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End Semester Examination, December 2024
Program – First Semester
MCSP171- Financial Accounting

Time: 2.5 hrs.

Max Marks: **50**

Note: *All Questions are compulsory. Marks are indicated against each question.*

PART-A

Q.1

(a) Slouch Co bought a new building on 1 January 20X2 for \$400,000. It was decided to depreciate the building over fifty years on a straight line basis with nil estimated residual value. On 31 December 20X9, the building was revalued to \$850,000. What was the revaluation surplus recorded in other comprehensive income for the year ended 31 December 20X9?

[CO-2] [L-3] **2**

(b) On 1 January 20X1, Jinx Co commenced development of a new computer game console. Development costs were \$1m per month. On 1 October 20X1, Jinx Co firmly believes that it has sufficient knowledge and resources to finish the product. Market research demonstrates that there will be a high demand for this new console. How much can be capitalised in the year ended 31 December 20X1 in respect of development activities?

[CO-2] [L-2] **2**

(c) At 31 December 20X4, a business had an item of inventory which cost \$300 to manufacture. Due to water damage, the business will need to spend \$75 to repair the item. Following its repair, the item could be sold for \$280. At what value should this item of inventory be presented in the financial statements at 31 December 20X4?

[CO-3] [L-1] **2**

(d) At 30 September 20X3, a business wrote off two debts of \$750 and \$1,135 respectively. It also required an allowance for receivables of \$6,675. The allowance for receivables balance at 1 October 20X2 was \$7,650. What was the irrecoverable debt expense for the year ended 30 September 20X3?

[CO-4] [L-2] **2**

(e) A sales-tax registered business made sales of \$2,500 (exclusive of sales tax) and buys goods for \$3,300 (inclusive of sales tax). The rate of Sales tax is 10%. What will be the net effect upon the sales tax ledger account balance when these transactions are accounted for?

[CO-1] [L-1] **2**

(f) Merlot Co is engaged in a number of research and development projects during the year ended 31 December 20X5: Project A – A project to investigate the properties of a chemical compound. Costs incurred on this project during the year ended 31 December 20X5 were \$34,000. What amount should be expensed to the statement of profit or loss and other comprehensive income of Merlot Co in respect of Project A in the year ended 31 December 20X5?

[CO-4] [L-3] **2**

(g) The cash at bank ledger account of Worcester shows a credit balance of \$1,350. Cheques totalling \$56 have been written to suppliers but not yet cleared the bank; uncleared lodgements amount to \$128. The bank has accidentally credited Worcester's account with interest of \$15 due to another customer. A standing order of \$300 has not been accounted for in the general ledger. What is the balance on the bank statement?

[CO-2] [L-4] **2**

PART-B

Q.2 (a) Tummy Co bought a property four years ago on 1 January for \$170,000. Since then property prices have risen substantially and the property has been revalued at \$210,000. The property was estimated as having a useful life of 20 years when it was purchased. What is the balance on the revaluation surplus reported in the statement of financial position?

(b) A business purchased a motor car on 1 July 20×3 for \$20,000. It is to be depreciated at 20% per year on the straight line basis, assuming a residual value at the end of five years of \$4,000, with a proportionate depreciation charge in the years of purchase and disposal. The \$20,000 cost was correctly entered in the cash book but posted to the debit of the motor vehicles repairs account. How will the business profit for the year ended 31 December 20X3 be affected by the error?

[CO-3] [L-3] 10

OR

The closing inventory at cost of Darcy Co 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.

(2) 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?

[CO-2] [L-2] 10

Q.3 (a) Jelly Co has sublet part of its offices and in the year ended 30 November 20X3 the rent receivable was:

Until 30 June 20X3 \$8,400 per year

From 1 July 20X3 \$12,000 per year

Rent was paid quarterly in advance on 1 January, April, July, and October each year.

What entries should appear in Jelly Co's financial statements for the year ended 30 November 20X3?

(b) One of the products a garage sells to motorists is diesel fuel. Diesel fuel in inventory at 1 November 20X7 was \$12,500, and there were invoices awaited for \$1,700. During the year to 31 October 20X8, diesel fuel invoices of \$85,400 were paid, and a delivery worth \$1,300 had yet to be invoiced. (This was the only outstanding balance on the diesel fuel payable account at the year end). At 31 October 20X8, the inventory of diesel fuel was valued at \$9,800.

