



LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – HONOURS

FIRST SEMESTER – NOVEMBER 2023

UBH 1501 – FINANCIAL ACCOUNTING

Date: 30-10-2023

Dept. No.

Max. : 100 Marks

Time: 01:00 PM - 04:00 PM

PART A

ANSWER ALL QUESTIONS (30x2=60 Marks)

1. Which of the following sets of statements accurately describe accounting concepts?

- i) The entity concept necessitates treating a business as distinct from its owners.
- ii) The prudence concept advocates for assigning the lowest possible values to income and assets while assigning the highest possible values to expenses and liabilities.
- iii) The money measurement concept dictates that only assets with reliably measurable monetary values can be included in financial statements.

A 1 and 2 only

B 1 and 3 only

C 2 and 3 only

D All three statements

2. State if the following are **True or False**:

a. Financial accounting focuses on providing detailed cost analysis for decision-making within an organization, while management accounting focuses on reporting financial information to external stakeholders.

b. Financial accounting and management accounting have the same primary focus and provide identical information for both internal and external purposes.

3. What is the responsibility of the International Accounting Standards Board ?

- A) To advise the Foundation on governance issues.
- B) To develop and publish IFRS Standards
- C) To oversee the IFRS Advisory Council.
- D) To promote the use of national financial reporting standards.

4. Which of the following statements provides a definition of corporate governance?

- A) It represents a framework outlining financial reporting objectives and concepts.
- B) It encompasses all presently applicable IFRS Standards.
- C) It signifies the system through which companies are managed and supervised to benefit shareholders and other interested parties.
- D) It refers to the set of principles and methods employed by external auditors when examining the annual financial statements of a limited liability company.

5. _____ & _____ are the two fundamentals qualitative characteristics of financial statements.

6. Sarah initiated a catering venture by contributing her commercial kitchen equipment, valued at \$10,000, to her own catering business. **Journalise** the transaction for Ms. Sarah.

7. **State if True or False.**

Statement 1: A credit note is issued by the supplier and is checked with documents regarding goods returned.

Statement 2: A remittance advice is sent to the customer to request them to pay the credit balances.

8. Hannah manages the imprest system for petty cash. At the beginning of July, there was a starting balance of \$300, but it was decided to raise it to \$400 starting from July 31st. Throughout July, the petty cashier collected \$50 from staff for photocopying services, and a check worth \$180 was cashed and given to an

employee. In July, checks amounting to \$1000 were issued for petty cash expenses. How much cash was paid out as cash expenses by the petty cashier in July? ____ \$

9. As of December 1, 2017, Lara has an outstanding amount of \$47,556 to the sales tax authorities. In the month of 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 Lara's sales tax account at the conclusion of December?

10. XYZ Inc. sold goods with a list price of \$9,000 to Brown, which was subject to a trade discount of 5% and an early settlement discount of 4% if the invoice was paid within 7 days. At the time of the sale, Brown was expected to utilize the early settlement terms and invoice was prepared under this assumption. However, on this occasion, Brown did not pay within 7 days and was not eligible for the settlement discount. What accounting entries should XYZ Inc. make to record the settlement of the outstanding amount?

11. Jupiter company employs the FIFO inventory valuation method. As of May 1, 2020, the company held 1600 batteries in its inventory, with each battery valued at \$380. Over the course of the year, from May 1, 2020, to April 30, 2021, the following transactions occurred:

1 July Purchased 1200 batteries at \$440 each

1 November Sold 1000 batteries for \$320,000

1 February Purchased 800 batteries at \$460 each

15 April Sold 700 batteries for \$250,000

Calculate the closing inventory for Jupiter Co as of April 30th, 2021, using the FIFO method

12. An inventory item was acquired for \$1,000. It is projected to be sold for \$2,400, but \$500 will be required to facilitate the sale. To replace an identical item of inventory, the cost would be \$1,300. At what value should this item of inventory be included in the financial statements?

13. At the end of December, Yohan discovered that the total of the purchase day book for December has been recorded as \$11,750 instead of \$17,150. **Pass the rectification entry .**

14. 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 ____.**

15. A non-current asset was acquired at the outset of Year 1 for \$4,800 and underwent depreciation at a rate of 20% per annum, utilizing the reducing balance method. At the commencement of Year 4, it was sold for \$2,400. **What was the profit or loss realized upon disposal?**

16. Kint Co is engaged in the following research and development projects: Identify how the costs of each project should be accounted for in the financial statements.

Project	P/L expense	Capitalised
Project A :focuses on testing a specific substance's potential as a natural energy booster. If proven effective, this substance is poised to be marketed globally through health and wellness retailers and		

- During the year, there was a loss on disposal of plant and equipment of \$3,000.

23. Kay Co's draft financial statements for 2018 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) The cost of an item of plant \$52,000 had been entered in the cash book and in the plant account as \$5,200. Depreciation at the rate of 10% per year (\$520) had been charged.
- (2) 1000 shares of \$1.55 were issued & Dividend of \$3500 were paid to the existing shareholders.
- (2) Bank charges of \$5000 appeared in the bank statement in December 20X5 but had not been entered in the company's records

The adjusted profit after rectifying the above errors would be \$ _____.

