

FORM TP 2021146



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MAY/JUNE 2021

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N[®]

A C C O U N T I N G

UNIT 1 – Paper 02

2 hours 45 minutes

21 MAY 2021 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions. Answer ALL questions.
2. Write your answers in the booklet provided.
3. You may use a silent, non-programmable calculator to answer questions.
4. ALL working must be clearly shown.

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

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MODULE 1

ACCOUNTING THEORY, RECORDING AND CONTROL SYSTEMS

1. (a) The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise. This information is useful to a wide range of users in making economic decisions.
- (i) List FOUR **main** users of financial statements. **[4 marks]**
- (ii) State ONE purpose of financial statements for EACH of the users listed in (a) (i). **[4 marks]**
- (b) Differentiate between the terms ‘accrual basis accounting’ and ‘cash basis accounting’. **[4 marks]**
- (c) (i) Outline ONE benefit of a computerized accounting system to the process of independent internal verification. **[2 marks]**
- (ii) Velax Merchandising Corporation (VM Corp.) uses a manual accounting system but is currently contemplating the use of an integrated computerized accounting system. Discuss the impact of the introduction of an integrated computerized system on EACH of the following processes.
- Recording of information
 - Access to records
- [8 marks]**

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- (d) VM Corp. reported the following amounts in the shareholders' equity section of its December 2018 Statement of Financial Position.

	\$
10% preferred share, no par value (100 000 shares authorized, 20 000 shares issued)	200 000
Common shares, \$200 par value (100 000 shares authorized, 20 000 shares issued)	400 000
Contributed capital in excess of par (share premium)	50 000
Retained earnings	<u>675 000</u>
	\$ 1 325 000

During 2019, the following transactions took place concerning shareholders' equity:

- 15 January 2019 — the annual dividend on the preferred shares and a \$15 per share dividend on the common shares were paid. These dividends were declared on 23 December 2018.
- 30 June 2019 — 5 000 preferred shares were issued at \$14 per share.
- 1 September 2019 — VM Corp. exercised the option to acquire the office building where it operates for \$300 000 in exchange for 1 250 new common shares.
- 31 December 2019 — the land owned by VM Corp. was recently appraised and the excess of the appraised amount over the current book value of the land was \$225 000.
- 31 December 2019 — 10 000 preference shares were redeemed at \$15 per share.

Required

Prepare journal entries (without narratives) to record the transactions in 2019.

[13 marks]

Total 35 marks

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MODULE 2

PREPARATION OF FINANCIAL STATEMENTS

2. Joe Parker, a young businessman, has provided marketing and graphic design services to a number of small businesses over the years. For the past four years, Joe has operated as a sole proprietor. Joe is desirous of expanding his business and has noticed that, increasingly, more of his clients are asking him to provide greater online and social media content and marketing. Joe believes that it is time to bring a number of key people into his business. He has decided to incorporate two of his close friends who are better able to provide the required services.

Jill Yin is a content writer and Joe has asked her to play a substantial role in the business. Joe also believes that his friend Bill Fleary, a digital marketing strategist, would be the best person to assist him with handling the digital social media marketing. Joe did not pursue any business courses at school and has heard that a business may be formed as a partnership, a private company or a public company.

- (a) State TWO **main** characteristics of EACH of the following types of business organizations that may be appropriate for Joe's new business.
- (i) Partnership
 - (ii) Private company
 - (iii) Public company

[6 marks]

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Joe has approached both Jill and Bill to join his business. Jill has agreed to provide her services on a contract basis only, and Bill wishes to have a permanent role in the business and states that he will also contribute \$10 000 in cash and \$5 000 in specialized software to the new venture.

Joe and Bill agree to enter into partnership on 1 January 2016. They agree to share profits and losses in the ratio 3:2 and also agree to initially contribute the following.

	Book Value \$	Fair Value \$
Joe		
Cash	20 000	20 000
Computer equipment (cost \$15 000)	11 000	10 000
Accounts receivable	2 500	2 500
Bank loan	5 000	5 000
Intangible asset	-	10 000
Bill		
Cash	10 000	10 000
Specialized software	5 000	5 000

Required

- (b) Prepare the journal entry to record the formation of the partnership. **[5 marks]**
- (c) List FOUR **additional** terms, other than those mentioned in the case, which may be found in the formal partnership agreement. **[4 marks]**

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- (d) After working together for five years, Joe and Bill have decided to seek additional financing by incorporating their business. They have decided to issue 30 000 \$5 par value ordinary shares to be distributed evenly among Joe, Bill and Jill, and the company has been renamed Advanced Marketing Inc. The balance sheet at the date of announcing the decision to incorporate is as follows.

