

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

**EXAMINATION SESSION** : December 2012

**TUTOR** : Ms. M. Floyd

**PROGRAMME CODE** : 3BS-HOS-AD  
3BS-TAT-AD

**PROGRAMME TITLE** : Applied Arts Hospitality Studies  
Applied Arts Travel & Tourism

**COURSE CODE** : **ACC 125**

**COURSE TITLE** : **Hospitality Accounting**

**CLASS (ES)** : Year II

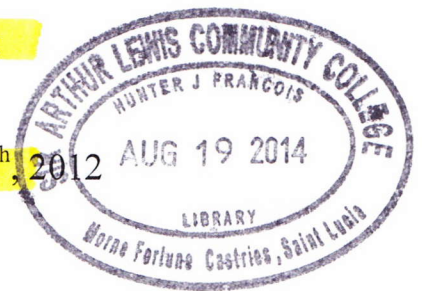
**DATE** : **Thursday, December 6<sup>th</sup>, 2012**

**TIME** : 9: 00 a.m.

**DURATION** : 2 ¼ hours

**ROOM** : TRB-LAB

**INVIGILATOR(S)** : **F.B-Henry, F. Paul, L. Phillips**



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**INSTRUCTIONS:**

Write **ID# only** on Answer Booklet

CANDIDATES ARE ALLOWED TO WRITE ON EXAMINATIONS SCRIPTS.

- Read **all** questions and instructions carefully.
- This examination contains two (2) sections

**Section I – Multiple Choice**

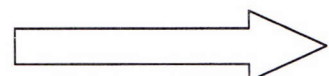
There are thirty (30) multiple choice questions in this section. You are required to answer all questions in this section by selecting the letter **a, b, c, or d** that carries the best response and **shade** it on the answer sheet provided.

**Section II – Extended Response**

There are two (2) extended response questions in this section. You are required to answer **both** questions in this section.

- Borrowing or lending is **prohibited**.
- **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.**

GO TO NEXT PAGE



**SECTION I – Multiple Choice**

**[30 marks]**

**INSTRUCTION:** Select the letter **a, b, c, or d** that carries the best response and **shade** it on the answer sheet provided.

1. In periods of rising prices LIFO will produce
  - a. higher net income than FIFO
  - b. the same net income as FIFO
  - c. lower net income than FIFO
  - d. higher net income from Average Costing
  
2. A company understated ending inventory at December 31, 2011. What effect would this have on the December 31, 2011 balance sheet?
  - a. Overstatement of assets and equity
  - b. Understatement of assets and equity
  - c. Understatement of assets, no effect on equity
  - d. Overstatement of assets, no effect on equity
  
3. A Bin Card is used to
  - a. identify new inventory items received for the first time
  - b. track quantities of inventory items on hand
  - c. show the most recent price paid for an item
  - d. None of the above
  
4. Purchase of supplies is initiated by
  - a. calling the purchasing agent
  - b. filling out a purchase order
  - c. filling out a purchase requisition
  - d. None of the above
  
5. Food & Beverage storage and control is important to the Accounts Department of a hotel because
  - a. Food and Beverages represent a large portion of revenue
  - b. there is increased possibility of loss due to shrinkage, spoilage and theft
  - c. there can be increased risk of lawsuit if food and beverages are spoiled, resulting in revenue loss for the hotel
  - d. All of the above
  
6. Authorized Share capital refers to
  - a. the amount of shares outstanding
  - b. the number of shares issued to shareholders
  - c. the number and value of shares that have been made available to the public by the company
  - d. None of the above
  
7. The difference between an ordinary shareholder and a preferred shareholder is
  - a. the ordinary shareholder does not have a vote while a preferred shareholder does
  - b. the preferred shareholder can lose his investment in the company while an ordinary shareholder must be paid
  - c. the ordinary shareholder has a vote at the AGM while the preferred shareholder does not
  - d. None of the above



8. A company is different from a sole trader because
- a company is owned by a single person and a sole trader has multiple owners
  - a sole trader is a separate legal entity that has limited liability
  - a company is governed by the Companies Act which dictates how it must present its financial statements
  - There is no difference
9. The balance sheet of a company is different from that of a sole trader in that
- a company's balance sheet has a capital and reserves section in which capital is split up into shares
  - a sole trader's balance sheet has a capital and reserve section in which capital is split up into shares
  - Directors' remuneration is on a company balance sheet
  - There is no difference.
10. The statement of accounting policy section of the notes includes the following
- Assets, Capital and Liabilities
  - Shareholders Equity and Net Profit
  - Basis for accounting, Depreciation Methods, & Contingencies
  - None of the above
11. The annual report of a company includes the following
- Balance Sheet, Income Statement, Statement of Cash Flows, Notes to Financial Statements, Auditors' Report
  - Cost Summary, Notes to Financial Statements, Depreciation Records
  - Liabilities, Expenses and Revenues
  - None of the above
12. Net income will result during a period when
- assets exceed liabilities
  - assets exceed revenues
  - expenses exceed revenues
  - revenues exceed expenses
13. A revenue account
- is increased by debits
  - is decreased by credits
  - has a normal debit balance
  - is increased by credits
14. Accounts that normally have debit balances are
- assets, expenses and revenues
  - assets, expenses and owner's equity
  - assets, liabilities and owner's drawings
  - assets, owner's drawings and expenses
15. Current assets are listed in the balance sheet by
- Importance
  - Permanence
  - Alphabetically
  - Liquidity

