NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2020_2 EXAMINATION

COURSE CODE: ACC419 **CREDIT UNIT: 3**
COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING
TIME ALLOWED: $2^{1/2}$HOURS
NOTE:
1. **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)

(A) The draft financial statements of X,Y, and Z as at 31st December, are as follows:

	X	Y	Z		X	Y	Z
	#'000	#'000	#'000		#'000	#'000	#'000
Sundry assets	280	180	130	Equity Capital	200	100	50
Shares in subsidiary	120	80	-	Retained Earnings	100	60	30
				Liabilities	100	100	50
	400	260	130		400	260	130

You ascertain the following:

(a) X acquired 75,000 #1 shares in Y on 1 January, 2012 when the retained earnings of Y amounted to #40,000.00. At that date, the value attributable to the non-controlling interest in Y was valued at #38,000.00.

(b) Y acquired 40,000 #1 shares in Z on 30 June when the retained earnings of Z amounted to #25,000.00. They had been #20,000.00on the date of X's acquisition of Y. At that date, the fair value of non- controlling interest in Z (both direct and indirectly) based on effective shareholdings was valued at #31,000.00.

(c) Goodwill has suffered no impairment.

Required:
Produce the consolidated statement of financial position of the X Group as at 31 December, 2012. **(20 Marks)**

(B) The following were extracted from the notes to the accounts of Leeway Bank PLC for the year ended 31st December 2019.

Loans and advances	#'million
Performing	400
Non-performing:	
Substandard	90
Doubtful	150
Lost	40

Required:
Calculate the provision for bad debts in respect of the following:
(i) Performing loans **(1 Mark)**
(ii) Substandard loans **(1 Mark)**
(iii) Doubtful loans **(1 Mark)**
(iv) Lost loans **(1 Mark)**
(v) Total provision for bad debts **(1 Mark)** **(Total = 25 Marks)**

QUESTION TWO

The accounts of Smooth Business Company Ltd are as shown below:

SMOOTH BUSINESS COPANY LTD
BALANCE SHEET AS AT 31ST DECEMBER 1998

	1998		**1997**	
	#'000	#'000	#'000	#'000
Fixed Assets(net)		726		520
Current Assets:				
Stock	180		140	
Work in progress	134		92	
Debtors (less doubtful debts)	220		160	
Bank	40		60	
	574		452	
Less: Current Liabilities:				
Creditors	90		120	
Dividend payable	60		40	
Taxation	36		24	
Bank overdraft	104		52	
	290		236	
Net working capital		284		216
Net asset		1,010		736
Financed by:				
Issues/paid up capital @ ₦1.00	600		400	
Reserves	166		100	
Profit & Loss	84		36	
		850		536
		160		200
10% Debenture		1,010		736

SMOOTH BUSINESS COMPANY LIMITED
TRADING & PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 1998

	1998		1997	
	₦'000	₦ '000	₦'000	₦'000
Sale		3,680		2,888
Less cost of sales:				
Opening stock	232		180	
Purchases	2904		2,218	
	3,136		2,398	
Closing stock	314	2,822	232	2,166
Gross profit		858		722
Less expenses		694		606
Net profit		164		116
Provision for Tax	36		24	
Transfer to Reserves	20		16	
Proposed dividend	60	116	40	80
		48		36

Additional information:

(1) The market price per share is as flows: - 1998-₦ 1.50; 1997-₦ 1.45

(2) Expenses include debenture interest as follows:

- 1998 - ₦16, 000
- 1997 - ₦ 20,000

REQUIRED

Compute the following ratios for Smooth Business company limited for 1997 and 1998, respectively.

