



NATIONAL OPEN UNIVERSITY OF NIGERIA
PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESS WAY, JABI – ABUJA
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2019_1 EXAMINATION

COURSE CODE: ACC419

CREDIT UNIT: 3

COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING

TIME ALLOWED: 2^{1/2} HOURS

INSTRUCTIONS:

- 1. Attempt Question One (1) and any other three (3) questions**
 - 2. Question 1 carries 25 marks, while the other questions carry 15 marks each.**
 - 3. Present all points in coherent and orderly manner**
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QUESTION 1

The following balances remained in the books of Lacuna Plc. at December 31st, 2017 after determining the gross profit:

	₦'000
Share capital, authorized and issued:	
200,000,000 ordinary shares of ₦1 each	200,000
Cash at bank and in hand	500
Inventory at December 31, 2014	61,200
Trade receivables	18,005
Trade payables	15,009
Gross profit at December 31, 20x7	128,942
Retained earnings	25,000
Salaries & wages	28,430
Prepayments	600

Bad debts	500
Accrued expenses	526
Director's account (credit)	2500
Finance cost on loan note (1/2 year to June 30, 2014)	600
Sundry expenses	4,100
Rates & insurance	1,520
6 % loan notes	20,000
Lighting & cooling	1,310
Postage, telephone and telegrams	800
Motor vehicle (cost N25 million)	15,000
Office fittings and equipment (cost N65.5million)	42,350
Profit at January 1, 2014	22,300
Land and building at cost	239,362

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	₦6,000,000
Audit fees	₦2,500,000
- iii. The amount of insurance includes a premium of ₦600,000 paid in September 2017 to cover the company against fire for the period September 1st, 2017 to August 31, 2018.
- iv. A bill for ₦548,000 in respect of electricity consumed up to December 31st, 2017 has not been posted to the ledger.

Required:

- a) Prepare the Statement of Profit or Loss for the year ended December 31st, 2017
(10 marks)
- b) The Statement of financial position as at December 31st, 2017
(10 marks)
- c) Statement of changes in equity
(5 marks)

QUESTION 2

- a) In accordance with Section 338 of CAMA, discuss the conditions under which a company (A) is deemed to be the subsidiary of another company (B). **(5 marks)**
- b) Snax Co. owns the following investments in other companies:

	Equity shares held	Non-equity shares held
Beverage Co	80%	Nil
Pastries Co	25%	80%
Beefie Co	45%	25%

Snax Co also appointed five (5) of the seven (7) directors of Beefie Co

Required: Consider each investment by Snax Co in turn and determine where control exists in each. **(10 marks)**

QUESTION 3

- a) The new revised IFRS 3 method of calculating goodwill now gives the parent company a choice between 2 methods of calculating goodwill and dealing with Non-Controlling Interest (NCI). Briefly explain these two methods **(5 marks)**
- b) Extracts from the Statement of Financial Position of Pyramid Plc. and Hexagon Plc. as at 31/12/20X5 are as follow:

	Pyramid Plc	Hexagon Plc
	₦'000	₦'000
Share capital		
Ordinary share at N1.00 each	180,000	60,000
Accumulated reserves	<u>48,000</u>	<u>24,000</u>
	<u>228,000</u>	<u>84,000</u>

The entire share capital of Hexagon Plc was acquired when the accumulated reserves was N18 million. Cost of acquisition was ₦88 million.

Required: Calculate the goodwill **(10 marks)**

QUESTION 4

The Statement of Financial position of Cradle & Saddle Ltd as at 31st Dec. 20X5 were as follows:

	Cradle Ltd ₦'000	Saddle Ltd ₦'000
Non-Current assets	40,000	32,000
Investment at cost	76,000	-
Current assets	<u>60,000</u>	<u>48,000</u>
	<u>176,000</u>	<u>80,000</u>
Share capital		
Ordinary shares of ₦1.00 each	120,000	40,000
Accumulated reserves	<u>32,000</u>	<u>16,000</u>
	152,000	56,000
Current Liability	<u>24,000</u>	<u>24,000</u>
	<u>176,000</u>	<u>80,000</u>

The entire share capital of Saddle Ltd was acquired when the accumulated reserves was ₦12 million.

Required: Show the consolidated reserve of the group as at 31 Dec 20X5. **(15 marks)**

QUESTION FIVE

- Explain two (2) external and three (3) internal factors to be considered when carrying out firm comparison using ratio analysis. **(5 marks)**
- You are considering an investment in Lounge & Cushion Ltd. During the past year, the firm's Income statement had retained earnings of ₦4.8 million and common stock dividends of ₦2.2 million. The year-end Statement of Financial Position shows common stockholders' equity of ₦35 million with 10 million shares of common stock outstanding. The common stock's market price per share is ₦9.00. What is Lounge & Cushion's Earnings Per Share and PE ratio. **(5 marks)**
- Pepperoni Ltd. reported sales for 2015 of ₦23 million. Pepperoni Ltd listed ₦5.6 million of inventory on its Statement of Financial position. Calculate, using a 365 day year, how

many days did inventory stay on the premises? How many times per year did inventory turnover? **(5 marks)**

QUESTION 6

- a) Explain**
 - i) Bankruptcy **(2.5 marks)**
 - ii) Insolvency (explaining the two forms of insolvency) **(5 marks)**
- b) Discuss the Statement of affairs under bankruptcy. (2.5 marks)**
- c) Distinguish between a Statement of affairs under bankruptcy and a Statement of financial position of a going concern. (5 marks)**