16. Gross Profit will result if

- a. operating expenses are less than net income
- b. sales revenues are greater than cost of goods sold
- c. sales revenues are greater than operating expenses
- d. operating expenses are greater than cost of goods sold

17. The Statement of Owner's Equity reports

- a. Assets, Liabilities and Capital
- b. Retained Earnings and Transfers to and from Reserves
- c. Net profit and Depreciation
- d. None of the above

18. The Statement of Cash Flows answers which of the following questions?

- a. How many employees does the company have?
- b. How much cash was spent on depreciation?
- c. How much cash the business spent on investments and operating activities?
- d. None of the above

19. The proper term for the value found by subtracting Accumulated Depreciation from the asset's original cost is

- a. salvage value
- b. market value
- c. book value
- d. use value

20. The depreciable base of an asset is equal to

- a. cost minus salvage value
- b. cost plus salvage value
- c. book value
- d. salvage value

21. An ordinary share dividend is

- a. part of the company profits used to reward the shareholders for their investment.
- b. interest on money lent to the company by its shareholders.
- c. an expense of running the company.
- d. the Directors' remuneration.

22. Financial Reporting Standards should be included in the notes to financial statements of limited company because

- a. the Companies Act demands that they are used.
- b. the auditors will insist they are followed.
- c. the directors are under a legal obligation to ensure they are followed.
- d. they ensure that the accounts present a 'true and fair view'.

23. A limited company is under a legal duty to disclose information to parties external to the company. To which of the following groups does this requirement mainly apply?

- a. Banks.
- b. Customers.
- c. Shareholders.
- d. Suppliers.

24. A company operates in a country where the price level is rising. The use of FIFO rather than LIFO inventory valuation will
- raise reported profits
  - lower reported profits
  - lower the value of net assets in the balance sheet
  - leave the value of reported profits unchanged
25. A company has authorized share capital of 500,000 \$0.25 ordinary shares. By 31 December 2012 it had issued 400,000 \$0.25 ordinary shares at \$0.60 per share. What figure is to be reported on the balance sheet at 31 December 2012 in respect of the issued share capital?
- \$100,000
  - \$125,000
  - \$240,000
  - \$300,000
26. Which of the following statements is **false**?
- A share must have a par value
  - Authorized share capital is higher than or the same as issued share capital
  - Shares can be issued as partly paid up
  - There are only two classes of share capital
27. If a company determines cost of goods sold each time a sale occurs, it
- uses a bin card inventory system.
  - uses a combination of the perpetual and periodic inventory systems.
  - uses a periodic inventory system.
  - uses a perpetual inventory system.
28. Meat Bin Tags are used to
- control meat inventories
  - identify the earliest purchases
  - identify the weight
  - All of the above
29. Units of production is an appropriate depreciation method to use when
- it is impossible to determine the productivity of the asset.
  - the asset's productivity will be constant over its useful life.
  - the productivity of the asset varies significantly from one period to another.
  - the company is a manufacturing company.
30. Which of the following statements is **false** when a fully depreciated fixed asset is retired?
- The fixed asset's book value is equal to its estimated salvage value.
  - The accumulated depreciation account is debited.
  - The asset account is credited.
  - The fixed asset's original cost equals its book value.



## SECTION II – Extended Response

[65 marks]

INSTRUCTION: Answer **both** questions in this section.

1. Malabar Hotel is a small property which can accommodate 125 guests. The hotel is currently in the process of reviewing its methods for inventory control and valuation, as the previous accountant was an untrained clerk who was unsure of how to correctly value and control inventory. The following information has been taken from the tenderloin steak bin tag in the meat storage room with respect to the purchase and sale of its tenderloin steaks:

**Table 1**

Date	Purchases	Unit Price	Sales*
<i>April</i>	200 Steaks	\$25	150
<i>June</i>	150 Steaks	\$27	175
<i>August</i>	200 Steaks	\$30	100
<i>September</i>	175 Steaks	\$31	120
<i>November</i>	300 Steaks	\$32	250
<i>December</i>	350 Steaks	\$34	250

\*N.B – The selling price per unit for the tenderloin steak is \$65 per steak.

