

LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034**B.Com. DEGREE EXAMINATION – HONOURS****FIRST SEMESTER – NOVEMBER 2022****UBH 1501 – FINANCIAL ACCOUNTING**

Date: 28-11-2022

Dept. No.

Max. : 100 Marks

Time: 01:00 PM - 04:00 PM

PART A**ANSWER ALL QUESTIONS****(30X2=60)**

1. Identify whether or not each of the following items should be capitalised as intangible assets from the following list.

Particulars	Capitalised	Not capitalised
Salaries paid to staff conducting research activities to find a new vaccine.		
Licence purchased to permit production and sale of a product for ten years		
A new chemical has been found which has been proved to be an excellent sunblock material, the company has the resources and the intention to complete the manufacturing of the sunblock by this year.		
Trial runs for an experiment in a final stage to check the efficiency of the new product.		

2. Which of the following explains the imprest system of operating petty cash?

- A Weekly expenditure cannot exceed a set amount
- B The exact amount of expenditure is reimbursed at intervals to maintain a fixed float
- C All expenditure out of the petty cash must be properly authorised
- D Regular equal amounts of cash are transferred into petty cash at intervals

3. Which of the following is a letter sent by a customer to a supplier to inform the supplier that their invoice has been paid.

- A. Purchase invoice
- B. Purchase requisition
- C. Remittance Advice
- D. Supplier statement

4. What is the main purpose of financial accounting?

- A To record all transactions in the books of account
- B To provide management with detailed analyses of costs
- C To enable preparation of financial statements that provides information about an entity's financial performance and position
- D To calculate profit or loss for an accounting period

5. Which of the following statements best defines a liability?

- A A liability is an obligation arising from a past transaction or event.
- B A liability is a legally binding amount owed to a third party.
- C A liability is a present obligation of the entity to transfer an economic resource as a result of past events.
- D A liability is anything which results in an outflow of economic benefits from an entity

6. Which of the following statements best defines the equity or capital of a business?
- A Equity or capital of a business is represented by the net assets of the business
 - B Equity or capital of a business is equivalent to the value of the business
 - C Equity or capital of a business is equivalent to the value of the business assets
 - D Equity or capital of a business is represented by the total assets of the business
7. Which of the following statements best explains the principle of faithful representation in relation to the preparation of the annual financial statements?
- A Transactions are presented any way that is considered appropriate.
 - B Transactions are presented in such a way as to maximise profit for the year.
 - C Transactions are presented in such a way to maximise asset values in the statement of financial position.
 - D Transactions are presented to reflect their commercial substance of a transaction rather than their legal form
8. . Mr.Andy starts a stationary shop business. He purchased stock worth \$ 850 on credit . He sold goods worth \$ 500 in the first week for cash. He broght more stock from a supplier worth \$250 on credit in the second week. He has a credit sales of \$ 400 in the second week.
The balance in the Purchase day book is \$-----
The balance in the sales day book is \$ -----
9. Leonard, a sole trader, extracts a trial balance as at 30 April 2017. He subsequently discovers that drawings amounting to \$38,100 have been debited to other expenses account in error. What correcting entries must be made?
- A Dr Capital account and Cr Other expenses account
 - B Dr Other expenses account and Cr Capital account
 - C Dr Drawings account and Cr other expenses account
 - D Dr Suspense account and Cr Other expenses account
10. Monksford is preparing its financial statements for the year ended 31 December 2016. Its draft trial balance shows the following balances:
- | | |
|---|---------|
| Income tax payable at 1 January 2016 | \$2,091 |
| Income tax liablity paid in full settlement of 2015 | \$1,762 |
- Income tax due for the year ended 31 December 2016 is estimated to be \$2,584.
- What is Monksford's income tax expense in its statement of profit or loss for the year ended 31 December 2016?
- A \$1,269 B \$2,255 C \$2,584 D \$2,913
11. Which accounting concept requires non-current assets to be valued at cost less accumulated depreciation, rather than at their enforced saleable value?
- A Prudence
 - B Relevance
 - C Comparability
 - D Going concern

12. Which of the following bodies has responsibility for encouraging global convergence of international financial reporting standards?

