



**LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034**

**B.Com. DEGREE EXAMINATION – HONOURS**

**FIRST SEMESTER – APRIL 2023**

**UBH 1501 – FINANCIAL ACCOUNTING**

Date: 08-05-2023

Dept. No.

Max. : 100 Marks

Time: 09:00 AM - 12:00 NOON

**PART A**

**ANSWER ALL QUESTIONS**

**(30x2=60 Marks)**

1. Which of the following statements is true?
  - A The directors of a company are liable for any losses of the company
  - B A sole trader business is owned by shareholders and operated by the proprietor
  - C Partners are liable for losses in a partnership in proportion to their profit share ratio
  - D A company is run by directors on behalf of its members
2. A company bought a property four years ago on 1 January for \$ 170,000. The property is estimated a having a useful life of 20 years. At the beginning of the fifth year Since then property prices have risen substantially and the property has been revalued at \$210,000. What is the revaluation surplus reported?
  - A \$210,000
  - B \$136,000
  - C \$74,000
  - D \$34,000
3. Montague's paint shop has suffered some bad publicity as a result of a customer claiming to be suffering from skin rashes as a result of using a new brand of paint sold by Montague's shop. The customer launched a court action against Montague in November 2019, claiming damages of \$5,000. Montague's lawyer has advised him that the most probable outcome is that he will have to pay the customer \$2,000.and legal charges of \$1000 What amount should Montague include as a provision in his financial statements for the year ended 31 December 20X3?
  - A \$1000
  - B \$5,000
  - C \$3,000
  - D \$8,000
4. Which of the following are short-term liquidity ratios?

(1) Current ratio	(2) Inventory turnover	(3) Gearing ratio	(4) Quick ratio
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  - A 1 and 3
  - B 1 and 4
  - C 2 and 3
  - D 2 and 4
5. In preparing a company's statement of cash flows complying with IAS 7 Statements of Cash Flows, which, if any, of the following items could form part of the calculation of cash flow from financing activities?

1 Proceeds of sale of premises	2 Dividends received	3 Issue of shares	4. Dividends Paid
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  - A 3 only
  - B 2 & 4
  - C 3 & 4
  - D 2,3 & 4

6. At 30 November 2015 Jenny had a bank loan of \$8,500 and a balance of \$678 in hand in her bank account. How should these amounts be recorded on Jenny's opening trial balance at 1 December 20X5?
- A Debit \$7,822
  - B Credit \$7,822
  - C Credit \$8,500 and Debit \$678
  - D Debit \$8,500 and Credit \$678
7. Which of the following statements is true in relation to a limited liability company?
- A A limited liability company can incur liabilities in its own name
  - B A limited liability company cannot acquire assets in its own name
  - C A limited liability company cannot incur liabilities in its own name
  - D A limited liability company can be formed on an informal basis by simple agreement between the first shareholders.
8. Which of the following statements best defines an asset?
- A An asset is a resource owned by the entity with a financial value.
  - B An asset is a resource controlled by an entity from which future economic benefits are expected to be generated.
  - C An asset is a resource controlled by an entity as a result of past events.
  - D An asset is a present economic resource controlled by the entity as a result of past events.
9. Which of the following statements concerning the exercise of prudence is correct?
- A It means that assets and income are not understated.
  - B It allows for the overstatement of liabilities or expenses.
  - C It requires asymmetry between the recognition of assets and the recognition of liabilities.
  - D It requires caution when making judgements under conditions of uncertainty.
10. Which of the following pairs of items are the two fundamental qualitative characteristics of useful financial information?
- A Relevance and prudence
  - B Relevance and faithful representation
  - C Faithful representation and materiality
  - D Faithful representation and comparability
11. Which of the following are stages in the due process of developing a new International Financial Reporting Standard?
- (1) Issuing a discussion paper that sets out the possible options for a new standard
  - (2) Publishing clarification on the interpretation of an IFRS
  - (3) Drafting an IFRS for public comment
  - (4) Analysing the feedback received on a discussion paper
- A 1, 2 and 3
  - B 2, 3 and 4
  - C 1, 3 and 4
  - D 1, 2 and 4
12. An item of inventory was purchased for \$500. It is expected to be sold for \$1,200 although \$250 will need to be spent on it in order to achieve the sale. To replace the same item of inventory would cost \$650. At what value should this item of inventory be included in the financial statements? \$-----
13. Franz is a manufacturer. Inventory is valued using the continuous weighted average method. At 1 August 2016 it held inventory of 2,400 units of product Z, valued at \$10 each. During the year the following transactions in product Z took place:
- 14 November 2016 Sell 900 units
  - 28 January 2017 Purchase 1,200 units for \$20,100
  - 7 May 2017 Sell 1,800 units
- What was the value of Franz's inventory of Zobdo at 31 July 2017?
- A \$9,000
  - B \$11,700
  - C \$15,075
  - D \$35,100

