

SIR ARTHUR LEWIS COMMUNITY COLLEGE
DIVISION OF TECHNICAL EDUCATION AND MANAGEMENT STUDIES

EXAMINATION SESSION : December 2008 Examination

TUTOR (S) : Mr. N. Goolaman

PROGRAMME TITLE : 3BS-AOA-AD

PROGRAMME CODE : Office Administration

COURSE TITLE : Intermediate Financial Accounting

COURSE CODE : ACC102

CLASS (ES) : Year 2

DATE : Monday 8th December, 2008

COMMENCEMENT TIME : 9:00 a.m.

DURATION : 3 hours

INVIGILATOR (S) : Ms. L. Phillips, Ms. S. Meliat

ROOM (S) : OTW-1R-03

#A35



INSTRUCTIONS:

This Examination Paper consists of two (2) sections;

Section I – *Forty (40) multiple choice questions. Circle the most appropriate response for each Question.*

Section II – *There are seven (7) questions in this section. Question 1 is COMPULSORY. Choose any other four (4) complete questions.*

- Use of **silent calculators** is permitted, **no cell phones** calculators are allowed.
- **Remove all calculator covers** and store in bags at front of room.
- **ALL CELL PHONES** should be **TURNED OFF** and placed in a bag that should be **kept at the front of the classroom** throughout the duration of the examination.
- **LENDING or BORROWING is STRICTLY PROHIBITED.**



SECTION I

Answer the following multiple choice questions by circling the alpha character corresponding to the most appropriate response. Multiple choice items 1 to 30 are independent.

1. The financial position of a business in the industry is best understood by preparing its
 - a. Balance Sheet
 - b. Income Statement
 - c. Cash Flow Statement
 - d. Ratio Analysis
2. The owners' claim on the economic resources of a business is known as
 - a. Liabilities
 - b. Assets
 - c. Capital
 - d. Income
3. The external claims on the economic resources of a business are known as
 - a. Liabilities
 - b. Assets
 - c. Capital
 - d. Income
4. Debentures, Mortgages, Long Term Business financing are often referred to as
 - a. Loan Capital
 - b. Working Capital
 - c. Share Capital
 - d. Income
5. The "purchase of a building" for use as a retail outlet by a firm is referred to as
 - a. a Revenue Expenditure
 - b. an Operating Expense
 - c. a Capital Expenditure
 - d. a Major Liability
6. The part of the cost of a fixed asset which is consumed during a period of use is called
 - a. Fire Loss
 - b. Depreciation
 - c. Cost
 - d. Insurance Claim
7. The goods held in a warehouse for future sale are called
 - a. Inventory
 - b. Fixed Asset
 - c. Revenue
 - d. Cost of Sales
8. Costs that do not fluctuate with changes in volume of business are known as _____ costs
 - a. Fixed
 - b. Variance
 - c. Direct
 - d. Variable
9. Costs that fluctuate directly with changes in volume of business are known as _____ costs
 - a. Fixed
 - b. Variance
 - c. Direct
 - d. Variable
10. The undistributed part of the profits kept and accumulated in the business is called
 - a. Business Income
 - b. Dividend
 - c. Asset
 - d. Retained Profits
11. The activity level at which total revenue is equal to total cost is called the
 - a. Relevant Range
 - b. Break Even Point
 - c. Maximum Level
 - d. Capacity Level
12. The estimated time between the date of an order and the receipt of the goods is called
 - a. Lead Time
 - b. Order Time
 - c. Shipping Time
 - d. Idle Time
13. The excess of total revenue over variable costs is referred to as
 - a. Net profit
 - b. Gross profit
 - c. Contribution margin
 - d. Income
14. The Registrar of Companies acts on behalf of the
 - a. All limited liability companies
 - b. The Government
 - c. Only local companies
 - d. The rich and famous
15. The parts of ownership, in a limited company, which pay a fixed rate of return on the nominal value of the amount invested are referred to as _____ shares.
 - a. Ordinary
 - b. Premium
 - c. Preference
 - d. Founders'
16. The rate of return paid to the owners of a limited company out of the profits is known as
 - a. Expense
 - b. Shares
 - c. Interest
 - d. Dividend