- A The International Financial Reporting Standards Interpretations Committee
- B The International Financial Reporting Standards Foundation
- C The International Accounting Standards Board
- D The International Accounting Standards Committee

13. Your firm values inventory using the periodic weighted average cost method. At 1 October 20X8, there were 60 units in inventory valued at \$12 each. On 8 October, 40 units were purchased for \$15 each, and a further 50 units were purchased for \$18 each on 14 October. On 21 October, 75 units were sold for \$1,200. What was the value of closing inventory at 31 October 20X8? \$ -----

14. At 1 July 2016 a limited liability company's capital structure was as follows:

\$

Ordinary share capital (1,000,000 shares of 50c each) 500,000

Share premium account 400,000

In the year ended 30 June 2017 the company made the following share issues:

1 January 2017: A bonus issue of one share for every four in issue at that date, using the share premium account.

1 April 2017: A rights issue of one share for every ten in issue at that date, at \$1.50 per share.

What will be the balances on the company's share capital and share premium accounts at 30 June 2017 as a result of these issues?

	<i>Share capital</i>	<i>Share premium</i>
	\$	\$
A	687,500	650,000
B	675,000	375,000
C	687,500	400,000
D	687,500	150,000

15. The following items (liabilities) have to be considered in finalising the financial statements of Borgen:

(1) Borgen offers three-month warranties on all its products. Previous experience shows that about 5% of sales give rise to a warranty claim

(2) Borgen has offered guarantee to the loan of his friend's company

The likelihood of a liability arising under the guarantee is assessed as possible. What is the correct treatment of these items in Borgen's financial statements under International Financial Reporting Standards?

	<i>Item (1)</i>	<i>Item (2)</i>
A	Recognise a provision	Disclose by note only
B	Disclose by note only	No treatment
C	Recognise a provision	Recognise a provision
D	Disclose by note only	Disclose by note only

16. At 30 September 2016 the closing inventory of a company amounted to \$386,400. The following items were included in this total at cost:

(1) 1,000 items which had cost \$18 each. These items were all sold in October 2016 for \$15 each, with selling expenses of \$800

(2) Five items which had been in inventory since 2001, when they were purchased for \$100 each, sold in October 2016 for \$1,000 each, net of selling expenses. What figure should appear in the company's statement

of financial position at 30 September 2016 for inventory?

A \$382,600

B \$384,200

C \$387,100

D \$400,600

17. At the end of its accounting period a business erroneously excluded goods bought on credit from its closing inventory. It also failed to record the purchase of those goods in its accounting records. The effect of these omissions is to understate which of the following?

A Cost of sales and current assets

B Gross profit and current liabilities

C Current assets only

D Current assets and current liabilities

18. Troy Co has a property rental business and received cash totalling \$838,600 from tenants during the year ended 31 December 20X6. Figures for rent in advance and in arrears at the beginning and end of the year were:

	31 December 20X5	31 December 20X6
Rent received in advance	102,600	88,700
Rent in arrears (all subsequently received)	42,300	48,400

What amount should appear in Troy Co's statement of profit or loss for the year ended 31 December 20X6 for rental income? \$

19. Details of B Co's insurance policy are as follows:

Premium for year ended 31 March 20X6 paid April 20X5 \$10,800

Premium for year ending 31 March 20X7 paid April 20X6 \$12,000

What figures should be included in the B Co's financial statements for the year ended 30 June 20X6?

	SOPL	SOFP
A	11,100	9,000 prepayment
B	11,700	9,000 prepayment
C	11,100	9,000 accrual
D	11,700	9,000 accrual

20. During the year Subway invoiced \$200,000 to its parent company for transfers of goods in inventory. Transfers were made at a 25% mark-up. At the end of the year the parent still held 60% of the goods in inventory. What adjustment should be made for unrealised profit in the consolidated financial statements for the year?