24. Zoya Ltd on 1.10.2020 has the following capital structure:

Equity share capital (par value \$0.50)-	\$200,000
Share premium -	\$ 60,000

On 20 January 2021, to raise finance for expansion, Zoya Co made a 1 for 4 rights issue at \$1.15. The issue was fully taken up. This was followed by a 1 for 10 bonus issue on 1 June 2021. What is the balance on the share capital and share premium account after these transactions?

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

Events	Adjusting /Non-adjusting
a. A company announces a plan to sell one of its subsidiaries after the reporting date.	
b. The bankruptcy of a customer after the reporting date that confirms that a year-end debt is irrecoverable	
c. The discovery of fraud or errors showing that the financial statements are incorrect	
d. The destruction of one machinery after the reporting date by flood.	

26. Where, in an entity's financial statements complying with IFRS Standards, should you find the proceeds of non- current assets sold during the period?

- A Statement of cash flows and statement of financial position
- B Statement of changes in equity and statement of financial position
- C Statement of profit or loss and other comprehensive income and cash flow statement
- D Statement of cash flows only

27. On 1st January 2020, the firm stock is worth \$500, payables of \$ 650, Equipment \$ 1000, Investments of \$ 725, long term loan is valued at \$500, overdraft of \$ 325, receivables of \$ 425 . What would be the equity of the company? \$-----

28. On 1 July 20X5 Huston acquired 60% of the equity shares of Spain. For the year ended 31 December 20X5, Huston made a profit after tax of \$600,000 and Spain had a profit after tax of \$400,000. During the post -acquisition period, Huston sold goods to Spain which included a profit element of \$20,000. At the year end, one quarter of the goods sold by Huston to Spain remained within the inventory of Speke.

What was the non -controlling interest share of the group profit after tax for the year ended 31 December 20X5?

- A \$75,000 B \$80,000 C \$120,000 D \$160,000

29. "Smith's year end is 30 September. On 1 January 20X6, Smith obtained a loan of \$100,000 with an annual interest rate of 12%. The interest is to be paid in equal installments on the first day of April, July, October, and January in arrears. What is the amount that should be recorded in the statement of profit or loss account for the year ending 30 September 20X6, and how much should be recognized as an accrual on the statement of financial position?"

	Statement of profit or loss	Statement of financial position
A	\$12,000	\$3,000
B	\$6,000	\$3,000
C	\$9,000	\$0
D	\$9,000	\$3,000

30. "Jordan received a statement from one of its suppliers, Bella, indicating a balance due of \$3,980. The amount shown as due in Jordan's payables' ledger account was only \$230. A comparison of the statement and the ledger account revealed the following differences:

- (1) A payment of \$270 sent by Jordan by cheque has not been recorded in Bella's statement.
- (2) Bella has not accounted for \$180 worth of goods returned by Jordan.
- (3) Jordan executed a contra entry, reducing the outstanding amount owed to Bella by \$3,200, representing a balance due from Bella in Jordan's receivables ledger. No corresponding entry has been recorded in Bella's records." What difference remains between the two entities' accounting records after adjusting for these items?

A \$6,500

B \$100

C \$460

D.\$640

PART B

ANSWER THE FOLLOWING (1X10 =10 Marks)

31. As a financial analyst, compute the following 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	(64,000)	98,400	(50,000)	76,300
Current assets				
Cash	2,000		1,400	
Accounts receivable (trade)	14,000		10,500	
Inventories	15,000	31,000	12,000	23,900
Total assets		129,400		100,200
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	28,000	49,000	19,000	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	6,000	20,400	4,000	14,200
Total equity and liabilities		129,400		100,200

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

PART C

ANSWER BOTH THE QUESTIONS (2X15=30 Marks)

32. Kawasaki Co acquired 80% of the share capital of Daewoo Co on 1 June 20X5. The summarized draft statements of profit or loss for Kawasaki Co and Daewoo Co the year ended 31 May 20X6 are shown below:

	Kawasaki Co	Daewoo Co
	\$000	\$000
Revenue	8,400	3,200
Less: Cost of sales	4,600	1,700
Gross profit	3,800	1,500
Less: Distribution costs	1,500	510
Less: Administrative costs	700	450
Profit before tax	1,600	540
Less: Tax	600	140
Profit for the year	1,000	400

During the year, Kawasaki Co sold goods costing \$1,000,000 to Daewoo Co for \$1,500,000. At 31 May 20X6, 30% of these goods remained in Daewoo Co's inventory.

A. Show the Revenue, cost of sales calculation and Non - Controlling Interest Calculation (6 marks)

B. Fill in the needed details. (5 marks)

Gross profit -
Less: Distribution costs-
Less: Administrative costs-
Profit before tax

Less: Tax

Profit for the year

C. Does each of the following factors illustrate the existence of a parent – subsidiary relationship? (4 marks)

Yes

No

- a. 50% of all shares and debt being held by an investor
- b. Greater than 50% of the preference shares being held by an investor
- c. Non- controlling interest of 10%
- d. Greater than 50% of preference shares and debt being held by an Investor
- e. Greater than 50% of the equity shares held by an investor
- f. Significant influence 100% of the equity shares being held by an investor Control

33. Prepare a Cash flow statement for Fireflies Ltd from the given details (15 marks)

Statement of Profit or Loss for the year ended 31 March 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 31 March 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 Fireflies Co:

(i) During the year ended 31 March 2021, Fireflies Co disposed of some items of plant and equipment. 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) Fireflies Co estimated that the income tax liability arising on the profit for the year ended 31 March 2021 was \$5,800,000.

[illegible]