



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA**  
**FACULTY OF MANAGEMENT SCIENCES**  
**DEPARTMENT OF FINANCIAL STUDIES**  
**2022\_2 EXAMINATION**

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

**COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING**

**TIME ALLOWED: 2<sup>1/2</sup> 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**
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**QUESTION 1 (COMPULSORY)**

JAGAGBAN Plc whose line of business is general merchandising makes up its account to 31<sup>st</sup> December every year. The following balances were in its books as at December 31, 2018 after determining the gross profit:

Share capital, authorised and issued:

	N**000
800,000,000 ordinary shares of N1 each	800,000
Cash at bank and in hand	2,000
Inventory at December 31, 2018	244,800
Trade receivables	72,020
Trade payables	40,036
Gross profit at December 31, 2018	515,768
Retained earnings	100,000
Salaries & Wages	113,720
Prepayments	2,400
Bad debts	2,000
Accrued expenses	2,100
Director's account (credit)	10,000
Finance cost on loan note (½ year to June 30, 2018)	2,400
Sundry expenses	16,400
Rates & insurance	6,080
6% Loan notes	80,000
Lighting & cooling	5,240
Postage, telephone and telegrams	3,200
Motor vehicle (cost N25million)	60,000
Office fittings and equipment (cost N65.5million)	169,400
Profit at January 1, 2018	89,200
Land and buildings at Cost	957,448

The following additional information is relevant:

- (i) Office fittings and equipment are to be depreciated at 15% of cost, and Motor vehicle at 20% of cost.
- (ii) Provisions are to be made for:
 

Directors' Fees	N24,000,000
Audit Fees	N10,000,000
- (iii) The amount of insurance includes a premium of N2, 400,000 paid in September 2018 to cover the company against fire for the period September 1, 2018 to August 31, 2019.
- (iv) A bill for N2, 192,000 in respect of electricity consumed up to December 31, 2018 has not been posted to the ledger.

Required:

- a. Prepare the Statement of profit or loss for the year ended December 31, 2018. **(15 Marks)**
- b. The Statement of financial position as at December 31, 2018. **(10 Marks)**  
**(Total = 25 Marks)**

## QUESTION TWO

**OVER CONFIDENT PLC** is in financial difficulty. The following is the Trial Balance of the company as at 30 June, 2018.

	DR.	CR
Land	1,740,000	
Building (Net)	408,690	
Ordinary shares of 1 each:		1,500,000
5% cum-preference shares at 1 each		1,050,000
8% Debenture (2023)		1,200,000
Equipment (Net)	161,310	
Goodwill	600,000	
Investment in shares (quoted)	405,000	
Inventory and work in progress	1,503,705	
Debtors	760,380	
Profit/Loss Account	597,315	
Interest payable on debenture		192,000
Trade creditors		1,443,705
Loan from Directors		240,000
Bank draft		<u>550,695</u>
	<u>6,176,400</u>	<u>6,176,400</u>

Authorized capital is 3,000,000 ordinary shares of 1.00 each and 1,500,000 5% cumulative preference shares of 1.00 each.

During the meeting of the shareholders and directors, it was decided to carry out a scheme of internal reconstruction.

The following scheme was agreed:

- a. Each ordinary share is to be reduced to a share of 25k.
- b. The existing 5% cumulative preference shares are to be exchanged for new issue of 525,000 8% cum preference shares of 1.00 each and 2,100,000 ordinary shares of 25k each.

- c. Ordinary shareholders accepted a reduction in the nominal value of the shares of 1.00 for 25k, with subscription to a new issue on the basis of 1 to 1 at a price of 30k per share.
- d. 90,000 of Directors loan is to be cancelled. The balance is to be settled by issue of 150,000 ordinary shares of 25k each.
- e. Goodwill and loss in the profit and loss account are to be written off.
- f. Investments in shares are to be sold at market price of #900,000.
- g. Bank overdraft to be repaid, #300,000 is to be paid to trade creditors and the balance payable by installment. 20% of debtors are to be written off.
- h. Assets are revalued as follows:

Land	4,350,000
Building	1,200,000
Equipment	150,000
Inventory and Work-in-Progress	750,000

**Required:**

Show the necessary journal entries to affect the reconstruction scheme. **(15 marks)**

**QUESTION THREE**

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

On 23 September 2017, MESSI purchased two cars for N9,660,000 and N12,600,000. He incurred expenditure of N2,940,000 on repairs and on 4 September 2017, sold one of the cars for N14,070,000. On 10 September 2017, the other car was sold for N15,750,000, paying the proceeds in each case into his own bank account.

On 14 September 2017, he purchased another car for N16,800,000 and sold it on 30 September 2017 for N16,380,000 the amount he paid over to LUKAKU who paid it into his bank account.

On 25 September 2017, LUKAKU purchased a car for N7,350,000 on which he incurred expenditure of N1,680,000 and which he sold on 10 October 2017 for N10,050,000; the amount he paid into his bank account. This car was returned by the purchaser on 20 October 2017 and LUKAKU paid him N9,660,000 for it. As this car was still unsold, on 30 November 2017, it was agreed that it should be taken over by LUKAKU at a valuation of N9,450,000.

Other expenditure was incurred by the parties as follows:

	MESSI	LUKAKU
	N	N
Insurance	525,000	105,500
Garage	420,000	210,000

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

You are required to prepare:

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

**QUESTION FOUR**

**(A) Explain the following terminologies as they relate to forms of business combination**

- (i) Acquisition (3 marks)
- (ii) Takeover (3 marks)
- (iii) External Reconstruction (3 marks)

- (B) Briefly explain the following qualitative characteristics of financial statements
- |       |                   |           |
|-------|-------------------|-----------|
| (i)   | Comparability     | (2 marks) |
| (ii)  | Understandability | (2 marks) |
| (iii) | Materiality       | (2 Marks) |

#### **QUESTION FIVE**

Your veritable uncle has incorporated a lot of companies some of which are currently not doing very well. He is thinking of carrying out a reorganization of the companies, with one of them as a holding company. Though, he wants to bring in other shareholders, he want to retain a significant control. To be able to do this successfully, he has wants to carry out a reduction of the share capital of some of the companies. Having learnt that you are studying accounting at **NOUN**, he has approached you for explanation and advice on some issues involved. Explain to him the following:

- (i) Four conditions a company must fulfill before it can reduce its capital. (4 Marks)
- (ii) The conditions under which a parent is generally presumed to have control over other entities within a group? (4 marks)
- (iii) The reasons/benefits of business combination.

**(Total=15 Marks)**