A \$16,000

B \$24,000

C \$30,000

D \$40,000

21. Which of the following items could appear in a company's statement of cash flows in financing activities?

(1) Dividends Received

(2) Rights issue of shares

(3) Interest paid on finance charges

(4) Repayment of loan

A 1, and 3

B 1, 2 and 4

C all of the above

D 2 and 4

22. Gilmore purchased a machine for \$15,000. The transportation costs were \$1,500 and installation costs were \$750. The machine broke down at the end of the first month in use and cost \$400 to repair. Gilmore depreciates machinery at 10% each year on cost, assuming no residual value.

What is the carrying amount of the machine after one year in accordance with IAS 16 “Property, Plant and Equipment”?

- A \$13,500 B \$14,850 C \$15,525 D \$15,885

23. Which of the following should be recognised as an asset under IAS 16 “Property, Plant and Equipment”?

- A The cost of repainting a building
- B The replacement of broken windows in a building
- C The purchase of a car by a car dealer for re-sale
- D Legal fees incurred on the purchase of a building

24. Guna is registered for sales tax. During May, she sold goods with a list price of \$1200, excluding sales tax, to Becky on credit. As Becky was buying a large quantity of goods, Guna deducted trade discount of 5% of the normal list price. If sales tax is charged at 15%, what will be the gross value of the sales invoice prepared by Guna? -----\$

25. Victory Co sold goods with a list price of \$3,700 to White which was subject to trade discount of 5% and early settlement discount of 4% if the invoice was paid within 7 days. The normal credit period available to credit customers is 30 days from invoice date. At the point of sale, White was not expected to pay early and take advantage of the early settlement terms offered. If, as expected, White did not pay within the settlement discount period, what accounting entries should be made by Victory Co to record settlement of the amount outstanding?

- A Debit Cash \$3,515, and Credit Trade receivables \$3,515
- B Debit Cash \$3,515, Credit Discount received \$140.60 and Credit Trade receivables \$3,374.40
- C Debit Cash \$3,374.40 and Credit Trade receivables \$3,374.40
- D Debit Cash \$3,515, Debit Revenue \$185 and Credit Trade receivables \$3,700

On 1 January 20X7, Z Co purchased an item of plant. The invoice showed:

	\$
Cost of plant	48,000
Delivery to factory	400
One year warranty covering breakdown	800
	<hr/>
	49,200
	<hr/>

26. Apart from the the above details Modifications to the factory building costing \$2,200 were necessary to enable the plant to be installed. Training to staff to use the plan \$ 500 and a safety test trial run also was done for \$ 350.

What amount should be capitalised for the plant in Z Co’s accounting records?

\$

27. A business non-current assets had a carrying amount of \$125,000. An asset which had cost \$12,000 was sold for \$9,000, at a profit of \$2,000. What is the revised carrying amount of non-current assets?

- A \$113,000 B \$118,000 C \$125,000 D \$127,000

28. A Ltd owns a plant costing \$ 500,000. It has been used for 5 years on the basis of the straight line method @ 10 %. A Ltd wishes to revalue the plant's value to \$650,000. What is the Revaluation Surplus .
\$ -----

29.

Classify each of the following statements as either true or false.

	<i>True</i>	<i>False</i>
An entity may make a rights issue if it wished to raise more equity capital.		
A rights issue might increase the share premium account whereas a bonus issue is likely to reduce it.		
A rights issue will always increase the number of shareholders in an entity whereas a bonus issue will not.		
A bonus issue will result in an increase in the market value of each share		

30.

Lord has extracted the following balances from his accounting records:

	\$
Property, plant and equipment	209,000
Inventory	4,600
Payables	6,300
Receivables	5,900
Bank overdraft	790
Loan	50,000
Capital	100,000
Drawings	23,000
Sales	330,000
Purchases	168,200
Sales returns	7,000
Discounts received	?
Sundry expenses	73,890

He has forgotten to extract the balance on the discounts received account. When this is included, the totals of the trial balance will agree.

