THE COUNCIL OF COMMUNITY COLLEGES OF JAMAICA

BACHELOR OF SCIENCE EXAMINATION

SEMESTER II – 2014 MAY

PROGRAMMES: BUSINESS STUDIES

COURSE NAME: FINANCIAL REPORTING AND ANALYSIS
CODE: (ACCT3604)

YEAR GROUP: FOUR

DATE: FRIDAY, 2014 MAY 9

TIME: 9:00 A.M. – 12:00 NOON

DURATION: 3 HOURS

EXAMINATION TYPE: FINAL

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INSTRUCTIONS:

SECTION B: ANSWER ANY THREE (3) QUESTIONS FROM THIS SECTION.

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This Examination paper has 5 pages
SECTION B

Instructions: Answer any THREE (3) questions from this section.

Question 1

The issued share capital of Mahogany Furniture Company on January 1, 2006 was Ordinary Shares 50 cents each $6 million and 8% Preference Shares $2 million. The preference shares are non-redeemable.

The following share issue took place during the year to December 31, 2006:

i. 31 March 2006 – a bonus issue of one (1) new share for every ten (10) shares held

ii. 1 July 2006 a rights issue of one new share at $1.50 for every five (5) shares held. The market price of Maroon’s shares the day before the rights issue was $2.40

Mahogany Furniture Company’s after tax profit for 2006 was $5,000,000.
Mahogany’s basic earnings per share in the year to 31 December 2006 was correctly disclosed at 55 cents.

Calculate for Mahogany, for the year to 31 December 2006:

a. The basic EPS for 2006. (14 marks)

b. Restate the EPS for 2005. (3 marks)

c. List the limitations of earnings per share as a measure of corporate performance. (8 marks)

(Total 25 marks)

Question 2

Summer School Limited has two options. It can buy an asset for cash at a cost of $11,420 or it can lease it by way of a finance lease. The terms of the lease are as follows:

i. The primary period is for four years from January 1, 2007 with a rental of $4,000 per annum payable on the 31st of December each year.

ii. The lessee has the right to continue to lease the asset after the end of the primary period for an indefinite period, subject only to a nominal rent.

iii. The lessee is required to pay all repair, maintenance and insurance costs as they arise.
iv. Interest rate is implicit in the lease at 15% (Present Value of Discounting figure of 2.855)

v. The lessee estimates the useful economic life of the asset to be eight years.

vi. Depreciation is provided on the straight line basis

You are required to:

a. use the 90% test to ascertain whether or not the lease is an operating lease \( (2 \text{ marks}) \)

b. calculate the yearly depreciation to be charged \( (2 \text{ marks}) \)

c. show the allocation of the finance charge to each rental payment, and subsequent, capital sum outstanding \( (9 \text{ marks}) \)

d. show the effect of the transaction on the financial statements (Income Statement and Balance Sheet) and comment on the result \( (12 \text{ marks}) \)

\( \text{(Total 25 marks)} \)

**Question 3**

a. The IASB requires financial statements to be prepared on the basis that they comply with certain accounting concepts, underlying assumptions and qualitative characteristics.

Briefly explain the meaning of each of the following principles/concepts.

i. Matching/accruals

ii. Substance over form

iii. Prudence

iv. Comparability

v. Materiality \( (10 \text{ marks}) \)

b. For most entities, applying the appropriate concepts/assumptions in accounting for stock is an important element in preparing their financial statements. Illustrate with examples how each of the principles/concepts in (a) may be applied to accounting for stock. \( (15 \text{ marks}) \)

\( \text{(Total 25 marks)} \)
Question 4

"Provisions are particular kinds of liabilities. It therefore follows that provisions should be recognized when the definition of a liability has been met."

Using IAS 37 as your guide:

a. Outline three (3) reasons why there was a need for detailed guidance on accounting for provisions. (9 marks)

b. Explain three (3) circumstances under which a provision should be recognized in the financial statements. (9 marks)

c. On December 20, 2012 one of Pollard’s motor van was involved in an accident with a car. The motor van driver was responsible for the accident and the company agreed to pay for the repair to the car. The company put it in a claim to its insurers on January 17, 2013 for the cost of the claim. The company expected the claim to be settled by the insurance company except for a $250 000 excess on the insurance policy. The insurance company may dispute the claim and not pay out. However, the company believes that the chance of this occurring is low. The cost of repairing the car was estimated at $5 000 000 all of which was incurred after the year end.

Explain how this item should be treated in the financial statement for the year ended December 31, 2012 according to IAS 37. (7 marks)

(Total 25 marks)

Question 5

a. An entity has commenced two (2) construction contracts during the current period. Details are as follows:

<table>
<thead>
<tr>
<th>Contract Name</th>
<th>Contract Price ($)</th>
<th>Total</th>
<th>Anticipated Costs ($)</th>
<th>% Complete</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>200,000</td>
<td></td>
<td>150,000</td>
<td>80</td>
</tr>
<tr>
<td>Y</td>
<td>100,000</td>
<td></td>
<td>120,000</td>
<td>50</td>
</tr>
</tbody>
</table>

What is the total amount to be recognized in income in the current period? (5 marks)

b. An entity has commenced a construction contract in the current period and incurred costs to date of $500,000. The entity usually achieves a markup of between 10% and 20% on such contracts and can reasonably expect to do so in this case. However, negotiations are in progress regarding the final contract price, which has not yet been agreed.
How much should be recognized in income in respect of the contract in the current period?  

(5 marks)

c. An asset costing $100,000 was purchased on January 1, 2001 has a useful economic life of 10 years. On January 1, 2003 it was revalued to $150,000. On January 1, 2005 it estimated that the recoverable amount of the asset was only $100,000

How should this be treated in the financial statements for the year ended December 31, 2005?  

(7 marks)

d. At January 1, 2007 a fixed asset had a carrying value of $20,000 based on its revalued amount, and a depreciated historic cost of $10,000. An impairment loss of $12,000 arose in the year ended 31 December, 2007.

How should this loss be reported in the financial statements for the year ended 31 December, 2007?  

(8 points)

(Total 25 marks)

END OF EXAMINATION