14. Which of the following statements is correct concerning inventory records for a manufacturing company?
- A Inventory records must be kept showing all receipts and issues
  - B It is possible that a full physical count may not be required at any time
  - C All inventory must be physically counted at the end of the financial year
  - D Stock-checking is not required where continuous inventory records are kept

15. A business compiling its financial statements for the year to 31 July each year pays rent quarterly in advance on 1 January, 1 April, 1 July and 1 October each year. The annual rent was increased from \$60,000 per year to \$72,000 per year as from 1 October 2016. What figure should appear for rent expense in the business's profit or loss for the year ended 31 July 2017?

- A \$62,000
- B \$63,000
- C \$69,000
- D \$70,000

16. The double-entry system of bookkeeping normally results in which of the following balances on the ledger accounts?

*Debit balances:*

- A Assets and revenues
- B Revenues, equity and liabilities
- C Assets and expenses
- D Assets, expenses and equity

*Credit balances:*

- Liabilities, equity and expenses
- Assets and expenses
- Liabilities, equity and revenues
- Liabilities and revenues

17. on 1st January 2020, the firm stock is worth \$500 , payables of \$ 650, Equipments \$ 1000 ,Investments of \$ 725, long term loan is valued at \$500, overdraft of \$ 325, receiveables of \$ 425 . What would be the equity of the compnay ? \$-----

18. As at 31 December Isambard's trial balance failed to balance and a suspense account was opened. When the following errors were discovered and then rectified, the suspense account balance was eliminated.

- (1) The debit side of the trial balance was undercast by \$692
  - (2) rent received of \$905 had been credited in the cash book but no other entry in respect of it had been made
- What was the balance on the suspense account?

- A \$1,597 Dr
- B \$213 Dr
- C \$213 Cr
- D \$1,597 Cr

19. At 1 July 2016 a company had prepaid insurance of \$8,200. On 1 January 2017 the company paid \$38,000 for insurance for the year to 30 September 2017. What figures should appear for insurance in the company's financial statements for the year ended 30 June 2017?

- | SOPL       | SOFP                |
|------------|---------------------|
| A \$27,200 | Prepayment \$19,000 |
| B \$39,300 | Prepayment \$9,500  |
| C \$36,700 | Prepayment \$9,500  |
| D \$55,700 | Prepayment \$9,500  |

20. At 31 December 2011 the capital structure of a company was as follows:

Ordinary share capital 100,000 shares of 50c each -\$50,000

Share premium account- \$180,000

During 2012 the company made a bonus issue of 1 share for every 2 held, , and later issued shares for cash another 60,000 shares at 80c per share. What is the company's capital structure at 31 December 20X2?

Ordinary share capital	Share premium account
A 130,000	173,000
B 105,000	173,000
C 130,000	137,000
D 105,000	137,000

21. A business had a balance at the bank of \$2,500 at the start of the month. During the following month, the business had to pay for its credit purchase of materials (cost of material -\$1,000, the business is entitled to a trade discount of 20% and cash discount of 10%.) It received a cheque from a customer in respect of an invoice for \$200, subject to cash discount of 5%. What was the balance at the bank after these two transactions?