Joe and Bill's Balance Sheet as at 31 December 2020

	Book Value \$	Fair Value \$
Current Assets		
Cash	50 000	50 000
Accounts receivable	7 500	6 000
Investments	100 000	105 000
Fixed assets		
Equipment	25 000	20 000
Software	5 000	5 000
Current liabilities		
Accounts payable	6 000	6 000
Other accrued liabilities	2 000	2 000
Capital		
Joe Parker, capital	95 000	
Bill Fleary, capital	84 500	

Required

- (i) Prepare the entries to record the incorporation, assuming that the new company issues all 30 000 of the ordinary shares. **[11 marks]**
- (ii) Prepare the opening balance sheet of the new company, Advanced Marketing Inc., as at 1 January 2021. **[9 marks]**

Total 35 marks

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MODULE 3

FINANCIAL REPORTING AND INTERPRETATION

3. (a) (i) Outline the effects of inflation on financial statements, specifically relating to EACH of the following.
- Closing inventory [2 marks]
 - Depreciation [2 marks]
- (ii) Describe the current cost accounting method which may be used as an alternative to historical cost accounting in areas of high inflation. [3 marks]
- (b) Tai Ltd's financial year ended on 31 December 2020 and its financial statements were approved to be issued on 31 March 2021. The following events took place during the period January 2021 to March 2021.
- Tai Ltd acquired the entire share capital of Payne Ltd. The transaction was valued at \$600 million.
 - Debentures were issued to cover a portion of the cost of acquiring Payne Ltd.
 - The valuation report for a property was received. It revealed a permanent diminution in the value.
- (i) Define the term 'adjusting events', according to Section 32 of the IFRS for SME (IAS 10) events, after the reporting period. [2 marks]
- (ii) Identify how EACH of the THREE bulleted post-balance sheet events above should be reflected in the financial statements of Tai Ltd for the year ended 31 December 2020. [5 marks]

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- (c) The following was extracted from the books of Tai Ltd.

Statement of Financial Position as at 31 December 2020

	2019		2020	
	\$ 000	\$ 000	\$ 000	\$ 000
<u>Non-Current Assets</u>				
Property, plant and equipment at cost	940		920	
Less accumulated depreciation	<u>(320)</u>		<u>(326)</u>	
		620		594
Investments		<u>215</u>		<u>253</u>
		835		847
 <u>Current Assets</u>				
Inventory	136		170	
Trade receivables	109		97	
Investments	23		50	
Bank	80		118	
Cash	<u>40</u>	<u>388</u>	<u>62</u>	<u>497</u>
		<u>1223</u>		<u>1344</u>
 EQUITY & LIABILITIES				
<u>Capital & Reserves</u>				
Ordinary shares	650		700	
General reserves	40		55	
Retained earnings	<u>181</u>	871	<u>371</u>	1126
 <u>Non-Current Liabilities</u>				
10% Debenture		170		98
 <u>Current Liabilities</u>				
Trade payables	156		102	
Tax	15		10	
Interest	<u>11</u>	<u>182</u>	<u>8</u>	<u>120</u>
		<u>1223</u>		<u>1344</u>

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Additional information

- Data from the statement of profit and loss and the statement of changes in equity for the period ended 31 December 2020 revealed the following:

	\$ 000
Operating profit	325
Interest	(17)
Profit before tax	308
Tax	<u>(77)</u>
Profit after tax	231
Dividends paid	(26)
Transfer to reserves	<u>(15)</u>
Profit for the year	190
Retained earnings b/d	<u>181</u>
Retained earnings c/d	<u>371</u>

- During the year ending 31 December 2020, the company sold equipment costing \$60 000, with an accumulated depreciation of \$42 000 for \$24 000.

Required

Using the indirect method, prepare a statement of cash flows for the year ended 31 December 2020, in accordance with Section 7 IFRS for SMEs (IAS 7).

[21 marks]

Total 35 marks

END OF TEST

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