

SIR ARTHUR LEWIS COMMUNITY COLLEGE
Division of Technical Education and Management Studies

EXAMINATION SESSION : Semester One December 2011, Final Examination
TUTORS : Mr. Nathaniel Goolaman
PROGRAMME TITLE : Applied Arts Business Administration
PROGRAMME CODE : 3BS-ABA-AD
COURSE TITLE : Financial Accounting II
COURSE CODE : ACC102
CLASS (ES) : Year 2
DATE : 7th December, 2011
TIME : 9: 00 p.m.
DURATION : 3 hours
ROOM (S) : EMT-W1
INVAILILATOR (S) : P. Beausoleil, R. Isaac



INSTRUCTIONS

Use ID# only on answer booklet.

This examination contains seven (7) printed pages and two (2) Ruled Answer Forms. There are TWO Sections.

1. **Section I: Thirty (30) Multiple Choice Questions**
2. **Section II: Extended Response Section**

This Section contains ***ONE (1) compulsory question*** which you ***MUST*** attempt, and ***Six (6) other questions***, of which you may choose ***any Three (3) to attempt***. By the end of this paper, you should have attempted ***Four (4) Extended Response*** questions.

Please read all questions carefully.

Borrowing or lending is **prohibited**.

Silent non-programmable calculators permitted.

All cell phones must be turned off and placed in bags at front of room.

Remove all calculator covers and place in bags at front of room.

WHEN INSTRUCTED, GO TO NEXT PAGE

SECTION I

Answer the following multiple choice questions by circling the alpha character corresponding to the most appropriate response. Use the answer sheet provided. Multiple choice items 1 to 22 are independent, and questions 23 to 30 are based the data given in CASE 1..

1. The comparative economic performance of a business in a particular industry is best assessed by preparing a/an
 - a. Balance Sheet
 - b. Cash Flow Analysis
 - c. Income Statement
 - d. Ratio Analysis
2. In the performance of a Cash Flow Analysis the items Cash, Bank, Fixed Deposits, Treasury Bills, Short Term Bonds and Guaranteed Investment Certificates are all considered:
 - a. Working Capital Items
 - b. Non Cash Items
 - c. Cash and Cash Equivalents
 - d. Financing Activities
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 undistributed part of the profits kept and accumulated in the business is called
 - a. Business Income
 - b. Non-Current Asset
 - c. Dividend
 - d. Retained Profits
6. The activity level at which Total Revenue is equal to Total Cost is called the
 - a. Relevant Range
 - b. Capacity Level
 - c. Break Even Point
 - d. Optimum Level
7. ROI, ROCE, ROE, Gross Margin are all _____ Ratios.
 - a. Investment
 - b. Efficiency
 - c. Profitability
 - d. Debt
8. 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
9. 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'
10. 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
11. In St Lucia, 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
12. Gross profit shown as a percentage of selling price is referred to as
 - a. Markup
 - b. R.O.I.
 - c. Turnover
 - d. Margin
13. A margin of 40% is equivalent to a markup of
 - a. 28.6%
 - b. 66 2/3%
 - c. 40%
 - d. 60%
14. 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
15. 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

16. Parts of ownership in a limited company are known as
 a. Expenses b. Shares c. Interest d. Dividends
17. 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
18. 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
19. 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
20. 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
21. In St Lucia, the minimum number of subscribers required in order to register a limited company is
 a. Twenty b. Two c. Seven d. One
22. Which of the following are all prepared to determine profit/loss?
 a. Realization A/c, Revaluation A/c, Memorandum Joint Venture A/c
 b. Receipts & Payment A/c, Consignment A/c, Purchase of Business A/c
 c. Balance Sheet, Income Statement, Statement of Cash Flows
 d. Statement of Affairs, Assets Disposal A/c, Statement of Changes in Equity

Questions 23 to 30 are related to the following case study

CASE 1: 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.

