December 2020 was \$62 000.
- Depreciation is provided for as follows:
 - Furniture — 5% on the reducing balance method and apportioned 75% to administrative expenses and 25% to selling and distribution cost
 - Motor vehicles — 20% on the straight-line method and apportioned 15% to administrative expense and 85% to selling and distribution cost
- On 1 April 2020, the annual rent of \$72 000 was paid for the regional distribution centre. The amount paid covered the period 1 April 2020 to 31 March 2021. The rent expense is treated as a selling and distribution cost.
- Cost of goods sold was \$663 000.
- Profit before tax for the year was \$612 000.
- The corporation tax rate is 25%.

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MODULE 1

ACCOUNTING THEORY, RECORDING AND CONTROL SYSTEMS

1. (a) Identify ONE step in the 'due process' used to develop International Financial Reporting Standards (IFRS).

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[1 mark]

- (b) (i) List THREE areas of importance to Three Island Ltd using a single set of accounting standards.

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[3 marks]

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2. (a) In a recent independent internal verification exercise it was discovered that at one of the distribution warehouses of a subsidiary, all 20 employees were receiving and issuing inventory. In addition, it was difficult to trace the amount of inventory received or issued since not all transactions were recorded using the approved system.

(i) Identify TWO principles of internal control that were violated at the distribution warehouse.

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[2 marks]

(ii) For EACH principle identified in a (i), outline ONE internal control procedure that should be implemented to prevent the violation.

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[4 marks]

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MODULE 2

PREPARATION OF FINANCIAL STATEMENTS

3. Distinguish between a 'public company' and a 'private company'.

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Total 4 marks



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MODULE 3
FINANCIAL REPORTING AND INTERPRETATION

5. Selected ratios for Novella Ltd and local industry standards are presented in the following table.

Ratio	Novella Ltd	Local Industry Standards
Current ratio	1.48	2.1
Acid-test ratio	(i)	1.1
Gearing ratio	(ii)	30%
Interest cover	12.33	10
Inventory turnover	(iii)	12
Net income percentage	(iv)	25%
Earnings per share	(v)	0.56

(a) Calculate EACH of the following ratios (i–v) for the table above.

(i) Acid test ratio

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(ii) Gearing ratio

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(iii) Inventory turnover

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(iv) Net income percentage

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(v) Earnings per share

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[10 marks]

(b) (i) State the purpose of a solvency analysis.

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[1 mark]



6. Three Island Ltd recently discovered that one of its major credit customers, Lyon Ltd, is insolvent. The company's legal officer has advised that Three Island Ltd petition the courts to be granted a receiving order against Lyon Ltd and to have a receiver manager appointed.

List the **THREE major** functions of a receiver manager.

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Total 3 marks

END OF TEST

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

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