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



| | | |
|---|---|---|
| EXAMINATION SESSION | : | May 2009, Final Examination |
| TUTOR | : | Mrs F. Beerom-Henry |
| PROGRAMME TITLE | : | Associate Degree – Business Administration |
| PROGRAMME CODE | : | 3BS-ABA-AD |
| COURSE TITLE | : | Advanced Financial Accounting |
| COURSE CODE | : | ACC204 |
| CLASS | : | Year 2 |
| DATE | : | 8th May, 2009 |
| TIME | : | 1:00 p.m. |
| DURATION | : | 3 hrs |
| ROOM | : | CEHI-1H-02 |
| INVILGILATOR | : | |

#AHO



**INSTRUCTIONS**

**CANDIDATES ARE REQUIRED TO WRITE ONLY ID# ON EXAMINATIONS SCRIPTS.**

Read **all** questions carefully.

There are **five (5)** long answer questions.

Candidates are required to answer **Question 1** and **any other three (3)** complete long answer questions.

This exam also contains a BONUS question. There is **no penalty** for not answering the bonus question.

Number each answer clearly

Present and future value tables are provided.

GO TO THE NEXT PAGE

**INSTRUCTION:** Answer **Question 1** and **any other three (3)** complete long answer questions.

**Question 1 (Compulsory)**

At Nobody Company, cheques are not prenumbered because both the purchasing agent and the treasurer are authorized to issue cheques. Each signer has access to unissued cheques kept in an unlocked file cabinet.

The purchasing agent pays all bills pertaining to goods purchased for resale. Prior to payment, the purchasing agent determines that the goods have been received and verifies the mathematical accuracy of the vendor's invoice. After payment, the invoice is filed by vendor, and the purchasing agent records the payment in the cash disbursement journal.

The treasurer pays all other bills following approval by authorized employees. After payment, the treasurer stamps all bills PAID, files them by payment date, and records the cheques in the cash disbursement journal.

Nobody Company maintains one checking account that is reconciled by the treasurer. The following information is available for this checking account and is awaiting reconciliation by the treasurer.

**BANK STATEMENT as at 31/05/2008**

| **Date** | **Explanations** | **Debits** | **Credits** | **Balance** |
|---|---|---|---|---|
| 2008 | | $ | $ | $ |
| Apr 30 | Balance | | | 5,674.60 |
| May 16 | NSF cheque | 905 | | 4,769.60 |
| 16 | NSF – fee | 25 | | 4,744.60 |
| 31 | Bank charges | 30 | | 4,714.60 |

The following information relates to the cash account in the ledger of Nobody Company:
Cash deposits in transit – $730.00
Outstanding cheques - $1,214.00
Balance at 31/05/2008 - $5,190.60

*Continued... ...*

(Question 1 cont'd)

**Required:**

(A) Explain seven (7) weaknesses in internal control over cash disbursements in Nobody Company.

**(14 marks)**

(B) Write a memo to Mrs. Henry - the company's treasurer indicating four (4) recommendations for improvements.

**(8 marks)**

(C) Revise the cash book and prepare the bank reconciliation statement as on May 31, 2008.

**(8 marks)**
**[Total 30 marks]**

**Question 2 (Optional)**

(A) During its first year of operations, Dawn Corporation had the following transactions pertaining to its common stock which has a par value of $5/share.

| | |
|---|---|
| Jan. 10 | Issued 80 000 share for cash at $6 per share. |
| Mar. 1 | Issued 5 000 shares to attorneys in payment of a bill for $35 000 for services rendered in helping the company to incorporate. |
| Apr. 1 | Issued 24 000 shares with a fair value of $12 for premises. The asking price of the premises was $220 000 and its fair value was $290 000. |
| Sept. 11 | Issued 10 000 shares of common stock and 100 shares of $100 par value preferred stock for a lump sum of $90 000. The market value of the preferred stock is $170 per share. |

**Required:**
Prepare the journal entries to record each of the above transactions. **(12 marks)**

(B) Jefferson Company has outstanding 40 000 shares of $5 par common stock which had been issued at $30 per share. The company then entered into the following transactions. (The company uses the cost method to account for treasury shares)

i) Purchased 5 000 treasury shares at $40 per share
ii) Resold 2 000 of the treasury shares at $35 per share
iii) Retired 1 000 of the treasury shares