The following information was also made available regarding the firm's fixed assets:

**Table 2**

Asset	Historical Cost Price	Useful Life/Units of Expected Production	Salvage Value	Depreciation Method
<i>Guest Shuttle Coaster Van</i>	\$100,000	10 years	\$10,000	Sum of the Year's Digits
<i>Industrial Gas Cooker</i>	\$15,000	5 years	\$1,500	Double-Declining Balance
<i>Front Room Sofas</i>	\$25,000	10 years	\$1,000	Straight-Line Depreciation
<i>Bread Mixer</i>	\$35,000	200,000 units	None	Units of Production

**Required:**

- a. Calculate the value of Ending Inventory and Cost of Goods Sold using the following inventory methods and assumption:
  - i. FIFO Periodic **(5 marks)**
  - ii. AVCO Periodic **(5 marks)**
- b. Calculate the gross profit/ (loss) generated from sale of steaks assuming AVCO periodic. **(3 marks)**

- c. Which of the two methods of inventory valuation used in part a) is more efficient at matching cost prices to each unit of inventory? Give reasons for your answer. **(2 marks)**
- d. Calculate the depreciation expense and accumulated depreciation for all of the assets listed in **Table 2** for the first three (3) years of use. **(6 marks)**
- e. Prepare the Balance Sheet extracts (Fixed Asset Section only) for Year 1 to Year 3. **(4 marks)**
- f. The restaurant manager of Malabar Hotel recently decided to change its wine suppliers and switched to a supplier who is a good friend of hers.

The first purchase was made by the restaurant manager calling her wine supplier friend to place an order over the phone. This was done after the restaurant manager checked the storeroom to verify the size of the order. The restaurant manager also approved the payment of the order.

When the wine was delivered to the hotel, no one was available to check off the delivery and it was left in a secluded corner of the restaurant for two days before being locked away in the wine cellar.

Also, when the restaurant manager arrived home (the same evening the wine was delivery at the hotel) she received an expensive case of Vintage Chardonnay which was provided free of charge by her friend, the new supplier. She decided not to tell the proprietor of the hotel and kept the free case for herself.

- i. Identify four (4) major violations of internal control for inventory brought up in this case. **(4 marks)**
- ii. Make recommendations to the proprietor of the hotel for any three (3) violations listed in (i) above, clearly explaining how internal controls can be improved. **(6 marks)**
- iii. Explain to the restaurant manager two (2) advantages of instituting internal control for inventory in the restaurant. **(3 marks)**
- iv. Discuss the ethical considerations surrounding the restaurant manager's decision to keep the case of wine. **(2 marks)**

2. The following balances have been extracted from the books of Seasons Hotel & Tours Company Ltd on September 30, 2012:

<u>Account Name</u>	<u>Balance</u>
	\$
Accounts Payable	6,300
Accommodations Revenue	40,000
Tours Revenue	40,000
Land	18,000
Resort Premises	38,000
Furniture & Fittings	22,000
Bank	(6,000)
Depreciation:	
Resort Premises	6,000
Furniture & Fittings	10,000
Discounts Received	1,764
Retained Earnings (October 1, 2011)	3,000
Provision for Doubtful Debts	816
Coaster Bus – Tours	16,400
Cash	232
Inventory (October 1, 2011)	14,248
Dividend to Preference Shareholders	600
Rates & Insurance Expense	2,124
Wages & Salaries	8,000
Advertising Expense	1,896
Returns Inward	372
General Expenses	436
Accounts Receivable	12,640
Purchases	43,856
Loan Interest Expense	400
Bad Debts	676
5% Loans	16,000
6% Preference Shares	20,000
\$1 Ordinary Shares	20,000
General Reserve	11,000

Additional Information:

- i. Inventory (September 30, 2012) - \$15,546
- ii. Insurance paid in advance - \$100
- iii. Accrued wages - \$280
- iv. Depreciation is to be provided at 10% of cost of Buildings, and at 20% of book value of Furniture and Fittings
- v. Loan interest owing - \$400
- vi. The directors propose to pay a 5% Ordinary Dividend and the final preference dividend, and to transfer \$8,000 to general reserve.

**Required:**

- a. Prepare the company's Income Statement in good style for the year ended September 30, 2012. **(14 marks)**
- b. Prepare the company's Balance Sheet in good style as at September 30, 2012. **(8 marks)**
- c. Prepare the company's Statement of Owner's Equity in good style as at September 30, 2012. **(3 marks)**

**END OF EXAMINATION**