



NATIONAL OPEN UNIVERSITY OF NIGERIA
UNIVERSITY VILLAGE, JABI- ABUJA
FACULTY OF MANAGEMENT SCIENCES
JANUARY 2018 EXAMINATIONS

Course Code: ACC 419

Credit Unit: 3

Course Title: Advanced Financial Accounting

Time Allowed: 3 Hours

Instructions:

1. Attempt question number one (1) and any other three (3).
 2. Question number 1 is compulsory and carries 25 marks while the other 3 carry 15 marks each.
 3. Present all your points in coherent and orderly manner.
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1.

The following balances remained in the books of Lagview Plc at December 31, 2016 after determining the gross profit:

	₦'000
Share capital, authorised and issued:	
200,000,000 ordinary shares of ₦1 each	200,000
Cash at bank and in hand	500
Inventory at December 31, 2016	61,200
Trade receivables	18,005
Trade payables	15,009
Gross profit at December 31, 2016	128,942
Retained earnings	25,000
Salaries & Wages	28,430
Prepayments	600
Bad debts	500
Accrued expenses	526
Director's account (credit)	2,500
Finance cost on loan note (½ year to June 30, 2016)	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 ₦25million)	15,000
Office fittings and equipment (cost ₦65.5million)	42,350
Profit at January 1, 2016	22,300

Land and buildings 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 N6,000,000
 - Audit Fees N2,500,000
- (iii) The amount of insurance includes a premium of N600,000 paid in September 2016 to cover the company against fire for the period September 1, 2016 to August 31, 2017.
- (iv) A bill for N548,000 in respect of electricity consumed up to December 31, 2016 has not been posted to the ledger.

Required:

- a. Prepare the Statement of profit or loss for the year ended December 31, 2016; **(15 marks)**
and
- b. The Statement of financial position as at December 31, 2016. **(10 marks)**

2.

Shita Plc purchased 960 million shares in Karama Plc a year ago when Karama had a credit balance of N190 million in retained earnings. The fair value of the non-controlling interest at the date of acquisition was N330 million. At the date of acquisition, the freehold land of Karama Plc was valued at N140 million in excess of its carrying value. The revaluation has not been recorded in the accounts of Karama.

The financial statements comprising Statement of Financial Position of Shita Plc and Karama Plc as at 31 December 2015 are as follows:

Shita Plc	Karama Plc	N/m	N/m	N/m	N/m
Non-Current Assets					
Land and building		630			556
Machinery and equipment		570			440
Investment in Karama Plc.			<u>1,320</u>		<u>-</u>
			2,520		996
<u>Current Assets</u>					
Inventories		714			504
Trade receivables		1,050			252
Cash/bank		<u>316</u>	<u>2,080</u>	<u>60</u>	<u>816</u>
			<u>4,600</u>		<u>1,812</u>

Ordinary Shares at ₦1 each	3,000	1,200
Retained Earnings	<u>1,160</u>	<u>424</u>
Shareholders fund	4,160	1,624
 <u>Current Liabilities</u>		
Trade payables	<u>440</u>	<u>188</u>
	<u>4,600</u>	<u>1,812</u>

Karama Plc owes Shita Plc ₦50million for goods purchased during theyear. Inventory of Karama Plc includes goods bought from Shita Plc at the price that includes a profit to Shita Plc of ₦24million.

The management of Shita Plc wants the financial statements to be consolidated using the acquisition method and wishes to know whether there is goodwill on acquisition of Karama Plc and the amount involved.

You are required to:

Prepare the Consolidated Statement of Financial Position as at 31 December 2015.

(15 marks)

3.

Donat Co is a manufacturer of domestic appliances. Its chairman is pleased with the results for the year ended 31 December 2015 as they show a continuing improvement over recent past performance. However, the finance director says that a better assessment of the company's performance would be made by a comparison to other companies in the same sector. The finance director has obtained some ratios for Donat Co.'s business sector, based on a year end of 31 December 2015, which are:

Return on capital employed (ROCE)	18.5%
Net asset (total assets less current liabilities) turnover	1.8 times
Gross profit margin	21%
Operating profit margin	10.3%
Current ratio	1.6:1
Gearing (debt/equity)	36%

The summarised financial statements of Donat Co are:

Statement of profit or loss for the year ended 31 December 2015

	₦'000
Revenue	62,500
Cost of sales	<u>(51,800)</u>
Gross profit	10,700

Operating costs	(5,800)
Finance costs	(1,800)
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Profit before tax	3,100
Income tax expense	(1,000)
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Profit for the year	2,100
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Statement of financial position as at 31 December 2015

	₦'000	₦'000
Assets		
Non-current assets		
Property		8,100
Owned plant		12,600
Leased plant		12,200
		<hr/>
		32,900
Current assets		16,400
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Total assets		49,300
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Equity and liabilities		
Equity		
Equity shares of ₦1 each		9,000
Property revaluation surplus		4,000
Retained earnings		10,600
		<hr/>
		23,600
Non-current liabilities		
10% loan notes	10,000	
Finance lease obligations	6,400	16,400
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Current liabilities		
Finance lease obligations	2,100	
Other current liabilities	7,200	9,300
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Total equity and liabilities		49,300
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Required:

(a) Prepare for Donat Co the equivalent ratios to those of its sector.