What is the value of diesel fuel to be charged to the garage's statement of profit or loss for the year to 31 October 20X8?

[CO-3] [L-2] 10

OR

(a) Lloyd counted his inventory on 30th December 2011 and valued it at \$24,000. On the last day of trading (31st December 2011), he ordered inventory worth \$2,400 to be delivered on 1st January 2012

and made a cash sale at cost price of \$500 of inventory. What is the value of closing inventory to be shown on 31st December 2011 in financial statements?

(b) You are preparing the financial statements for a business. The cost of the items in closing inventory is \$ 41,875. This includes some items which cost \$1,960 and which were damaged in transit. You have estimated that it will cost \$360 to repair the items, and they can then be sold for \$1,200. What is the correct inventory valuation for inclusion in the financial statements?

[CO-3] [L-3] **10**

Q.4 (a) Z Co incurred the following costs during the year ended 31 August 20X8:

(1) \$ 20,000 on salaries for market research staff sent out to canvass drivers' opinions on a potential new car.

(2) \$100,000 to purchase a machine to manufacture components for the new car. It has an estimated useful life of ten years.

(3) \$25,000 on materials to manufacture a prototype and \$50,000 on salaries relating to its design and manufacture. The new car is expected to go on sale in 20X9.

How should each of the above items be shown in the financial statements for the year ended 31 August 20X8?

(b) Ben has a year end of December and rents out his property for \$1,000 per month. His tenant on time each month and, during December 20X7, paid Ben \$2,000 as he would be away when the January 20X8 payment was due.

Ben has received income of \$13,000 but only \$12,000 of this relates to the current year. therefore remove \$1,000 of income from this year's accounts because it relates to next liability will also be shown for 'rent in advance'.

Required:

What entries should Ben post to the ledger accounts at the year end?

[CO-4] [L-1] **10**

OR

(a) Ryan Co purchases goods worth \$5,000 from Austin Co. Ryan Co will receive a 5% settlement discount if the goods are paid for within seven days. Ryan Co has every intention of taking advantage of the settlement discount. Required:

In the accounting records of Ryan:

1. Show the initial recording of the purchase.

2. Record the payment for the goods assuming Ryan pays within seven days.

3. Record the payment for the goods if payment is made after seven days.

(b) Company A has entered into an agreement to act as guarantor on a bank loan taken out by Mr Smith. Mr Smith is a financially secure individual, and the directors are of the opinion that the chances of him defaulting on the loan are slim.

How should Company A account for this guarantee?

[CO- 4] [L-3] **10**

Q.5 Jed is preparing his monthly bank reconciliation. The unadjusted balance per the bank gene ledger account (prior to performing a bank reconciliation) is a debit balance of \$2,500. The balance per the bank general ledger account and the balance per the bank statement do not agree for the following reasons:

(1) Cheques to the value of \$750 written and sent to suppliers but not yet presented by the suppliers for payment.

(2) Bank charges of \$100 not yet entered in the bank general ledger account

(3) A payment of \$538 was recorded in the bank general ledger account as \$583

What was the original balance per the bank statement?

[CO-5] [L-2] **10**

OR

(a) Pike runs an angling shop. Pike spends a lot of time fishing and consequently maintained no accounting records in the year ended 31 August 20X5. Pike knows that \$6,800 cash was taken out of the business during the year plus bait which cost the business \$250. Pike can also remember putting \$20,000 lottery winnings into the business in March. Pike knows that at the last year end the business had assets of \$40,000 and liabilities of \$14,600. Pike has also calculated that the assets of the business at 31 August 20X5 are worth \$56,000, and the liabilities \$18,750. What profit or loss did Pike made in the year?

(b) The statement of profit or loss for a business for the year ended 31 July 20X8 showed a net profit of \$57,400. It was later discovered that a suite of office furniture had been purchased on 1 February

20X8 at a cost of \$15,500 had been charged to the office expenses account. The suite of office furniture had an estimated useful life of ten years with an estimated residual value of \$1,500. Depreciation is charged on a monthly basis, commencing with the month of purchase. What was the net profit for the year ended 31 July 20X8 after adjusting for this error? [CO- 5] [L-2] **10**