LOYOLA COLLEGE (AUTONOMOUS) CHENNAI – 600 034

B.Com (Honours) – END SEMESTER EXAMINATIONS

FIRST SEMESTER – NOVEMBER 2019

UBH 1501 – FINANCIAL ACCOUNTING

Date: 29 - 10-2019 Dept. No. Max. : 100 Marks

Time: 09:00 – 12:00 pm Time: 3Hrs

Part A

Answer all the Questions **(20 x 1 = 20 Marks)**

1. The directors of a company are responsible for the preparation of the financial statements of a company. True or false?

2. The IASB is responsible for the standard-setting process. True or false?

3. What are the four enhancing qualitative characteristics of financial statements identified in the Conceptual Framework?

4. The petty cash book records payments into and out of the bank account. True or false?

5. The balance brought forward on the bank account is a credit figure. This means that the balance is …………….

6. How is closing inventory incorporated in the financial statements?

   A DEBIT: statement of profit or loss CREDIT: statement of financial position

   B DEBIT: statement of financial position CREDIT: statement of profit or loss

7. The required accounting treatment for expenditure on research is to capitalise it and carry it forward as an asset. True or false?

8. An accrual is an expense charged against profit for a period, even though it has not yet been paid or invoiced. True or false?

9. A company is being sued for $10,000 by a customer. The company's lawyers reckon that it is likely that the claim will be upheld. Legal fees are currently $5,000. How should the company account for this?

10. Fill in the blank. If a receivables allowance is increased, expenses in the statement of profit or loss are ………….

11. When sales tax is not recoverable on the cost of a motor vehicle, it should be treated in which of the following ways?

    A Deducted from the cost of the asset capitalised

    B Included in the cost of the asset capitalised

    C Deducted from output tax for the period

    D Written off to the statement of profit or loss as an expense

12. Sales of $4,000 have been omitted from the receivables control account. What is the entry to correct this?

    A DEBIT RCA $4,000

    B CREDIT RCA $4,000

13. What must be done with a suspense account before preparing a statement of financial position?

    A Include it in assets B Clear it to nil

    C Include it in liabilities D Write it off to capital

14. If a business proprietor pays their personal income into the business bank account, what is the accounting double entry to record the transaction?

A DEBIT drawings CREDIT cash

B DEBIT cash CREDIT drawings

15. Write the formula for Mark up %

16. Limited liability means the shareholders are responsible for the company's debts only up to the amount paid on the shares. True or false?

17. Which of the following headings is not a classification of cash flows in IAS 7?

    A Operating B Investing

    C Administration D Financing

18. Fill in the blank. A …………….. is an entity controlled by another entity.

19. Fill in the blank. Intra-group sales and purchases are ………………. from the consolidated statement of profit or loss.

20. Write Dupont ratio

Part B

Answer any 4 Questions **(4 X 5 = 20 Marks)**

21.A **(2.5 Marks)** What is settlement discounts. Explain Accounting for settlement discounts from Seller & purchaser perspective

21. B **(2.5 Marks)**The closing inventory at cost of a company at 31 January 20X3 amounted to $284,700.
The following items were included at cost in the total:
1 400 coats, which had cost $80 each and normally sold for $150 each. Owing to a defect in manufacture, they were all sold after the reporting date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.

22.A. **(2.5 Marks)** 800 skirts, which had cost $20 each. These too were found to be defective. Remedial work in February 20X3 cost $5 per skirt, and selling expenses for the batch totalled $800. They were sold for $28 each.
What should the inventory value be according to IAS 2 Inventories after considering the above items?

22.B. **(2.5 Marks)** Popov allows for depreciation on plant at 10% per annum on cost at the year end on a straight-line basis. On 1 January 2016 plant at cost was $5,000; accumulated depreciation to date was $3,000. On 1 July 2016 he sold a machine for $1,500 which had cost $2,000 on 1 July 2014. Required: Prepare Plant A/c, Accumalated Depreciation A/c, Dipsosal A/c for the year to 31 December 2016.

23. The following balances existed in the accounting records of Koppa Co, at 31 December 20X7.

	$'000
Development costs capitalised, 1 January 20X7	180
Research and development expenditure for the year	162

In preparing the company's statement of profit or loss and other comprehensive income and statement of financial position at 31 December 20X7 the following further information is relevant.

(a) The $180,000 total for development costs as at 1 January 20X7 relates to two projects:

	$'000
Project 836: completed project	82
(balance being amortised over the period expected to benefit from it.	
Amount to be amortised in 20X7: $20,000)	
Project 910: in progress	98
	180

(b) The research and development expenditure for the year is made up of:

	$'000
Research expenditure	103
Development costs on Project 910 which continues to	
satisfy the requirements in IAS 38 for capitalisation	59
	162

(1) According to IAS 38 Intangible assets, what amount should be charged in the statement of profit or loss and other comprehensive income for research and development costs for the year ended 31 December 20X7?

(2) According to IAS 38 Intangible assets, what amount should be disclosed as an intangible asset in the statement of financial position for the year ended 31 December 20X7?

