



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESSWAY, JABI, ABUJA**  
**FACULTY OF MANAGEMENT SCIENCES**  
**DEPARTMENT OF FINANCIAL STUDIES**  
**2021\_2 EXAMINATION**

**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

**QUESTION 1 (COMPULSORY)**

The figure set out below are extracted from the book of the LEEWAY INSURANCE LTD and related to the 12 months ended 31 December 2020.

Share capital: Authorized and issued:	N
400,000 Ordinary share of N4 each	1,600,000
400,000 10% preference share of N1 each	400,000
Premiums	1,360,000
Mortgages on property	2,400,000
Amount of life assurance fund	8,638,000
Claims	872,000
Loans of policies with surrender values	414,000
Amount due from re-insurance	140,000
Commissions	41,400
Outstanding premiums	161,600
Premium paid in advance	700
Management expenses	782,000
Surplus on sale of investment	50,000
Investment	8,051,500
Interest, dividends and Rent	560,000
Taxation	210,000
Cash	240,000

The securities have been at cost. You are required to prepare the draft trail balance, the revenue account and the statement of financial position for the company as at 31 December 2020.

**(25 Marks)**

## QUESTION TWO

TRUST LTD acquired the rights to remove soft sand deposits from the land owned by FAITH LTD of Ayua Town. The rights were granted on the following terms:

- (a) The payment of a royalty of #1,250 per tonne of sharp sand extracted.
- (b) A minimum payment of #25,000,000 per annum on 31 December every year
- (c) Short-workings are to be recouped from the royalties' payable in excess of the minimum rent in the two years following

During the first four years of the contract, the following quantities of sharp sand were extracted:

Year 1	-	16,000 tonnes
Year 2	-	19,000 tonnes
Year 3	-	24,000 tonnes
Year 4	-	32,000 tonnes

You are required to show the ledger accounts needed to record the above transactions in the books of TRUST LTD for each of the four years. **(15 Marks)**

## QUESTION THREE

The Young Shall Grow 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 FOUR**

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

- (i) Amalgamation (3 marks)
- (ii) Merger (3 marks)
- (iii) Absorption (3 marks) **Total (9 marks)**

**(B) Briefly explain the following qualitative characteristics of financial statements**

- (i) Relevance **(2 marks)**
- (ii) Faithful representation **(2 marks)**
- (iii) Comparability **(2 marks)**

**(15 Marks)**

**QUESTION FIVE**

Your friend who is not an accountant is planning to raise money for his business and to be able to successfully do this, his bank want him to present a “selling document” which contain among other things, a valuation of his existing business. He has heard his friend say that there are different concepts of value. He has approached you to explain to him some issues relating to valuation and value. Explain to him the following:

**(A) Five concepts of value known to you (10) Marks)**

**(b) The factors to be considered in selecting a valuation approach.(5 Marks)**

**(Total = 15 Marks)**