(1) Gross profit and Net profit margin **(2 Marks)**
(2) Return of capital employed (ROCE) **(2 Marks)**
(3) Quick assets ratio (Acid test) **(2 Marks)**
(4) Sales to debtors **(2 Marks)**
(5) Debt ratio **(2 Marks)**
(6) Total assets turnover **(2 Marks)**
(7) Earnings yield **(2 Marks)**
(8) Stock turnover **(1 Marks)** **(Total = 15 Marks)**

QUESTION THREE

The NOUN Construction Company found itself in financial difficulties. The following is a trial balance at 31 December 2019 extracted from the books of the company:

	#'000
Land	156,000
Building (net)	27,246
Equipment (net)	10.754
Goodwill	60,000
Investment in shares, quoted	27,000
Stock and work-in-progress	120,247
Debtors	70,692
Profit and loss account	39,821
	511,760

	#'000
Ordinary shares of #1 each	200,000
5% cumulative preference shares of #1 each	70,000
8% Debenture	80,000
Interest payable on debenture	12,800
Trade creditors	96,247
Loan from directors	16,000
Bank overdraft	36,713
	511,760

The accumulated share is 200,000,000 ordinary shares of #1 each and 100,000,000 5% cumulative preference shares of #1 each.

During a meeting of shareholders and directors, it was decided to carry out a scheme of internal reconstruction. The following scheme has been agreed:

(1) Each ordinary share is to be re-designated as a share of 25kobo

(2) The existing 70,000,000 preference shares are to be exchanged for a new issue of shares 35,000,000 8% preference shares of #1 each and 140,000,000 ordinary shares of 25kobo each.

(3) The ordinary shareholders are to accept a reduction in the nominal value of their shares from #1 to 25kobo and subscribe for new shares on the basis of 1 to 1 at a price of 30kobo per share.

(4) The debenture holders are to accept 20,000,000 ordinary shares of 25kobo each in liuof the interest payable. The interest rate is to be increased to 9.5%. A further 9,000,000 of this 9.5% debenture is to be issued and taken up by the existing shareholders at #90 fo #100.

(5) #6,000,000 of director's loan is to be cancelled. The balance is to be settled by issue of 10,000,000 ordinary shares of 25kobo each.

(6) Goodwill and the profit and loss account are to be written off.

(7) The investment in shares is to sold at the current market price of #60,000,000.

(8) 10% of the debtors are to be written off.

(9) The remaining assets were professionally valued and should be included in the books and accounts as follows:

	#'000
Land	90.000
Building	80,000
Equipment	10,000
Stock and work-in-progress	50,000

You are required to show the necessary journal entries to effect the reconstruction scheme.

(15 Marks)

QUESTION FOUR

Tunde and Vincent entered into a partnership to acquire surplus crockery from manufacturers and to sell it at a series of one-day markets. They agreed to share joint venture profits and losses in the following ratio: Tunde, 3/5 and Vincent, 2/5.

At the outset, Tunde sent Vincent a cheque for #2,000 to provide him with funds for his participation in the venture. They managed to sell all the goods they had bought by January 2019 by which date their cash transactions had been:

	Tunde	Vincent
	#	#
Sales	3,2000	2100
Travelling expenses	327	463
Advertising	103	91
Stall rents/markets tools	85	70
Wages of casual helpers	48	-
Sundry expenses	59	29
Purchases	1,600	1,100

Settlement between the co-venturers then took place by cheque.
You are required to prepare the following accounts:
(A) Memorandum Joint Venture Account. **(5 Marks)**
(B) Joint venture with Vincent in Tunde's books. **(5 Marks)**
(C) Joint venture with Tunde in Vincent's account. **(5 Marks)**

(Total = 15 Marks)

QUESTION FIVE

(A) Explain the following concepts under Group Accounts:
- (i) Related company **(2 Marks)**
- (ii) Significant influence **(2 Marks)**
- (iii) Cost of control account **(2 Marks)**
- (iv) Non -controlling interest **(2 Marks)**

(B) The general rule, going by section 105 of CAMA, 1990, is that a company is not permitted to reduce its share capital. A company, however, may reduce its issued share capital on fulfillment of some conditions. List four conditions a company must fulfill before it can reduce its capital**. (3 Marks)**

(C) Under what conditions is a parent generally presumed to have control over other entities within a group? **(4 marks)**

(Total = 15 Marks)

QUESTION SIX

(A) The Insurance Act, 2003 requires an insurer to keep and maintain at its principal office, certain records. List any five (5) of such records. **(5 Marks)**

(B) Itemize the main features of the following pension plans:

- (i) Defined contribution plans **(5 Marks)**
- (ii) Defined benefit plan **(5 Marks)**

(Total = 15 Marks)