**Required:**
Prepare journal entries to record each of the items above. **(8 marks)**
**[Total 20 marks]**

*Continued………*

### Question 3 (Optional)

On January 1, 2007, Holt Company sold 7% bonds having a maturity value of $400,000 for $372,816 which provides the bondholders with an 8% yield. The bonds are dated January 1, 2007 and mature January 1, 2017, with interest payable each July 1 and January 1Holt Company allocates interest and unamortized discount or premium on the effective interest basis. ***(round to nearest whole number)***

**Required:**

i) Prepare the journal entry at the date of the bond issuance. **(3 marks)**

ii) Prepare a schedule of interest expense and bond amortization for the first three (3) years. **(7 marks)**

iii) Prepare the July 1, 2007 journal entry to record the interest and amortization. **(3 marks)**

iv) Prepare the December 31, 209 adjusting journal entry to record the interest and amortization. **(3 marks)**

v) Assume the company uses the straight line method to amortize any discount or premium, prepare the adjusting journal entry to record the interest payment and amortization at December 31, 2008. **(4 marks)**

**[Total 20 marks]**

### Question 4 (Optional)

(A) The Solar Machine Company began production on a new machine in September 2006, and sold 200 units at $3,500 each by its year-end, December 31, 2006. Each machine is under warranty for one year and the company has estimated, from past experience with a similar machine, that the warranty cost will probably average $250 per machine. Further, as a result of parts replacement and services rendered in compliance with the machine warranties, the company incurs $3,000 in warranty costs in 2006 and $12,000 in 2007.

**Required:**

i) Prepare the journal entry to record September through December 2006 sales.

ii) Prepare the journal entry to recognize warranty expense, September through December 2006 *(accrual basis).*

iii) Prepare the journal entry to recognize warranty costs at December 2007 (on 2006 machine sales).

**(10 marks)**

*Continued.........*

(Question 4 cont'd)

(B) Wash-Away sells washing machines and offers its customers a 2-year extended warranty contract in addition to the regular 2-year warranty. During 2007, Wash- Away sold 2,000 extended warranty contracts at $250 each.

**Required:**

i) Prepare the journal entry to record the sale of extended warranty contracts for 2007.

ii) Prepare the journal entry to recognize warranty revenue at the end of third year on the straight line basis.

iii) Assume that Wash-Away spent $2,000 servicing extended warranty contracts in the third year and estimates an additional $8,000 will be spent in the future to service those 2007 extended warranties contracts. Prepare the journal entry to recognize warranty revenue at the end of third year on the basis of cost incurred and estimated cost.

**(10 marks)**
**[Total 20 marks]**

**Question 5 (Optional)**

(A) A company needs $100,000 to retire bonds. What amount should have been deposited on January 1, 2007 at 10% interest compounded semiannually in order to accumulate the desired sum by January 1, 2014? **(3 marks)**

(B) Susan became an 'instant millionaire' in the Lotto. Beginning today she is to receive 20 annual payments of $50,000 each. At 12%, what is the present value of her winnings? **(3 marks)**

(C) As of the beginning of her first year in college, Ariel plans to deposit $1,000 in an 8% account at the end of her third, fourth and fifth years in school. What will be the balance in the account immediately after the last deposit? **(4 marks)**

(D) A company wished to raise some funds for the purpose of expansion by issuing bonds. To this end on January 1, 2007 $200,000, 8% bonds were issued to yield 10% interest. The bonds mature on January 1, 2012. Interest is payable semiannually on July 1 and January 1. Determine the selling price of the bonds. **(5 marks)**

(E) A company is considering the purchase of a new machine. This machine could be purchased for $154,000 cash payable upon delivery. The company knows that the machine will produce a net cash flow per year of $40,000 for 5 years (received at the end of each year), at which time it will be sold for an estimated salvage value of $35,000. The company's discount rate is 15 percent. Should the company purchase the machine? **(5 marks)**
**[Total 20 marks]**

**BONUS**

In the absence of restrictive provisions, each share carries certain rights. Make a list of each of these rights.

**(5 MARKS)**

# END OF EXAMINATION