

**NATIONAL OPEN UNIVERSITY OF NIGERIA**

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**FACULTY OF MANAGEMENT SCIENCES**

**DEPARTMENT OF FINANCIAL STUDIES**

**NOVEMBER 2018 EXAMINATION**

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

**COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING**

**INSTRUCTIONS: 1. Attempt Question 1 and any other three (3) Questions.**

**2. Question 1 is compulsory and carries 25 marks while the other 3 Questions carry 15 marks each.**

**3. Present all your points in a coherent and orderly manner.**

**TIME ALLOWED: 21/2 HOURS**

**1.** The summarized statement of financial position of three companies: Abia limited, Emonu-orogun limited and Umuahia limited as at 31st December, 2017 are as shown below:

 Abia ltd. Emonu-orogun Umuahia

 ₦’000 ₦’000 ₦’000

Non-current assets:

Property, plant and equipment 442 1,800 1,500

Investment in Emoru-orogun 2,660 - -

Investment in Umuahia limited 214 - -

Loan to Umuahia limited 50 - -

Available for sale investment 100 -

 3,466 1,800 1,500

Current assets:

Inventories 919 450 441

Receivables 880 720 600

Cash 867 200 136

 2,666 1,370 1,177

Total assets  **6,132**  **3,170**  **2,677**

Equity and liabilities:

Equity shares of ₦1 each 4,800 2,300 2,200

Share premium 452 310 37

Retained earnings 360 180 100

Total equity 5,612 2,790 2,387

Non-current liabilities:

6% loan 100 - 60

10% debenture 60 40 20

Deferred tax 120 110 100

 280 150 180

Current liabilities:

Payables 125 120 60

Income tax 115 110 50

 240 230 110

Total liabilities 520 380 290

Total equity and liabilities **6,132** **3,170** **2,677**

The following information are also provided.

1. Abia Limited acquired 80% of the issued share capital of Emonu-orogun limited for ₦2,660,000 on 1st January, 2017 when the retained earnings of Emonu-orogun limited stood at ₦60,000.
2. Abia limited acquired 660,000 ₦1 ordinary shares in Umuahia limited for ₦214,000, when the retained earnings of Umuahia limited stood at ₦20,000 and that of Abia limited was ₦80,000.
3. Abia limited and Umuahia limited proposed 1% and 1.1% dividend respectively. These dividends are yet to be accounted for.
4. It is the group policy to measure non-controlling interests at acquisition date based on their share of identifiable net asset. That is, the proportionate of net assets. At the reporting date, goodwill in Emonu-orogun limited has been impaired by ₦200,000 while the investment in Umuahia limited was impaired by ₦50,000.
5. The available-for-sale investments are included in the statement of financial position at their fair value on 31st December, 2016 in line with IFRS 9, but they have a fair value of ₦110,000 as at 31st December, 2017.
6. During the year ended 31st December, 2017, there was a downstream transaction where Abia limited sold goods to Umuahia limited for ₦80,000 at a margin of 10%. These goods are still in store as at end of the financial year, 2017.

**Required:** Prepare the consolidated statement of financial position of Abia Limited group as at 31st December, 2017. **25 Marks**

**2.** Taiwo Plc Company prepares account to 31st march every year. At 31st march 2017, the trial balance extracted from its ledgers by the accounting officer was as follows:

 Dr Cr

 ₦’000 ₦’000

Tangible non-current assets 87,500

Accumulated depreciation (1/4/16) 13,500

Intangible non-current assets 38,100

Accumulated depreciation (1/4/16) 9,200

Sales 240,600

Inventories at (1/4/16) 28,750

Purchases 94,780

Distribution cost 15,100

Wages and salaries 18,300

Rents and rates 14,700

Deferred tax 20,800

10% loan notes 10,500

Trade receivable 46,100

Trade payables 32,450

Ordinary shares of ₦1 each 50,000

Share premium 27,500

Retained earnings 91,850

Audit fees 2,300

Directors remuneration 14,950

Return inwards 8,300

Return outwards 3,780

Dividends paid 16,700

Interest paid 600

Corporate tax 2,500

Rental income 30,800

Commission received 18,300

Postage and stationery 25,000

Other administrative expenses 46,635

Sales person commission 1,360

Cash and bank 96,325

Insurance premium 8,780

 **551,780 551,780**

Relevant notes:

1. Inventory at 31st march 2017, valued at cost was ₦10.6million. its fair value less to costs to sell is estimated at ₦9.4million as a result of physical deterioration.
2. The directors of Taiwo Plc have recommended a final dividend of ₦3 per share
3. The following were outstanding at 31/3/2017

₦’000

 Salaries & wages 1,560

 Sales person commission 880

 Postages 2,100

1. The following were prepayments at 31/3/2017

₦’000

 Insurance premium 2,450

 Rents and rates 1,950

1. The company depreciates its non-current assets on straight - line basis at the following rates:

Tangible non-current assets 10% on cost

Intangible non-current assets 15% on cost

1. The directors estimated that income tax of ₦28million will be paid for the year ended 31/3/2017. The corporate tax balance in the trial balance represent over provision in respect of the preceding accounting period.