24. You have been asked to advise on the appropriate accounting treatment for the following situations arising in the books of various companies. The year end in each case can be taken as 31 December 2016 and you should assume that the amounts involved are material in each case.

(1) On 30 November an entity entered into a legal action defending a claim for supplying faulty equipment. The company's solicitors advise that there is a 20% probability that the claim will succeed. The amount of the claim is $500,000.

(2) At 31 December a company has a total potential liability of $1 million for warranty work on contracts. Past experience shows that 10% of these costs are likely to be incurred, that 30% may possibly be incurred but that the remaining 60% is highly unlikely to be incurred.

25.A **(2.5 Marks)** At 31 March 20X2 a company had oil in hand to be used for heating costing $8,200 and an unpaid heating oil bill for $3,600. At 31 March 20X3 the heating oil in hand was $9,300 and there was an outstanding heating oil bill of $3,200. Payments made for heating oil during the year ended 31 March 20X3 totalled $34,600. Based on these figures, what amount should appear in the company's statement of profit or loss and other comprehensive income for heating oil for the year?

25.B **(2.5 Marks)** At 31 December 20X4 a company's trade receivables totalled $864,000 and the allowance for receivables was $48,000. It was decided that debts totalling $13,000 were to be written off. The allowance for receivables was to be adjusted to the equivalent of five per cent of the receivables. What figures should appear in the statement of financial position for trade receivables (after deducting the allowance) and in the statement of profit or loss for receivables expense?

26.A **(2.5 Marks)** At 30 June 20X2 a company's capital structure was as follows:

	$
Ordinary share capital 500,000 shares of 25c each	125,000
Share premium account	100,000

In the year ended 30 June 20X3 the company made a rights issue of 1 share for every 2 held at $1 per share and this was taken up in full. Later in the year the company made a bonus issue of 1 share for every 5 held, using the share premium account for the purpose. What was the company's Ordinary share capital and Share premium account at 30 June 20X3?

26.B **(2.5 Marks)** A business statement of profit or loss and other comprehensive income for the year ended 31 December 20X4 showed a net profit of $83,600. It was later found that $18,000 paid for the purchase of a motor van had been debited to motor expenses account. It is the company's policy to depreciate motor vans at 25 per cent per year, with a full year's charge in the year of acquisition. What would the net profit be after adjusting for this error?

27.A. **(2.5 Marks)**Fanta Co acquired 100% of the ordinary share capital of Tizer Co on 1 October 20X7. On 31 December 20X7 the share capital and retained earnings of Tizer Co were as follows:

	$'000
Ordinary shares of $1 each	400
Retained earnings at 1 January 20X7	100
Retained profit for the year ended 31 December 20X7	80

The profits of Tizer Co have accrued evenly throughout 20X7. Goodwill arising on the acquisition of Tizer Co was $30,000. What was the cost of the investment in Tizer Co?

27.B **(2.5 Marks)** From the following information regarding the year to 31 August 20X6, what is the accounts payable payment period? You should calculate the ratio using purchases as the denominator.

	$
Sales	43,000
Cost of sales	32,500
Opening inventory	6,000
Closing inventory	3,800
Trade accounts payable at 31 August 20X6	4,750

Part C

Answer any 3 Questions **(3 X 20 = 60 Marks)**

28.a Why a regulatory framework is necessary (5 marks)

28.b Structure of the international regulatory system (10 marks)

28.c Describe the process of development of an IFRS Standard (5 Marks)

29. You have been asked to help prepare the financial statements of Willow for the year ended 30 June 20X1. The entity's trial balance as at 30 June 20X1 is shown below.

	Debit	Credit
	$000	$000
Share capital		50,000
Share premium		25,000
Revaluation reserve at 1 July 20X0		10,000
Land & buildings – value/cost	120,000	
accumulated depreciation at 1 July 20X0		22,500
Plant and equipment – cost	32,000	
accumulated depreciation at 1 July 20X0		18,000
Trade and other receivables	20,280	
Trade and other payables		8,725
5% bank loan repayable 20X5		20,000
Cash and cash equivalents	2,213	
Retained earnings at 1 July 20X0		12,920
Sales		100,926
Purchases	67,231	

Distribution costs	8,326
Administrative expenses	7,741
Inventories at 1 July 20X0	7,280
Dividends paid	3,000

The following information is relevant to the preparation of the financial statements:

(i) The inventories at the close of business on 30 June 20X1 cost $9,420,000.

(ii) Depreciation is to be provided for the year to 30 June 20X1 as follows:

a.Buildings 4% per annum Straight line basis (This should all be charged to administrative expenses)

b. Plant and equipment 20% per annum Reducing balance basis (This is to be apportioned as follows)

Cost of sales 70%

Distribution costs 20%

Administrative expenses 10%

c. Land, which is non-depreciable, is included in the trial balance at a value of $40,000,000. At 30 June 20X1, a surveyor valued it at $54,000,000. This revaluation is to be included in the financial statements for the year ended 30 June 20X1.

(iii) It has been decided to write off a debt of $540,000 which will be charged to administrative expenses.

(iv) Included within distribution costs is $2,120,000 relating to an advertising campaign that will commence on 1 January 20X1 and run to 31 December 20X1.

