

**NATIONAL OPEN UNIVERSITY OF NIGERIA**

**Plot 91, Cadastral Zone, NnamdiAzikiwe Express Way, Jabi-Abuja**

**Faculty of Management Sciences, Department of Financial Studies**

**JULY 2017 Examinations**

**COURSE CODE: ACC419**

**COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING**

**CREDIT UNIT: 3**

**TIME ALLOWED: 2 HOURS 30 MINUTES**

**Instructions:**

1. **Attempt question number one (1) and any other three (3).**
2. **Question number 1 is compulsory and carries 25 marks while others carry 15 marks each.**
3. **Present all your points in coherent and orderly manner.**
4. Custom Safe Electric has authorised and issued share capital of N200 million, made up of 400 million ordinary shares of 50 kobo each. The following is the company’s trial balance as at 30 April 2008.

|  |  |  |
| --- | --- | --- |
| **PARTICULARS** | **DR**  N’000 | **CR**  N’000 |
| Freehold land  Short term deposits  Sundry debtors  Cash and bank  Furniture and fitting-cost  Accumulated depreciation | 25,000  50,000  60,820  50,862  44,720 | 11,180 |
| Machinery and equipment-cost  Accumulated depreciation  Stock at 1 may 2003  Sundry creditors  Bank overdraft  Wages  Postages and telephone  General expenses  Bad debts written off  Auditors remuneration  Distribution expenses  Insurance  Bank interest paid and received  Electricity  Salaries (including directors remuneration  N2m)  Rates  Purchases  Sales  Dividends(interim)  Profit and loss account  Share capital | 164,000  27,160    77,280  2,100  6,060  560  2,000  2,140  2,060  4,100    3,800  66,850  1,580  306,832  24,000    **921,924** | 32,800  19,420  15,000  1,000  640,124  2,400  200,000  **921,924** |

The following adjustments are necessary for the year ended 30/4/2008:

(a) The directors recommended that 5% of debtors should be set aside for possible bad debt.

(b) Stock w as valued at N28,648,000 as at 30 April, 2008.

(c) W ages outstanding at 30 April, 2008 amounted to N 2,400,000 and electricity accrued w as N280,000.

(d) Depreciation is to be written off machinery and equipment at 10% per annum and Furniture and Fittings at 5% per annum.

(e) The Sales Manager is entitled to sales commission of 2% of gross profit. The commission is payable on 1 May, 2008.

(f) Insurance has been paid in advance amounting to N 285,000.

(g) Machinery which stood in the books at 1 May, 2007 at N 8million has been sold for N6 million in part exchange for a new machinery costing N 12 million. A net invoice for N6 million has been posted into the Purchases account. No other entry has been made in respect of this transaction. The original cost of the old machinery was N 10million. It is the company’s policy to charge a full year’s depreciation in the year of purchase and none in the year of sale.

(h) The Directors proposed a final dividend of 8%, making a total of 20% dividend in respect of the year to 30 April, 2008.

(i) Provision for company income tax was N 35million.

**Required**: Prepare the profit and loss account for the year ended 30 April, 2008 and balance sheet as at 30 April, 2008 in a form suitable for publication. Notes to the accounts are not required but show your workings.

**2.**Set below is the Profit and Loss Account of CROSSLEM Plc, a manufacturing company, for the year ended 31 December 2008, together with its comparative figures.

2008 2007

N’000 N’000

Turnover 8,074,458 5,201,750

Cost of sales (5,015,397) (3,021,246)

Gross profit 3,059,061 2,180,513

Distribution costs (520,162) (364,475)

Administration expenses 1,366,742 (681,787)

Trading profit 1,172,157 1,134,251

Interest payable (net) (386,079) (235,739)

Profit before exceptional items and taxation 786,078 898,512

Exceptional items 113,169 -

672,909 898,512

Taxation (314,138) (335,520)

Profit after taxation 358, 771 562,992

Proposed dividend (351,000) (234,000)