Note: The finance lease obligations should be treated as debt in the ROCE and gearing calculations. **(10 marks)**

(b) Analyse the financial performance and position of Donat Co for the year to 31 December 2015 in comparison to the sector averages. **(5 marks)**

4

A. Discuss the following forms of business combination:

- a Amalgamation
- b Merger
- c Absorption
- d Acquisition
- e Takeover
- f External Reconstruction (9 marks)

B. List any 6 reasons for business combinations. (6 marks)

5.

The following is the trial balances of Olowolagba Bank Plc. for the year to 31stDecember 2016

	₦'m	₦'m
Share capital of N1.00 each		1,500
Statutory Reserve		1,380
General Reserve		1,410
Deposit: Fixed		8,460
: Demand		5,800
: Savings		6,050
Taxation		750
Money at call and short notice from other banks		3,820
Bills payable		2,400
Profit and loss account		730
Creditors		45
Unclaimed dividends		82
Income Interests on loans		8,820
Commissions, charges and fees		4,135
Foreign exchange transactions		585
Lease income		410
Others		238
Provision for bad and doubtful accts		598
Contingent liabilities and other obligations on behalf of customers and customers liabilities		
there of	6,750	6,750
Loan and advances	23,000	
Interests paid to other banks	250	
On deposits by customers	530	
Rent	410	
Sundry expenses	180	
Money on call short notice	3,800	
Equipment on leases	2,500	
Salaries	38	
Investments	3,500	
Freeholds property	4,600	
Motor vehicles	700	
Furniture and fittings	850	

Cash in hand and with other banks	5,300	
Bills discounted-Treasury	800	
-Others	<u>755</u>
	<u>53,963</u>	<u>53,963</u>

Additional Information

1. The analysis by performance of the loans and advance is as shown below:

	N'm	
Performing accounts	1,200	1%
Substandard accounts	2,750	10%
Doubtful accounts	18,120	50%
Lost accounts	930	100%

2. A general provision of N8 million is to be made on all other risk assets.

3. Taxation is at the rate of 35%

4. Provide for the following:

Proposed dividend at 10k per share

Statutory reserve in accordance with section 16 of BOFID

Bonus issue reserve of N500m

1. Provide for depreciation as follows:

Equipment on lease	10%
Freehold property	10%
Motor vehicle	20%
Furniture and fittings	10%

Required:

Prepare the Income Statement for the year ended 31 December 2016 and a Statement of Financial position as at that date; show all workings. **(15 marks)**

6.

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

On 23 September 2015, Ramon purchased two cars for N322,000 and N420,000. He incurred expenditure of N98,000 on repairs and on 4 September 2015 sold one of the cars for N469,000. On 10 September 2015 the other car was sold for N525,000, paying the proceeds in each case into his own bank account.

On 14 September 2015, he purchased another car for N560,000 and sold it on 30 September 2015 for N546,000 the amount he paid over to Kate who paid it into his bank account.

On 25 September 2015, Kate purchased a car for N245,000 on which he incurred expenditure of N56,000 and which he sold on 10 October 2015 for N350,000; the amount he paid into his bank account. This car was returned by the purchaser on 20 October 2015 and Kate paid him N322,000 for it. As this car was still unsold, on 30

November 2015, it was agreed that it should be taken over by Kate at a valuation of ₦315,000.

Other expenditure was incurred by the parties as follows:

	Ramon	Kate
	₦	₦
Insurance	17,500	3,500
Garage	14,000	7,000

On 30 November 2015, the sum required in full settlement as between Ramon and Kate was paid by the party accountable.

You are required to prepare:

- (a) The Joint Venture account as it would appear in the books of Kate recording his transactions for the joint venture.
 - (b) The memorandum account for the joint venture showing the net profit
- (9 marks)**

B

Ashdale Multilinks Limited acquired the rights to remove soft sand deposits from the land owned by Golden Stars Limited of Galo Village. The rights were granted on the following terms:

- (a) The payment of a royalty of ₦625 per tonne of sharp sand extracted.
- (b) A minimum payment of ₦6,250,000 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	-	8,000 tonnes
Year 2	-	9,500 tonnes
Year 3	-	12,000 tonnes
Year 4	-	16,000 tonnes

You are required to show the ledger accounts needed to record the above transactions in the books of Ashdale Multilinks Limited for each of the four years.

(6 marks)