

**Suggested time: 50 minutes**  
**Maximum score: 120 points**

**ESSAY A**

NYC Advertising Agency was founded in January 2005. Presented below are both the adjusted and unadjusted trial balances as of 31 December 2008.

**NYC Advertising Agency**  
**Trial Balance**  
**As of 31 December 2008 (in US\$)**

	Unadjusted		Adjusted	
	Debit	Credit	Debit	Credit
Cash	11,000	-	11,000	-
Accounts Receivable	20,000	-	21,500	-
Art Supplies	8,400	-	5,000	-
Printing Equipment	60,000	-	60,000	-
Accumulated Depreciation	-	28,000	-	35,000
Accounts Payable	-	5,000	-	5,000
Unearned Advertising Revenue	-	7,000	-	5,600
Salaries Payable	-	-	-	1,300
Common Stock	-	10,000	-	10,000
Retained Earnings	-	4,800	-	4,800
Advertising Revenue	-	58,600	-	61,500
Salaries Expense	10,000	-	11,300	-
Depreciation Expense	-	-	7,000	-
Art Supplies Expense	-	-	3,400	-
Rent Expense	4,000	-	4,000	-
<b>TOTALS</b>	<b>113,400</b>	<b>113,400</b>	<b>123,200</b>	<b>123,200</b>

- Journalize the annual adjusting entries that were made.
- Prepare an income statement for the year ending 31 December 2008.
- Prepare a balance sheet for the year ending 31 December 2008.

**Begin writing your answer to Essay A on page 13 of the answer booklet.**

**Suggested time: 50 minutes**  
**Maximum score: 120 points**

**ESSAY B**

Presented below are information related to Phoenix Company. Use the information to prepare a statement of cash flow using the **indirect method**.

**Phoenix Company**  
**Comparative Balance Sheets (in US\$)**

Assets	2008	2007	Change	
			Increase/Decrease	
Cash	\$54,000	\$37,000	17,000	Increase
Accounts receivable	68,000	26,000	42,000	Increase
Inventories	54,000	0	54,000	Increase
Prepaid expenses	4,000	6,000	2,000	Decrease
Land	45,000	70,000	25,000	Decrease
Buildings	200,000	200,000	0	
Accumulated depreciation – buildings	-21,000	-11,000	10,000	Increase
Equipment	193,000	68,000	125,000	Increase
Accumulated depreciation - equipment	-28,000	-10,000	18,000	Increase
<b>TOTALS</b>	<b>\$569,000</b>	<b>\$386,000</b>		
<b>Liabilities and stockholders' equity</b>				
Accounts payable	\$23,000	\$40,000	17,000	Decrease
Accrued expenses payable	10,000	0	10,000	Increase
Bonds payable	110,000	150,000	40,000	Decrease
Common Stock (\$1 par)	220,000	60,000	160,000	Increase
Retained earnings	206,000	136,000	70,000	Increase
<b>TOTALS</b>	<b>\$569,000</b>	<b>\$386,000</b>		

**Phoenix Company**  
**Income Statement**  
**For the year ended 31 December 2008 (in US\$)**

Revenues		\$890,000
Cost of goods sold	\$465,000	
Operating expenses	221,000	
Interest expense	12,000	
Loss on sale of equipment	2,000	700,000
Income before income tax		\$190,000
Income tax		65,000
Net income		\$125,000

**Additional Information:**

1. Operating expenses include depreciation of \$33,000 and prepaid expenses of \$2,000.
2. The company sold land at its book value for cash.
3. The company declared and paid cash dividends of \$55,000 in 2008.
4. The company paid interest expense of \$12,000 in cash.
5. The company purchased with cash equipment with a cost of \$166,000. It sold for \$34,000 cash equipment with a cost of \$41,000 and a book value of \$36,000.
6. The company redeemed for cash bonds of \$10,000 at their book value. It converted bonds of \$30,000 into common stock.
7. The company issued for cash common stock (\$1 par) of \$130,000.

Use the above information to prepare a Cash Flow Statement using the **indirect method**.

**Begin writing your answer to Essay B on page 19 of the answer booklet.**

**Suggested time: 45 minutes**  
**Maximum score: 120 points**

**ESSAY C**

As an auditor, you have been requested to conduct a risk assessment in connection with an audit assignment.

- a) Please list and describe necessary steps which should be taken at the initial stage of planning the risk assessment.
- b) What is the impact of risk assessment? Explain how it will assist you in establishing your audit priorities.
- c) Please identify and describe five (5) areas you will need to focus on in developing the risk register.
- d) Please identify and describe five (5) risks categories.