Retained profit 7,771 328,992

|  |  |  |  |
| --- | --- | --- | --- |
| The following notes are relevant:   1. Included in cost of sales is excise duty amounting to ~~N~~2,095,631,000 ( 2007 ~~N~~1,028,900,000) charged on the manufactured goods. 2. Included in distribution and administration costs are staff salaries, wages and fringe benefits totaling ~~N~~495,872,000 (2007 ~~N~~306,062,000) and depreciation charged on fixed assets of ~~N~~200,264,000 (2007 ~~N~~132,397,000) 3. Taxation comprises   2008 2007  ~~N~~’000 ~~N~~’000  Land & Building 34,982 314,479  Plant, machinery & vehicle 17,117 21,041  Goodwill & Patents 262,039 -  314,138 335,520  **Required**:  Prepare the statement of Value added of the company for the year ended 31 December, 2008 as it will appear in its published financial statements.  3. GATEWAY plc acquired the entire share capital of LEKWAY plc for N120million cash on 31 December 2012. The balance sheets of the two companies at that date were as follows:  GATEWAY plc LEKWAY plc  ~~N~~’000 ~~N~~’000  Fixed assets 240,000 98,000  Investment 120,000 -  Current assets 520,000 26,000  880,000 124,000  Share capital of N1.00 per share 400,000 70,000  Profit and loss a/c 140,000 20,000  Current Liability 340,000 34,000  880,000 124,000  There is no significant difference between the book value and the fair value of LEKWAY plc’s assets. You are required to:   1. Calculate goodwill; 2. Prepare the consolidate balance sheet of GATEWAY Plc at 31 December 2012   4 The balance sheet of Touch Light limited, a manufacturing company, as at 31 December 2010 was as follows:   |  |  |  | | --- | --- | --- | | FIXED ASSETS (NET)  Investments  Goodwill  CURRENT ASSETS  Stocks & work in progress  Debtors  Bank and cash balances  DEDUCT: CURRENT LIABILITIES  Creditors  Bank overdraft  Tax payable  Dividends payable  NET CURRENT ASSETS  NET ASSETS  FINANCED BY  CAPITAL AND RESERVES  Ordinary share capital- issued and fully paid  Revenue reserves  Shareholders’ fund  Deferred tax  Long term loan | ~~N~~’000  11,900  11,700  300  23,900  8,900  7,200  400  700  17,200 | ~~N~~’000  12,000  500  1,900  14,400  6,700  21,100  10,000  3,900  13,900  1,200  6,000  21,100 |   Turnover during the year 2010 was ~~N~~ 39million.  Required:   * 1. Compute the following:      1. current ratio;      2. acid test ratio;      3. working capital ratio; and      4. stock turnover ratio.   2. Briefly state the purpose of current ratios.   3. What is the implication of working capital ratio?   5. AHMED Ltd decided to issue 1,000,000 shares of N 1.00 each at par, 10kobo payable on application, 40kobo on allotment and 50kobo on first and final call. OKAFOR Ltd, a finance company, agrees to underwrite the whole issue, at a commission of 2.5% and to apply firm for 200,000 shares. OKAFOR Ltd arranged with ADU Ltd that they sub-underwrite 25% of the shares for a commission of 2%. The public applies for and was allotted 400,000 shares and OKAFOR Ltd w as allotted the firm’s application for 200,000 shares.  OKAFOR Ltd had deposited cheque designed for the application money on shares underwritten and ADU Ltd in turn, had deposited the relevant cheques and which cleared when the result of the issue became known and commission due was paid. After allotment and before final payment, OKAFOR Ltd sold 100,000 shares at 45k each, having made the final payment. OKAFOR Ltd then sold 250,000 shares at 110k each.  At the end of the financial year of OKAFOR Ltd, shares of AHMED Ltd were valued at 120k each.  Required: Prepare the Underwriting Account of OKAFOR Ltd reflecting the above transactions. |
| 6a) List any five purposes of the conceptual framework for the preparation and presentation of  financial statements put together by the International Financial Standards Board(IFSB).  b) What is the scope of the conceptual framework? |