



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2020_1 EXAMINATION

COURSE CODE: ACC419 **CREDIT UNIT: 3**

COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING

TIME ALLOWED: 2^{1/2} HOURS

NOTE:

- 1. To attempt question number one (1) and any other three**
- 2. Question number 1 is compulsory and carries 25 marks, while the other questions carry 15 marks each**
- 3. Present all your points in coherent and orderly manner**

QUESTION 1 (COMPULSORY)

The summarized Profit and Loss account of ASHIO PLC and its subsidiary AYUA LTD for the year ended 31 March 2018 as stated below

	ASHIO PLC	AYUA LTD
	₦'000	₦'000
Turnover	968,500	524,600
Cost of Sales	<u>(486,000)</u>	<u>(253,400)</u>
Trading Profit	482,500	271,200
Debenture interest received	26,000	-
Extra ordinary income	42,600	18,000
Dividend received from AYUA LTD	<u>18,000</u>	_____
	<u>569,100</u>	<u>289,200</u>
Directors' Remuneration	(56,000)	(15,600)
Audit fees	(28,000)	(10,000)
Depreciation	(52,600)	(16,800)
Sundry Administrative Expenses	<u>(124,420)</u>	<u>(49,680)</u>
Profit before tax	308,080	197,120
Taxation	(90,400)	(58,700)
Appropriations:		
General Reserve	(40,000)	(12,000)
Profit after tax	<u>(65,000)</u>	<u>(30,000)</u>
Retained profit for the year	112,680	96,420
Retained profit b/f	<u>596,440</u>	<u>305,180</u>
Retained profit c/f	<u>709,120</u>	<u>401,600</u>

Additional information (All figures are in ₦'000):

1. ASHIO PLC acquired its 70% interest in AYUA LTD on 1 July 2017.
2. During the year ended 31 March 2018, ASHIO PLC invoiced goods worth 14200,000 to AYUA LTD. The goods were invoiced at cost plus 25%. A quarter of the goods had been sold by year end.
3. The extra ordinary income earned by AYUA LTD is in respect of a transaction carried out in December 2017.
4. ASHIO PLC has accounted for the interim dividend received from AYUA LTD..

Required:

Prepare the Consolidated Profit and Loss Account of ASHIO PLC for the year ended 31 March 2018 using the part year method. (25 marks)

QUESTION TWO

TRUMP LTD is a manufacturer of domestic appliances. Its chairman is pleased with the results for the year ended 31 December 2018 as they show a continuing improvement over recent past performance. However, the finance director says that a better assessment of the company's performance would be made by a comparison to other companies in the same sector. The finance director has obtained some ratios for TRUMP LTD's business sector, based on a year end of 31 December 2018, which are:

Return on capital employed (ROCE)	18.5%
Net asset (total assets less current liabilities) turnover	1.8 times
Gross profit margin	21%
Operating profit margin	10.3%
Current ratio	1.6:1
Gearing (debt/equity)	36%
Leased plant	12,200

The summarized financial statements of TRUMP LTD are:

Statement of profit or loss for the year ended 31 December 2018

	₦'000
Revenue	62,500
Cost of sales	<u>(51,800)</u>
Gross profit	10,700
Operating costs	(5,800)

Finance costs	(1,800)
Profit before tax	3,100
Income tax expense	(1,000)
Profit for the year	2,100

Statement of financial position as at 31 December 2018

	N'000	N'000
Assets		
Non-current assets		
Property		8,100
Owned plant		12,600
Leased plant		<u>12,200</u>
		32,900
Current assets		<u>16,400</u>
Total assets		<u>49,000</u>
Equity and liabilities		
Equity		
Equity shares of N1 each		9,000
Property revaluation surplus		4,000
Retained earnings		<u>10,600</u>
		23,600
Non-current liabilities:		
10% loan notes	10,000	
Finance lease obligations	<u>6,400</u>	16,400
Current liabilities:		
Finance lease obligations	2,100	
Other current liabilities	<u>7,200</u>	<u>9,300</u>
Total equity and liabilities		<u>49,300</u>

Required:

- a. Prepare for TRUMP LTD, the equivalent ratios to those of its sector.

Note: The finance lease obligations should be treated as debt in the ROCE and gearing calculations. **(12 marks)**

- b. Analyse the financial performance and position of TRUMP LTD for the year to 31 December 2018 in comparison to the sector averages. **(3 marks)**

QUESTION THREE

- (a) Eghosa sold goods to Yalekhue and drew a bill of N 10,000 on Yalekhue which is accepted by the later. The bill is duly met on the due date by Yalekhue. .What entries will be passed in the books of Eghosa in the following cases starting from when the goods are sold to Yalekhue?:
- If he retains the bill till due date.
 - If he discounts it with his banker for N9,000
 - If he endorses it to his creditor, Omonigho. **(11 Marks)**
- (b) State four (4) benefits of business combination **(4 Marks)**

QUESTION FOUR

Ronald and Koffi entered into a joint venture to buy and sell second-hand cars. Profits and losses were to be shared: Ronald three-fifths, Koffi two-fifths. It was agreed that each party would record his own transactions only.

On 23 September 2017, Ronald purchased two cars for N322,000 and N420,000. He incurred expenditure of N98,000 on repairs and on 4 September 2017, sold one of the cars for N469,000. On 10 September 2017, the other car was sold for N525,000, paying the proceeds in each case into his own bank account.

On 14 September 2017, he purchased another car for N560,000 and sold it on 30 September 2017 for N546,000 the amount he paid over to Koffi who paid it into his bank account.

On 25 September 2017, Koffi purchased a car for N245,000 on which he incurred expenditure of N56,000 and which he sold on 10 October 2017 for N350,000; the amount he paid into his bank account. This car was returned by the purchaser on 20 October 2017 and Koffi paid him N322,000 for it. As this car was still unsold, on 30 November 2017, it was agreed that it should be taken over by Koffi at a valuation of N315,000.

Other expenditure was incurred by the parties as follows:

	Ronald N	Koffi N
Insurance	17,500	3,500
Garage	14,000	7,000

On 30 November 2017, the sum required in full settlement as between Ronald and Koffi was paid by the party accountable.

You are required to prepare:

- The Joint Venture account as it would appear in the books of Koffi recording his transactions for the joint venture.**(10 marks)**
- The memorandum account for the joint venture showing the net profit **(5 marks)**

QUESTION FIVE

Explain the following terminologies as they relate to forms of business combination

- (a) Amalgamation (3 marks)
- (b) Merger (3 marks)
- (c) Absorption (3 marks)
- (d) Acquisition (2 marks)
- (e) Takeover (2 marks)
- (f) External Reconstruction (2 marks)
- Total (15 marks)**

QUESTION SIX

- (a) Briefly explain the following qualitative characteristics of financial statements
 - (i) Relevance (2 marks)
 - (ii) Faithful representation (2 marks)
 - (iii) Comparability (2 marks)
 - (iv) Understandability (2 marks)
 - (v) Materiality (2 marks)
- (b) List five advantages of a bill of exchange (5 marks)

Total marks (15 marks)