23. The above transaction involving the sale of the stocks is a/an _____ transaction.
 a. Illegal b. Issue of shares c. Unfair d. Unethical
24. The amount of capital the company is authorized to raise is
 a. \$250,000 b. \$60,000 c. \$180,000 d. \$500,000
25. The amount of the company's Owners' Equity at this time is
 a. \$250,000 b. \$60,000 c. \$180,000 d. \$500,000
26. The par value of each of the company's stocks is
 a. \$1.50 b. \$0.50 c. \$1.00 d. unknown
27. The Issued Share Capital of the Company at this time is
 a. \$250,000 b. \$60,000 c. \$180,000 d. \$500,000
28. 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
29. The balance of the company's Premium account is currently
 a. \$100,000 b. \$180,000 c. \$60,000 d. \$120,000
30. 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

SECTION II

You are required to answer **Question 1** and **any Three (3) other complete questions** from this section. There are Seven (7) questions altogether.

Question 1

You are given the following Balance Sheets of KP Classics Inc., for the years ended 31 Dec:

	<u>2008</u>	<u>2009</u>
Land & Buildings	\$350,000	\$ 330,000
Furniture/Equipment	\$103,000	\$115,000
Less: Prov for Depreciation	<u>38,000</u> <u>65,000</u>	<u>46,000</u> <u>69,000</u>
	415,000	399,000
<u>Current assets</u>		
Stock	88,200	76,400
Debtors	\$ 64,500	\$ 82,500
less provision for B/D	<u>1,200</u> 63,300	<u>2,100</u> 80,400
Fixed Deposit	10,000	35,000
Bank	<u>-</u> <u>161,500</u>	<u>29,500</u> <u>221,300</u>
	<u>576,500</u>	<u>620,300</u>
<u>Current liabilities</u>		
Taxation	5,000	9,500
Creditors	93,000	128,145
Bank overdraft	<u>21,500</u>	<u>-</u>
	119,500	137,645
Mortgages	88,000	55,000
10% Debentures	<u>55,000</u>	<u>70,000</u>
	143,000	125,000
Ordinary Share capital	150,000	170,000
Preference Share Capital	50,000	80,000
Share Premium	8,000	11,500
General Reserve	10,000	30,000
P & L a/c	<u>96,000</u>	<u>66,155</u>
	<u>314,000</u>	<u>357,655</u>
	<u>576,500</u>	<u>620,300</u>

Additional Notes:

1. A piece of equipment costing \$12,000 which had depreciated \$6,000 was sold for \$8,000 during the year, and a new piece of equipment costing \$24,000 was purchased.
2. The Company's warehouse was also extended at a cost of \$20,000.
3. Dividend declared and paid during the year amounted to \$35,500.
4. Taxes amounting to \$11,500 was paid during the year 2009.

Required

Prepare the Statement of Cash Flows for KP Classics Inc for the year ended December 31 2009.
(Use the forms provided). (25 Marks)

Question 2

Crane & Oscar have been in partnership for a few years. They share Profits and Losses in the ratio of 3:2 respectively. The following is their Balance Sheet as at 31 March 2008:

<u>Non Current Assets</u>		
Building		155,000
Furniture & Equipment		<u>32,000</u>
		187,000
<u>Current Assets</u>		
Inventory	18,000	
Accounts Receivables	9,000	
Bank	21,000	
Cash	<u>2,000</u>	
		<u>50,000</u>
Total Assets		<u>237,000</u>
<u>Capital</u>		
Contributed by Crane	100,000	
Contributed by Oscar	<u>75,000</u>	
Total Capital contributed		175,000
<u>Liabilities</u>		
Creditors	37,000	
Loan from Crane	<u>25,000</u>	
		<u>62,000</u>
Total Capital plus Liabilities		<u>237,000</u>

They decide to admit Peacock into the partnership as of 2nd April 2008. The new profit sharing ratio is expected to be Crane 3, Oscar 2 and Peacock 1. Peacock is to bring in \$120,000 cash as capital.

On 1st April 2008, just before the admission of Peacock, the partners re-valued the following: Building to \$185,000; Furniture & Equipment to \$26,000; Inventory to \$15,000, Accounts Receivable to \$8,550 and Goodwill \$30,000. They agreed that there should be no goodwill account in the books of the partnership.