17. A business owned by a minimum of 2 and a maximum of 20 subscribers is known as a/an
 a. Public Ltd. Co. b. Partnership c. Private Ltd. Co. d. Co-operative
18. Gross profit shown as a percentage of selling price is referred to as
 a. Markup b. R.O.I. c. Turnover d. Margin
19. A margin of 40% is equivalent to a markup of
 a. 28.6% b. 66 2/3% c. 40% d. 60%
20. The costs that continue to influence the profit making capacity of the business for a long period of time are known as
 a. Assets b. Revenue Expenditure c. Expenses d. Capital Expenditure
21. The costs that only temporarily influence the profit making capacity of the business are known as
 a. Assets b. Revenue Expenditure c. Expenses d. Capital Expenditure
22. The excess of the purchase price of a business as a going concern over its book value is known as
 a. Goodwill b. Equity c. Capital d. Market Value
23. A statement prepared to determine the cost of Production of finished goods for one surplus an accounting period is known as
 a. Income Statement b. Budget
 c. Balance Sheet d. Manufacturing a/c
24. The statement of projected income and expenses is referred to as
 a. Income Statement b. Budget c. Balance Sheet d. Manufacturing a/c
25. An amount of money entrusted to an employee for change-making purposes is referred to as a (an) a. Advance b. Debt c. Cash Float d. Wage
26. Parts of ownership in a limited company are known as
 a. Expenses b. Shares c. Interest d. Dividends
27. The price for each part of ownership quoted on the document certifying the ownership in a limited company is known as
 a. Market Value b. Book Value c. Premium d. Par Value
28. The price at which parts of ownership of a limited company is traded is known as
 a. Market Value b. Book Value c. Premium d. Par Value
29. The document issued to a person who has purchased "parts of ownership" in a limited company as proof of ownership is called a/an
 a. Receipt b. Invoice c. Credit note d. Share certificate
30. The document which the founding members of a company issue to the Registrar of Companies in order to effect the registration of the company is referred to as a/an
 a. Docket b. Charter c. Share Certificate d. Register

Questions 31 to 40 are related to the following case:

A limited company is permitted by the Registrar of Companies to issue 500,000 Common Stocks at \$0.50 each to the public. The company initially sold 120,000 of those stocks at \$1.50 each.

31. The above transaction involving the sale of the stocks is a/an _____ transaction.
a. Illegal b. Issue of shares c. Unfair d. Unethical
32. The amount of capital the company is authorized to raise is
a. \$250,000 b. \$60,000 c. \$180,000 d. \$500,000
33. The amount of the company's Owners' Equity at this time is
a. \$250,000 b. \$60,000 c. \$180,000 d. \$500,000
34. The par value of each of the company's stock is
a. \$1.50 b. \$0.50 c. \$1.00 d. unknown
35. At the end of the first accounting period, the firm had a net profit of \$150,000, no new issue of shares has been declared, and its shares are now trading at \$2.50 each. The price earnings ratio is
a. 2.50 b. 3.125 c. 2.00 d. Undeterminable
36. When parts of ownership in a business are sold at a price higher than its par value, they are said to have been sold at a/an
a. Premium b. Income c. Discount d. Illegal price
37. The Closing Balance of the company's Share Capital Account after the sale of the Stocks is
a. \$100,000 b. \$150,000 c. \$60,000 d. \$90,000
38. The balance of the company's Premium account is currently
a. \$100,000 b. \$180,000 c. \$60,000 d. \$120,000
39. If the remaining parts of ownership are sold at the nominal value, the amount of additional capital the company can raise is
a. \$190,000 b. \$570,000 c. \$380,000 d. \$0
40. The owners of the Limited Company are called
a. Partners b. Shareholders c. Directors d. Managers

SECTION II

You are required to answer Question 1 and any four (4) other complete questions from this section. There are Seven (7) questions altogether.

Question 1

(20 marks)

Given the following Balance Sheets of Tantalizing Ten Inc., prepare a cash flow statement for the year ended 31.12. 02: (Use the form provided)

