



LOYOLA COLLEGE (AUTONOMOUS) CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – HONOURS

FIRST SEMESTER – APRIL 2025

UBH1MC03 / UBH 1501 – FINANCIAL ACCOUNTING



Date: 26-04-2025

Dept. No.

Max. : 100 Marks

Time: 01:00 PM - 04:00 PM

PART A

ANSWER ALL QUESTIONS

(30x2 marks=60 marks)

1. Which qualitative characteristic of financial information refers to the ability of users to make predictions or confirm past evaluations?
A. Verifiability B. Relevance C. Understandability D. Faithful representation
2. Which organisation is responsible for developing and issuing International Financial Reporting Standards?
3. State if True or False
 - a. Goods Received Note (GRN) is generated by the supplier to confirm the delivery of goods.
 - b. A **credit note** is issued by the buyer to reduce the amount payable to the seller due to returns.
4. Which of the following statements regarding a cash imprest system is/are accurate?
 - A. At any given time, the total of physical cash and petty cash vouchers should equal the imprest balance.
 - B. There is no motivation to ensure that all disbursed funds are adequately documented and supported by vouchers.
 - C. Reconciling an imprest system is challenging because the exact amount in the float is unknown.
 - D. A set amount of cash is allocated each month.
5. As of December 1, 2020, Tania has an outstanding \$47,556 to the sales tax authorities. In December, she documented the subsequent activities:
Total sales of \$1,600,000 exclusive of 17.5% sales tax.
Total purchases of \$1,181,580, which includes a 17.5% sales tax.
What is the balance on Tania's sales tax account at the end of December?
6. XYZ Ltd sold goods with a list price of \$3,000 to Smith, offering a 5% trade discount and a 4% early settlement discount if payment was made within 7 days. The standard credit period for customers is 30 days from the invoice date. At the time of the sale, it was anticipated that Smith would take advantage of the early settlement discount. If Smith subsequently paid within the 7-day window and qualified for the settlement discount, what accounting entries should XYZ Ltd record to account for the settlement of the outstanding amount?
7. Glen's trial balance, extracted as of December 31, 2023, includes \$456,875 for inventory as of January 1, 2023. A physical inventory count was performed on December 31, 2023, and the inventory cost was determined to be \$572,904. Out of this amount, inventory costing \$27,485 is damaged and estimated to have a net realisable value of only \$15,000. What amount of closing inventory should appear in Glen's financial statements as of December 31, 2023?
A) \$456,875 B) \$545,419 C) \$560,419 D) \$572,904

8. A company uses the FIFO method to value its inventory. On May 1, 2020, the company had 700 engines in inventory, each valued at \$190. During the year ending April 30, 2021, the following transactions occurred:

2020

July 1: Purchased 500 engines at \$220 each

November 1: Sold 400 engines for \$160,000

2021

February 1: Purchased 300 engines at \$230 each

April 15: Sold 250 engines for \$125,000

What is the value of the company's closing inventory of engines as of April 30, 2021?

9. As of December 31, 2022, a company's allowance for doubtful accounts was \$25,000. On December 31, 2023, the total trade receivables amounted to \$620,000. Based on historical trends, the company decided to write off \$20,000 of receivables as irrecoverable debts and adjust the allowance for doubtful accounts to 4% of the trade receivables. What amount should be reported as the receivables expense in the statement of profit or loss and statement of financial position for the year ended December 31, 2023?
10. Ms. Carter purchased a new piece of equipment from overseas. The equipment cost \$120,000, with delivery and installation expenses amounting to \$8,000. License fees for importing and using the equipment totalled \$600. Safety testing costs were \$6,000, and training employees on operating the equipment cost \$1,200. Annual insurance for the equipment was taken at \$500 PA. What is the total amount recorded as the cost of the equipment?
11. On January 1, 2021, XYZ Ltd purchased a vehicle for \$50,000. The vehicle was expected to have a useful life of 5 years with a residual value of \$5,000. The company uses the straight-line method of depreciation. On December 31, 2023, XYZ Ltd sold the vehicle for \$20,000. Calculate the profit or loss on the sale of the vehicle.
12. Joy & Co acquired a Plant on January 1, 2019, for \$470,000. She has been depreciating it at 30% using the reducing balance method. On January 1, 2022, Joy decided to revalue the asset to \$600,000. The revaluation surplus to be recorded is _____.
13. For the year ending July 31, 2018, Alex received \$73,800 in rental income. The amounts of rent received in advance and due in arrears were as follows:

Particulars	July 31, 2018,	July 31, 2017
Rent received in advance	\$3,600	\$3,900
Rent due in arrears	\$2,700	\$2,100

What figure for rental income should be recorded in the profit or loss account for the year ended July 31, 2018?

- A) \$73,200 B) \$73,800 C) \$74,700 D) \$75,000

14. The following items need to be addressed when finalising the financial statements for Orion Ltd:

- Orion Ltd provides a three-month warranty on all of its products. Historical data indicates that approximately 5% of sales result in warranty claims.
- Orion Ltd has provided a guarantee for the overdraft of another company. The likelihood of making a payment under this guarantee is possible.

What is the appropriate treatment for these items in Orion Ltd.'s financial statements according to 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

15. Solar Enterprises are working on the following projects and have asked you to assist them if they should be classified as research or development expenses. State it accordingly.

Project A involves developing a new software system designed to enhance cybersecurity measures. Upon completion, this system will be implemented across various sectors, including finance and healthcare. InnovateTech has the necessary resources and is committed to finishing the project.

Project B focuses on evaluating the efficacy of a specific compound as a treatment for insomnia. If successful, the compound is anticipated to be marketed globally through pharmacies and online health stores.

Project C is centred on creating a new biodegradable packaging material that provides extended freshness for perishable goods. However, a rival company is also working on a similar solution, causing InnovateTech to be uncertain about the successful completion of its project.

16. Which of the following statements are accurate?

- (1) A company may issue rights to raise additional equity capital.
- (2) A rights issue could increase the share premium account, while a bonus issue is more likely to reduce it.
- (3) A rights issue will always increase the number of shareholders, whereas a bonus issue will not.

- A. 1 and 2 only
- B. 1 and 3 only
- C. 2 and 3 only
- D. All three statements

17. On July 1, 2024, MM 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 June 30, 2025, MM & Co made the following share issues:

January 1 2025: A bonus issue of one share for every four in issue at that date. April 1, 2025: A rights issue of one share for every ten in issue at that date, at \$1.50 per share. What will the balances be on the company's share capital and share premium accounts on June 30, 2017, as a result of these issues?

18. A trial balance prepared from a sole trader's records did not balance, and a suspense account was created for the discrepancy. Which errors would need an adjustment through the suspense account to correct them?

- (1) The discount allowed was incorrectly debited to the discount received account.
- (2) Cash received from the sale of a non-current asset was recorded correctly in the cash book but
- (3) The rent account balance was omitted from the trial balance, and cash paid for rent was included.
- (4) Goods taken from inventory by the proprietor were recorded by crediting the Drawings account and debiting the Purchases account.

- A 1 and 2
- B 2 and 3
- C 3 and 4
- D 1 and 3

19. Reynold Co's draft financial statements for 2020 showed a profit of \$760,000. However, the trial balance did not agree, and a suspense account appeared in the company's financial statements. Subsequent checking revealed the following errors:

- (1)) Bank charges of \$5000 appeared in the bank statement in December 20X5 but had not been entered in the company's records
 - (2) The cost of an item of plant is \$52,000, which was entered in the cash book and the plant account as \$5,200. Depreciation at 10% per year (\$520) had been charged.
 - (3) 1000 shares of \$1.55 were issued & Dividend of \$3500 was paid to the existing shareholders.
- The adjusted profit after rectifying the above errors would be \$ _____.

20. Classify the events as adjusting or non-adjusting events after the reporting date:

Events	Adjusting /Non-adjusting
A fire on October 5, 2024, destroyed a small amount of inventory that had cost \$2,100.	
A credit customer with an outstanding balance as of September 30, 2024, was declared insolvent on December 22, 2024. Inventory valued at \$900 as of September 30, 2024, was sold for \$700 on November 15, 2024.	
A dividend of 5 cents per share on equity shares was declared on December 3, 2024.	
Inventory valued at \$900 as of September 30, 2024, was sold for \$700 on November 15, 2024.	