**Required:** Prepare required statement of profit or loss for the period ended 31st March 2017 .

 **15 Marks**

**3.** The following information relate to the affairs of Kenny Plc for the period ended 31 December.

Statements of financial position as at 31 December:

 2017 2016

 ₦ ₦

Non- current assets 321,000 340,000

Long- term investment 50,000 30,000

 371,000 370,000

Current assets:

Inventories 200,000 90,000

Trade receivables 82,000 60,000

Cash and bank balances 62,000 50,000

 344,000 200,000

Total assets 715,000 570,000

Equity and liabilities

EQUITY:

Issued share capital 200,000 160,000

Share premium 56,000 40,000

Retained earnings 273,000 243,000

 529,000 443,000

Non- current liability

Long- term loan 40,000 22,000

Current liabilities

Trade payables 62,000 30,000

Bank overdraft 28,000 15,000

Income tax payable 24,000 20,000

Other payables 32,000 40,000

 146,000 105,000

Total liabilities 186,000 127,000

Total equity and liabilities 715,000 570,000

Statement of Profit or Loss for the year ended 31 December 2017

 ₦

Revenue 488,000

Cost of sales 285,000

Gross profit 203,000

Distribution costs 44,000

 Administrative expenses 81,000

Interest and dividends received 3,000

Finance cost 1,000

Profit before tax 80,000

Income tax expense 24,000

Profit for the period 56,000

Additional Information:

1. Depreciation charge of the year was ₦8million on land and building and ₦22 million on plant and machinery.

2. During the year a plant with a carrying amount of ₦35million was sold for ₦42million.

3. During the year, an investment that had cost ₦8million some years earlier was sold for ₦13million.

4. Dividend paid in the year amounted ₦26million.

**Required:**  Prepare statement of cash flows of Kenny Plc for the period ended 31 December 2017, using the DIRECT method. **15 Marks**

**4.** The following are the financial statements for NOUN Nigeria limited for the year 2017.

Statement of financial position as at 31 December, 2016

Assets ₦

Non- current assets (net) 1,050,000

Goodwill 140,000

Current assets:

 Inventories 490,000

 Trade receivables 350,000

 Cash and cash equivalents 70,000

 2,100,000

Equity and liabilities

Equity:

Share capital 140,000

Retained earnings 280,000

Non- current liabilities

Preference share capital 280,000

Long- term borrowings 840,000

Deferred tax 100,000

Current liabilities

Trade and other payables 420,000

Short- term provisions 40,000

 2,100,000

 Statement of profit or loss for the year ended 31 December, 2017

Revenue:

* Cash 280,000
* Credit 1,120,000

 1,400,000

Cost of sales 840,000

Gross profit 560,000

Distribution cost 140,000

Administrative expenses 98,000

Finance cost 42,000 1,120,000

 280,000

Income tax expense 140,000

Profit for the period from continuing operations 140,000

Net of preference dividend 17,000

Net profit for ordinary shareholders 123,000

Reserve at 1 January, 2016 182,000

 305,000

Dividend paid to equity shareholders 25,000

Reserves at 31 December, 2016 280,000

The ratios for the years 2014 and 2015 for NOUN Nig. Limited and the industry ratios are given below.

 2014 2015 Industry

Current ratio 2.54 2.10 2.30

Acid- test ratio 1.10 0.96 1.20

Gross profit margin 38% 41% 40%

Return on equity 24% 29% 19%

Inventory turnover 3.80 3.05 3.85

**Required:**

1. Calculate current ratio, acid-test ratio, Gross profit margin, return on equity, inventory turnover for 2016 and evaluate the company’s financial position.
2. Using relevant ratios, as you have computed, indicate what decision would be taken in a situation where NOUN Nigeria limited wants to buy material of ₦70,000 on a three months credit from ICAN limited. **15 Marks**

**5.** On 1st January 2012, Fred plc began to lease some land. The lease was for 20 years and was correctly assessed by Fred plc to be an operating lease. The annual lease rentals were ₦500,000, payable on 31 December in arrears. However, during its negotiations with the lessor, it was agreed that Fred plc will enjoy a three-year rent free period at the start of the lease (i.e no lease or rent will be paid in the first four years). Therefore the first payment is not due until December 2015 and Fred plc will make only 17, rather than 20 payments.

**Required:** Show the profit or loss extract for the six years to 31 December, 2017. **15 Marks**

**6.** Joint arrangement is governed by IFRS II. The international Accounting Standards Board (IASB) in 2013 presented some terminologies that feature prominently in joint arrangements.

**Explain** some of the terminologies as stated below:

(i) Joint venture (ii) Joint operation (iii) Separate vehicle (iv) Joint control (v) Joint arrangement

 **15 Marks**