	<u>2001</u>	<u>2002</u>
Land & Buildings	\$250,000	\$ 230,000
Furniture/Equipment	\$ 98,000	\$103,000
Less: Prov for Depreciation	<u>38,000</u> <u>60,000</u>	<u>39,000</u> <u>64,000</u>
	310,000	294,000
<u>Current assets</u>		
Stock	86,200	77,400
Debtors	\$ 62,900	\$ 80,500
less provision for B/D	<u>1,200</u> 61,700	<u>2,100</u> 78,400
Fixed Deposit	15,000	30,000
Bank	<u>-</u> <u>162,900</u>	<u>29,500</u> <u>215,300</u>
	<u>472,900</u>	<u>509,300</u>
<u>Current liabilities</u>		
Proposed dividends	15,500	35,500
Taxation	5,000	9,500
Creditors	82,500	98,145
Bank overdraft	<u>11,500</u>	<u>-</u>
	114,500	143,145
Mortgages	83,000	55,000
10% Debentures	<u>50,000</u>	<u>60,000</u>
	133,000	115,000
Ordinary Share capital	90,000	120,000
Preference Share Capital	20,000	40,000
Share Premium	8,000	12,000
General Reserve	10,000	20,000
P & L a/c	<u>97,400</u>	<u>56,155</u>
	<u>225,400</u>	<u>248,155</u>
	<u>472,900</u>	<u>506,300</u>

A piece of equipment costing \$10,000 which had depreciated \$6,000 was sold for \$8,000 during the year, and a new piece of equipment costing \$15,000 was purchased.

Question 2 (10 marks)

The following information was extracted from the books of Masses Ltd the year 2004: 75,000 Ordinary Shares, \$150,000; 10,000 - 12% Preference Shares, \$50,000; Mortgages, \$40,000; 10% Debentures, \$20,000; Premium on Preference Shares, \$5,000; Retained Earnings, \$12,500; General Reserves \$7,500; Opening Stock \$22,500; Closing Stock \$34,500; Debtors \$24,500; Bank O/D \$4,500; Creditors \$15,600; Accruals \$3,000; Sales, \$250,000; Gross Margin 40%; Expenses are 10 % of Total Revenue; Shares trade at \$2.50.

Complete the following table using the information given for Masses Ltd:

Required	Answer
Gross Profit for the year	
Cost of Sales for the year	
Current Ratio	
The Firm's Capital Gearing Ratio	
Par Value of Preference Shares	
Stock Turnover Ratio	
Average Debt Collection Period	
Earnings per share	
Price Earnings ratio	
Returns on Capital Employed	

Question 3 (10 marks)

Micha and Deja are in partnership with the following agreement:

- i. Profits and losses are shared in the ratio of 3 : 2 respectively.
- ii. Micha is entitled to a salary of \$25,000 and Deja is entitled to a salary of \$20,000.
- iii. The partners are entitled to interest on capital of 10% of their capital accounts.
- iv. The partners are also required to pay 12% interest on their drawings.

The following balances are extracted from the books of the partnership on June 30th 2004:

	Micha	Deja
Capital	\$50,000	\$40,000
Drawings	15,000	10,000

Complete the following schedules:

(a)

Micha & Daja Partnership			
Profit & Loss Appropriation Account			
	<u>Micha</u>	<u>Deja</u>	<u>Total</u>
Net Profit			125,000

Question 6

The following is the Balance Sheet of Rosehill and Bacara who are in partnership sharing profits and losses in the ratio of 3:2 respectively:

<u>Assets</u>		<u>Liabilities</u>	
Premises	126,500	Creditors	75,550
Furniture/Equipment	32,600	Long Term Business Loan	<u>125,700</u>
Motor Vehicles	60,000	Total Liabilities	201,250
Stock	36,750	<u>Capital Contributed</u>	
Debtors	43,400	Rosehill	65,000
Bank	12,000	Bacara	<u>45,000</u>
Cash	<u>5,000</u>	Total Capital Contributed	110,000
		Current Accounts	
		Rosehill	2,000
		Bacara	<u>3,000</u>
		Total Current Accounts	<u>5,000</u>
Total Assets	<u>316,250</u>	Total Liabilities & Capital	<u>316,250</u>

The partnership is to be converted to a limited company named Rosara Ltd. The new company is to take over all the assets and liabilities except for the Cash and Bank accounts. The purchase consideration is 120,000 \$1 Ordinary Shares in the new company. The shares are to be divided between the partners in the ratio of 3:2 respectively. The assets are re-valued as follows: Premises \$150,000; Furniture/Equipment \$30,000; Motor Vehicles \$55,000; Stock \$35,000; and Debtors \$42,400.

Required:

Show the Capital Accounts of the partners in order to effect the dissolution of the Partnership. (Use Foolscap paper)

Question 7

Use the financial data given in Question 6 above to Draw up the Balance Sheet of Rosara Ltd. In good style. (Use Foolscap paper)