**Begin writing your answer to Essay C on page 25 of the answer booklet.**

## **QUESTIONS**

***Suggested time: 10 minutes  
Maximum score: 30 points***

1. Ladle Mining Company's books show cash balance of \$20,502 at the MCL National Bank on 30 November 2008. The bank statement covering the month of November shows an ending balance of \$22,190. An examination of Ladle's accounting records and November bank statement identified the following reconciling items:

1. A deposit of \$3,680 that Ladle mailed on 30 November 2008 does not appear on the bank statement.
2. Cheques written in November 2008 but not charged to the November bank statement are:

• Cheque #7327	\$ 150
• Cheque #7348	\$4,820
• Cheque #7349	\$ 31

3. Ladle has not yet recorded the \$600 of interest collected by the bank on 20 November 2008 for the bonds held by the bank for the company.
4. Bank service charges of \$18 are not yet recorded in Ladle's books.
5. The bank returned one of Ladle's customer's cheques for \$220 with the bank statement, marked "NSF". The bank treated this bad cheque as a disbursement.
6. Ladle discovered that it incorrectly recorded cheque #7322, written in November 2008 for \$131 in payment of an account payable, as \$311.
7. A cheque for Ladle Oil Company in the amount of \$175 that the bank incorrectly charged to the Ladle Mining Company accompanied the statement.

- a) Prepare a bank reconciliation statement for Ladle Mining Company as of 30 November 2008 showing the correct balances for both **bank** balance and **book** balance.
- b) Prepare the required journal entries to correct Ladle's books.

***Begin writing your answer to question 1 on page 31 of the answer booklet.***

***Suggested time: 10 minutes  
Maximum score: 30 points***

2. During its first week, the Aidan Company had these transactions:

1. Issued 100,000 shares of \$5 par value common stock for \$800,000 cash
2. Borrowed \$200,000 from Castle Bank, signing a 5-year note bearing 8% interest
3. Purchased two (2) semi-trailer trucks for \$170,000 cash
4. Paid employees \$12,000 for salaries and wages
5. Collected \$20,000 cash for service rendered
6. Purchased an equipment for \$300,000 giving a long-term note in exchange
7. Declared and paid a cash dividend of \$18,000
8. Sold a long-term investment with a cost of \$15,000 for \$15,000 cash
9. Collected \$16,000 of accounts receivable
10. Paid \$18,000 on accounts payable.

Classify each of these transactions by type of cash flow activity.

***Begin writing your answer to question 2 on page 35 of the answer booklet.***

***Suggested time: 10 minutes  
Maximum score: 30 points***

3. Kaylee Mei Company has collected the following information related to determining its cash balance at 31 December 2008.

1. Kaylee Mei has a savings account balance of \$400,000 and a checking account balance of \$210,750. The company maintains a petty cash fund of \$2,000.
2. The company has made travel advances of \$15,000 for employee travel in the first quarter of the next year. The employees will reimburse the company through salary deduction.
3. Postage stamps on hand amount to \$740.

4. A separate cash fund of \$250,000 is restricted for future office expansion.
  5. The company holds a cheque dated 12 January 2009 for \$1,000 and a certified cheque from a customer for \$750.
  6. Currency and coin on hand total \$5,245.
- a) Classify each item to be reported as cash in the balance sheet at 31 December 2008.
  - b) Classify other items (not to be reported as Cash) indicating how the items will be reported in the balance sheet.

**Begin writing your answer to question 3 on page 39 of the answer booklet.**

**Suggested time: 10 minutes  
Maximum score: 30 points**

4. What are the three (3) basic principles of internal control for cash?

**Begin writing your answer to question 4 on page 43 of the answer booklet.**

**Suggested time: 10 minutes  
Maximum score: 30 points**

5. What is the purpose of a properly designed internal control system?

**Begin writing your answer to question 5 on page 47 of the answer booklet.**

**Suggested time: 10 minutes  
Maximum score: 30 points**

6. Valley Company found the following when it attempted to reconcile its bank balance of 31 October. The bank balance as shown by the bank statement was \$2,050 and the cash balance according to the accounting records was \$1,404.58. A \$145 deposit, placed in the bank's night depository after banking hours on 31 October, was unrecorded by the bank at the time the bank statement was mailed. Included with the bank statement was a credit memorandum showing the bank had collected a note receivable for the

company on 23 October. The note's proceeds of \$500 less a \$15 collection fee were credited to the company's account. The bank statement also showed a credit of \$8.42 for interest earned on the average cash balance in the account. Neither the collection of the note nor the interest had been recorded on the company's books.

A comparison of cancelled cheques with the company's books showed that two (2) cheques were outstanding. Cheque #124 for \$150 and cheque #126 for \$200 were outstanding and unpaid by the bank. Other debits on the bank statement that had not been recorded on the books included:

1. a \$23 debit memorandum for cheques printed by the bank; and
  2. an insufficient funds (NSF) cheque for \$20 plus related processing fee of \$10. The NSF cheque had been received from a customer, Mr. Jones on 16 October and had been included in that day's deposit.
- a) Prepare a bank reconciliation for Valley Company.
  - b) What are the four (4) entries to be made in order to adjust the book balance?

**Begin writing your answer to question 6 on page 51 of the answer booklet.**

**Suggested time: 10 minutes  
Maximum score: 30 points**

7. You have been requested to conduct an audit assignment in a large non-profit organisation. Please describe the three (3) main phases required to complete the assignment.

**Begin writing your answer to question 7 on page 55 of the answer booklet.**

**Suggested time: 10 minutes  
Maximum score: 30 points**

8. What is an audit scope and methodology? Please provide a brief description and give an example.

**Begin writing your answer to question 8 on page 59 of the answer booklet.**