(v) Loan interest has not yet been accounted for.

(vi) The tax charge for the year has been calculated at $2,700,000.

Required:

Prepare the statement of profit or loss and other comprehensive income of Willow for the year ended 30 June 20X1 and the statement of financial position as at 30 June 20X1.

30. The following financial statements and supporting information relate to Sparkler, a limited liability entity:

Statement of profit or loss and other comprehensive income for the year ended 30 September 20X9

	$000
Revenue	94,800
Cost of sales	(71,100)
Gross profit	**23,700**
Distribution costs	(2,500)
Administration expenses	(1,000)
Profit on disposal of plant and equipment	500
Interest payable	(2,700)

Profit before tax	**18,000**
Income tax expense	(3,500)
Profit for the year	**14,500**
Other comprehensive income:	
Revaluation surplus on property, plant and equipment	3,000
Total comprehensive income for the year	**17,500**

Sparkler – Statement of financial position at 30 September 20X9

	20X9	**20X8**
	$000	**$000**
Property, plant and equipment	95,000	85,000
Inventories	30,750	36,000
Trade receivables	39,250	45,000
Cash and equivalents	3,000	Nil
Total assets	**168,000**	**166,000**
Equity share capital	30,000	24,000
Share premium	10,000	8,000
Revaluation reserve	3,000	Nil
Retained earnings	60,875	66,500
10% Debenture	25,000	20,000
Bank overdraft	Nil	4,500
Trade payables	35,000	38,500
Income tax	3,500	4,000
Accrued interest	625	500
Total equity and liabilities	**168,000**	**166,000**

The following information is relevant to the financial statements of Sparkler during the year ended 30 September 20X9

(a) Sparkler disposed of some items of plant and equipment for sale proceeds of $2,000,000. The carrying amount of the items disposed of was $1,500,000.

(b) Sparkler purchased property plant and equipment at a cost of $21,000,000. In addition, land and buildings were revalued during the year.

(c) Sparkler estimated that the income tax liability arising on the profit for the year was $3,500,000.

Required: Based upon the available information, prepare a statement of cash flows using the indirect method for Sparkler for the year ended 30 September 20X9 in accordance with the requirements of IAS 7 Statement of Cash Flows.

31. The following statements of profit or loss relate to Helsinki and its subsidiary Stockholm for the year ended 31 December 20X6:

	Helsinki	Stockholm
	$000	**$000**
Revenue	200,000	100,000
Cost of sales	(110,000)	(50,000)
Gross profit	90,000	50,000
Distribution costs	(20,000)	(10,000)
Administrative expenses	(40,000)	(20,000)
Operating profit	30,000	20,000
Investment income from Stockholm	7,500	
Profit before tax	37,500	20,000
Taxation	(10,500)	(6,000)
Profit for the year	27,000	14,000

The following notes are relevant to the preparation of the consolidated financial statements:

(i) Helsinki acquired three million of the equity shares of Stockholm on 30 June 20X6 when Stockholm had a total of four million equity shares in issue. Helsinki paid a total of $25 million to acquire the shares.

(ii) At 30 June 20X6, the retained earnings of Stockholm were $20 million and the carrying amounts of the net assets of Stockholm approximated to their fair values.

(iii) It is group accounting policy to account for non-controlling interest at its fair value. At the date of acquisition, the fair value of the non-controlling interest in Stockholm was $7 million.

(iv) During the post-acquisition period, Stockholm sold goods to Helsinki. The goods originally cost $10 million and they were sold to Helsinki at a mark-up of 25%. At 31 December 20X6, Helsinki still had 40% of these goods within its inventory.

Required:

(a) Calculate goodwill arising on acquisition of Stockholm by Helsinki. (5 marks)

(b) Prepare the consolidated statement of profit or loss for the Helsinki group for the year ended 31 December 20X6. (10 marks)

(c) Define Associates & state the accounting procedure for Associates during consolidation(5 marks)

32. The draft statements of financial position of Spyder and its subsidiary company Phly at 31 October 20X5 are as follows.

	Spyder	**Phly**
	$'000	**$'000**
Assets		
Land and buildings	315,000	278,000
Plant	285,000	220,000
Investment Shares in Phly at cost	660,000	–
Inventory	357,000	252,000
Receivables	525,000	126,000
Bank	158,000	30,000
	2,300,000	**906,000**
Equity and liabilities		
Equity $1 ordinary shares	1,500,000	600,000
Reserves	580,000	212,000
Payables	220,000	94,000
	2,300,000	**906,000**

The following information is also available.

(a) Spyder purchased 480 million shares in Phly some years ago, when Phly had a credit balance of $95 million in reserves. The fair value of the non-controlling interest at the date of acquisition was $165 million.

(b) At the date of acquisition the freehold land of Phly was valued at $70 million in excess of its book value. The revaluation was not recorded in the accounts of Phly.

(c) Phly's inventory includes goods purchased from Spyder at a price that includes a profit to Spyder of $12 million.

(d) At 31 October 20X5 Phly owes Spyder $25 million for goods purchased during the year.

Required

(a) Prepare the consolidated statement of financial position for Spyder as at 31 October 20X5.