21. Maxwell Ltd issues 10% loan notes for 5,00,000. Interest is payable on 30th June and December 31 each year. Write the journal entry to record the interest payment for the year ending March 31, 2024.

22. S Ltd Estimated a tax liability of \$72,000 for 2021. In 2022, the tax charge was calculated for the previous year as \$ 70,000. Further, a tax provision was created in 2018 for \$ 73,000. Write the journal entries to record all the above and disclose the amounts to be reflected as tax expenses and current liability for 2022.

23. Calculate the total amount charged as an expense in the statement of profit or loss of Berlin Co. or the year ended December 31, 2022, based upon the following information.

- Research expenses amounted to \$ 15,000
- A patent was purchased and put into use from July 1 for an amount of 20,000 depreciated @10%
- A proposed dividend of \$ 50,000 was estimated.
- There was a loss of \$ 200 on the sale of vehicles.

24. Explain the error of principle with an apt example.

25. Which of the following would change the capital of a business?

- | | |
|--|-----------------------------------|
| A. Making a payment by cheque to a payable | B. Purchasing inventory on credit |
| C. Purchasing non-current assets on credit | D. Paying salaries in cash |

26. What is defined by the following statement? "A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity."
- A. Income B An expense C A liability D An asset
27. Which items would be classified as cash flows from investing activities in a cash flow statement?
- A. Payments to suppliers for inventory B. Proceeds from the sale of property, plant, and equipment
C. Interest payments on borrowings D. Cash received from customers
28. On 1 January 20X4, Lion acquired 80% of the share capital of Tiger for \$1,400,000. At that date, Tiger's share capital consisted of 600,000 equity shares valued at \$0.50 each, and its reserves were \$800,000. The fair value of the non-controlling interest at the acquisition date was \$300,000. In the consolidated statement of financial position for Lion and its subsidiary Tiger as of 31 December 20X8, what amount should be recorded for goodwill?
- A \$600,000 B \$300,000 C \$800,000 D \$Nil
29. _____ Ratio used to assess a company's ability to meet its short-term obligations .
30. Gellato Ltd commenced business with a capital of \$150,000. Furniture and equipment worth \$ 10,000 were purchased for cash. Goods worth \$ 7000 were purchased for credit. All goods purchased were sold for \$ 8,500. Rent and electricity expenses amounted to \$ 950. Show these transactions in the form of an accounting equation.

PART- B

ANSWER THE FOLLOWING QUESTION

(1X10 mark=10 marks)

31. As a financial analyst, compute the following ratios for both years from the financial statements of Grand Co. as given below.
- (i) The gross profit percentage (ii) Two ratios measuring short-term liquidity (iii) Accounts receivable collection period in days (iv) Trade accounts payable payment in days (based on purchases) (v) Gearing ratio.

The summarised statements of profit or loss for the years ended 31 December 2015 and 2016 were:

	<i>Year ended 31 December</i>	
	<i>2016</i>	<i>2015</i>
	\$000	\$000
Sales revenues	108,000	64,000
Cost of sales	75,600	40,000
Gross profit	32,400	24,000
Expenses	12,400	10,000
Profit before tax	20,000	14,000

The statements of financial position of Grand, a company trading as a wholesaler, at 31 December 2015 and 2016 were as follows:

	2016		2015	
	\$000	\$000	\$000	\$000
Assets				
Non-current assets				
Cost or valuation	162,400		126,300	
Aggregate depreciation	<u>(64,000)</u>	98,400	<u>(50,000)</u>	76,300
Current assets				
Cash	2,000		1,400	
Accounts receivable (trade)	14,000		10,500	
Inventories	<u>15,000</u>	<u>31,000</u>	<u>12,000</u>	<u>23,900</u>
Total assets		<u>129,400</u>		<u>100,200</u>
Equity and liabilities				
Ordinary shares of \$1 each	10,000		6,000	
Share premium account	3,000		1,000	
Revaluation surplus	8,000		–	
Retained earnings	<u>28,000</u>	49,000	<u>19,000</u>	26,000
Non-current liabilities				
Loans (due for repayment 2021)		60,000		60,000
Current liabilities				
Accounts payable (trade)	9,400		6,800	
Taxation on profits	5,000		3,400	
Dividend payable	<u>6,000</u>	<u>20,400</u>	<u>4,000</u>	<u>14,200</u>
Total equity and liabilities		<u>129,400</u>		<u>100,200</u>

The inventory at 31 December 2014 was \$10,000,000.

Purchase for 2016 was \$ 78,600, and 2015 is \$ 42,000

PART C

ANSWER BOTH THE QUESTIONS

(2X15 marks=30marks)

32. Prepare a Cash flow statement for Butterflies Ltd from the given details

Statement of Profit or Loss for the year ended March 31, 2021

Details	\$000
Revenue	177,480
Less: Cost of sales	147,500
Gross profit	29,980
Less: Distribution costs	2,400
Less: Administration expenses	1,220
Profit before tax	26,360
Add: Profit on disposal of plant and equipment	600
Add: Investment income	640
Less: Interest payable	4,300
Profit before tax	23,300
Less: Income tax expenses	5,800
Profit for the year	17,500

Statement of Financial Position at March 31 2021

Details	2021	2020
ASSETS	\$000	\$000
Non-current assets		
Property, plant and equipment	146,000	141,000
Current assets		
Inventories	55,000	51,000
Trade receivables	75,000	66,000
Cash and equivalents	8,500	2,500
Total assets	284,500	260,500
EQUITY AND LIABILITIES	\$000	\$000
Equity share capital	22,000	20,000
Share premium	1,220	Nil
Retained earnings	149,580	132,080
Total equity	172,800	153,520
Non-current liabilities		
10% Debenture	47,000	40,000
Current liabilities		
Trade payables	58,900	63,800
Income tax	5,800	4,620
Total equity and liabilities	284,500	260,500

The following information is relevant to the financial statements of Butterflies Co:

- (i) During the year that ended March 31, 2021, Butterflies Co. disposed of some plant and equipment items. The carrying amount of these items at the date of disposal was \$16,00,000. The depreciation charge for the year was \$10,00,000.
- (ii) Butterflies Co estimated that the income tax liability arising from the profit for the year ended March 31, 2021, was \$5,800,000.

33. Sony acquired 90% of Mony's share capital on January 1, 2013, when the balance on retained earnings was \$10,000, and there was no surplus revaluation. Their respective statements of financial position as of December 31, 2016, are as follows:

Details	Sony (\$)	Mony (\$)
Non-Current Assets	135,000	60,000
Investment in Mony	30,000	—
Current assets	57,000	46,000
	222,000	106,000
Share capital (\$1 ordinary shares)	50,000	15,000
Revaluation surplus	50,000	15,000
Retained earnings	90,000	50,000
Current liabilities	32,000	26,000
	222,000	106,000

Non-controlling interest is valued at fair value on acquisition. Mony's shares' market price is a good indicator of fair value. On January 1, 2013, the market price of Mony's shares was \$2.00. At the end of the year, Mony will hold \$2,000 of inventory purchased from Sony. Sony sells goods at cost plus 25%. On November 30, 2016, Sony acquired 75% of the ordinary capital issued by Mony. Profits of both companies are deemed to accrue evenly over the year. The following statements of profit or loss were prepared for the year ended March 31 2016 for Sony and its subsidiary, Mony:

Details	Sony (\$)	Mony (\$)
Revenue	303,600	217,700
Cost of sales	(143,800)	(102,200)
Gross profit	159,800	115,500
Operating expenses	(71,200)	(51,300)
Interest from investments	2,800	1,200
Profit before tax	91,400	65,400
Income tax	(46,200)	(32,600)
Profit for the year	45,200	32,800

Required: Prepare the consolidated statement of financial position of the Sony group as of December 31, 2016.