- A \$1,970
- B \$1,980
- C \$1,990
- D \$2,000

22. Which of the following best describes the purpose of a purchase invoice?

- A It is issued by a supplier as a request for payment
- B It is sent to supplier as a request for a supply
- C It is issued by supplier listing details of recent transactions
- D It is sent to the supplier as notification of payment

23. If sales (including sales tax) amounted to \$27,612.50, and purchases (excluding sales tax) amounted to \$18,000, what would be the balance on the sales tax account, assuming all transactions are subject to sales tax at 17.5%? \$-----

24. Lister Co sold goods with a list price of \$4,500 to Ben 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, Ben was expected to take advantage of the early settlement terms offered. If, on this occasion, Ben did not pay within 7 days and was not eligible for the settlement discount, what accounting entries should be made by Lister Co to record settlement of the amount outstanding?

- A Debit Cash \$4,104, Debit Revenue \$396 and Credit Trade receivables \$4,500
- B Debit Cash \$4,275, Debit Discount received \$171 and Credit Trade receivables \$4,104
- C Debit Cash \$4,275 and Credit Trade receivables \$4,275
- D Debit Cash \$4,275, Credit Trade receivables \$4,104 and Credit Revenue \$171

25. A non-current asset was purchased at the beginning of Year 1 for \$4,800 and depreciated at 20% per annum using the reducing balance method. At the beginning of Year 4 it was sold for \$2,400. What was the profit or loss on disposal? \$ ----- (Profit/Loss)

26. W Co bought a new printing machine from abroad. The cost of the machine was \$80,000. The installation costs were \$5,000 and the employees received training on how to use the machine, at a cost of \$2,000. Before using the machine to print customers' orders, pre- production safety testing was undertaken at a cost of \$1,000. The import duty paid was \$1000. Repairs in the first year amounted to \$245. What should be the cost of the machine in W Co's statement of financial position? \$ -----

27. Diamond Ltd purchased a patent for carbon dioxide emissions for \$15,000 on 30 April 2016 and capitalised it as an intangible asset in its statement of financial position. The company estimates that the patent will have a useful life of 3 years. What is the journal entry required to record the amortisation of the patent in the accounts for the year ended 30 April 2019?

28. 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.		
Patent 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.		

29.

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?**

\$

30. Moon Ltd had a sales of \$40,000 and cost of sales of \$30,800. Calculate its Gross Profit Ratio? --- %

**Part B**

**ANSWER ALL QUESTIONS**

**(2 x 10 = 20)**

**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/>
	190,000	80,000
Current liabilities	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 Write the journal entries for the following:**

Royal Ltd owns a retail unit in central Springfield. It bought the property 25 years ago for \$100,000, depreciating it over 50 years on a straight-line basis. At the start of 2016 the entity decides to revalue the unit to \$800,000. The unit has a remaining useful life of 25 years at the date of the revaluation. It is the entity's policy to make the annual transfer of excess depreciation between revaluation surplus and retained earnings within equity. What accounting entries should be made in the financial statements for 2016?

**(3 marks)**

Royal Ltd purchased goods on credit \$4500 on 1.3.2016 and returns goods worth \$ 500 on 14.3.2016 as they are not in good condition. Record these transactions (2 marks)

## 32. A

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
<b>Assets</b>				
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
<b>Equity and liabilities</b>				
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.

Purchase for 2016 was \$ 78,600 and 2017 is \$ 42,000

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

	Year ended 31 December	
	2016	2015
	\$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

**Required:**

(I) Calculate the following accounting ratios for both years:

- (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 Show all workings. **(10 marks)**

(II) Explain what you can deduce from the ratios at 31 December 2016 and from comparing them with those for 2015. **(5 marks)**

32.B. Calculate cash flow from operating activities from the following information:

Details	Opening bal	Closing bal
Surplus in P/L	40,000	50,000
Accumulated Depreciation on plant	30,000	35,000
Outstanding expenses	5,000	3,000
Goodwill	20,000	10,000
Trade Receivables	40,000	35,000

An item of plant costing \$20,000 having a book value of \$ 14,000 was sold for \$18,000 during the year.  
**(5 marks)**

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