What was the balance on the discounts received account?

\$

Part B

ANSWER ALL QUESTIONS

(2 x 20 = 40)

31.(A) B Happy acquired 90% of the share capital of Sad on 1 January 2013 when the balance on retained earnings was \$10,000 and there was no revaluation surplus. Their respective statements of financial position as at 31 December 2016 are as follows:

	<i>Happy</i> \$	<i>Sad</i> \$
Non-current assets		
Tangible	135,000	60,000
Investment in Sad	30,000	-
	<hr/>	<hr/>
	165,000	60,000
Current assets	57,000	46,000
	<hr/>	<hr/>
	222,000	106,000
	<hr/> <hr/>	<hr/> <hr/>
Share capital (\$1 ordinary shares)	50,000	15,000
Revaluation surplus	50,000	15,000
Retained earnings	90,000	50,000
	<hr/>	<hr/>
Current liabilities	190,000	80,000
	32,000	26,000
	<hr/>	<hr/>
	222,000	106,000
	<hr/> <hr/>	<hr/> <hr/>

Non-controlling interest is valued at fair value on acquisition. The market price of Sad's shares are a good indicator of fair value. On 1 January 2013 the market price of Sad's shares was \$2.00. At the year-end Sad is holding \$2,000 of inventory purchased from Happy. Happy sells goods at cost plus 25%. Required: Prepare the consolidated statement of financial position of the Happy group as at 31 December 2016. **(15 Marks)**

31. (B) Explain the Qualitative characteristics of that make information provided in financial statements useful. **(5 marks)**

32. A. Prepare the Cash flow for the following: **(15 marks)**

SPARKLER CO

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

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

	\$000
Revenue	94,800
Less: Cost of sales	71,100
	<hr/>
Gross profit	23,700
Less: Distribution costs	2,500
Less: Administration expenses	1,000
Add: Profit on disposal of plant and equipment	500
Less: Interest payable	2,700
	<hr/>
Profit before tax	18,000
Less: Income tax expense	3,500
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Profit for the year	14,500
Other comprehensive income:	
Revaluation surplus on property, plant and equipment	3,000
	<hr/>
Total comprehensive income for the year	17,500
	<hr/>

Statement of financial position at 30 September 20X9:

	20X9	20X8
	\$000	\$000
<i>ASSETS</i>		
<i>Non-current assets</i>		
Property, plant and equipment	95,000	85,000
<i>Current assets</i>		
Inventories	30,750	36,000
Trade receivables	39,250	45,000
Cash and equivalents	3,000	Nil
	<hr/>	<hr/>
Total assets	168,000	166,000
	<hr/>	<hr/>
	20X9	20X8
	\$000	\$000
<i>EQUITY AND LIABILITIES</i>		
Equity share capital	30,000	24,000
Share premium	10,000	8,000
Revaluation surplus	3,000	Nil
Retained earnings	60,875	66,500
	<hr/>	<hr/>
Total equity	103,875	98,500
<i>Non-current liabilities</i>		
10% Debenture	25,000	20,000
<i>Current liabilities</i>		
Bank overdraft	Nil	4,500
Trade payables	35,000	38,500
Income tax	3,500	4,000
Accrued interest	625	500
	<hr/>	<hr/>
Total equity and liabilities	168,000	166,000
	<hr/>	<hr/>

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

- (a) Sparkler Co 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. The depreciation for the same was 12,500,000. In addition, property were revalued during the year.
- (c) Sparkler Co estimated that the income tax liability arising on the profit for the year was \$3,500,000.
- (d) During a review it was found an Interest amount of 125,000 has not be adjusted in the operating profit and should be added back.

32. B Using the same financial statements above find the ratios for the year 2019 **(5 marks)**
Gross profit Ratio, Net assets turnover ratio, current ratio, receivables collection period and inventory turnover ratio for the year 2019.