Required:

Show the Balance Sheet of Crane, Oscar and Peacock at 3rd April 2008, after the admission of Peacock in vertical style, showing the Working Capital. (Use Foolscap paper). (15 marks)

Question 3

Skimpy and Maxi are in partnership with the following agreement:

- Profits and losses are shared in the ratio of 3 : 2 respectively.
- Skimpy is entitled to a salary of \$25,000 and Maxi is entitled to a salary of \$20,000.
- The partners are entitled to interest on capital of 10% of their capital accounts.
- The partners are also required to pay 15% interest on their drawings.

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

	<u>Skimpy</u>	<u>Maxi</u>
Capital	\$50,000	\$40,000
Drawings	15,000	10,000

The Net Profit and Current A/c balances are shown on the forms for the answer.

You are required to prepare

- The Appropriation Statement. (Use the form provided) (7 marks)
- The Schedule of Current Accounts. (Use the form provided) (8 marks)

Question 4

In April, 2009 Paul and Taylor enter into a joint venture for dealing with wood carvings. They agreed to share profits and losses in the ratios 3:2 respectively. The following are the transactions that took place:

- Apr 2 Paul rented storage facilities for \$800 per month, paying 3 months in advance.
3 Taylor bought a panel van to transport the carvings for \$15,000
5 Paul was pleased to buy Carvings for \$27,500
15 Taylor bought some carvings for \$11,200
16 Taylor received \$65,000 for the sale of carvings
18 Taylor bought more carvings costing \$28,000
18 Paul bought some carvings costing \$14,500
22 Paul sold \$80,000 worth of carvings
25 Paul bought an open van for \$20,000
26 Taylor sold carvings and received \$58,250
28 Paul paid the security guard wages \$2,500
28 Paul sold some carvings for \$39,400
29 Taylor paid electricity bill \$1,250
29 Paul tallied his fuel bills which he paid \$1,350
29 Taylor had paid some fuel bills \$790
30 General expenses paid by Paul \$1,890
30 The joint venture ended with Taylor taking the remaining carvings at an agreed price of \$48,000, and the panel van at an agreed price of \$12,500. Wind kept the open van at a price of \$16,000.

Required:

- (a) Show the joint venture accounts in the books in each of the parties. (8 marks)
- (b) Prepare the memorandum joint venture account, showing the division of profit or loss and close the joint venture. (Use Foolscap paper). (7 marks)

Question 5

The following information was extracted from the books of Nan-C Ltd the year 2010:
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;

Required:

Complete the Ratio Analysis table attached to the Answer Booklet using the information given for Nan-C Ltd: (15 Marks)

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	136,500	Creditors	75,550
Furniture/Equipment	37,600	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	75,000
Bank	<u>17,000</u>	Bacara	<u>50,000</u>
		Total Capital Contributed	125,000
		Current Accounts	
		Rosehill	2,000
		Bacara	<u>3,000</u>
		Total Current Accounts	<u>5,000</u>
Total Assets	<u>331,250</u>	Total Liabilities & Capital	<u>331,250</u>

The partnership is to be converted to a limited company named Rosara Inc. The new company is to take over all the assets and liabilities of the partnership except for the Cash and Bank accounts. The purchase consideration is 150,000 \$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 \$160,000; Furniture/Equipment \$35,000; Motor Vehicles \$55,000; Stock \$35,000; and Debtors \$42,400.

Required:

Show the Realization Account, the Bank A/c Capital Accounts of the partners in order to effect the dissolution of the Partnership. (Use Foolscap paper) (15 marks)

Question 7

Use the financial data given in **Question 6 above** to Draw up the Balance Sheet of the new company, Rosara Ltd., in good style. (Use Foolscap paper). (15 marks)

END OF EXAMINATION

Question 3 (a): Answer Form

Skimpy & Maxi Partnership			
Profit & Loss Appropriation Account			
	Skimpy	Maxi	Total
Net Profit			125,000

Question 3 (b): Answer Form

Skimpy & Maxi Partnership			
Schedule of Current Accounts			
	Skimpy	Maxi	Total
Opening Balance	6,000	5,000	

Question 5: Answer Form

Nan-C Ratio Analysis

Required	Answer
Gross Profit to sales ratio	
Current Ratio	
The Firm's Capital Gearing Ratio	
Stock Turnover Ratio	
Average Debt Collection Period	
Average Debt Payment Period	
Returns on Capital Employed	