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FACULTY OF ADMINISTRATION AND MANAGEMENT SCIENCES
DEPARTMENT OF ACCOUNTING
2018/2019 FIRST SEMESTER EXAMINATION
ACC 411: FINANCIAL REPORTING AND ETHICS

INSTRUCTIONS: Attempt question number 1 and any three others.

Time Allowed: 2 Hours

- 1 (a) The Conceptual Framework comprises a series of concepts. These relate to the objectives of financial reporting, underlying assumptions, qualitative characteristics, definitions and recognition criteria for the elements that make up the financial statements and concepts of capital and capital maintenance.

You are required to:

- 3 i. < Explain the objectives of general purpose financial reporting
3 ii. < List the users of financial reporting and discuss their information needs
4 iii. < Distinguish the fundamental and enhancing qualitative characteristics of financial information
iv. < The elements of financial statements were defined not in reference to the legal form but to economic substance. List these elements and provide their respective definitions.
v. < State the recognition criteria for each of the elements of financial statements.

25 marks

2. Health checks are a part of everyday life. Financial analysis can be defined as a holistic appraisal of a business' financial well-being.

Required:

- i. What are the limitations of financial statements for the purpose of financial analysis? 5 Marks
ii. Discuss four criteria to be considered in evaluating the well-being or success of a business. 5 Marks
iii. What are the limitations of earnings per share (EPS) as a measure of a company's performance? 5 Marks

3. OluNla Company Plc is facing financial challenges. The following is the Trial Balance of the company as at December 31, 2017:

	Debit (N'000)	Credit (N'000)
Land	232,000 ✓	
Building (Net)	54,492.	
Ordinary Shares @ N1.00 each		200,000
5% cum-preference shares @ N1.00 each		140,000
8% Debenture (2022)		160,000
Equipment (Net)	21,508	
Goodwill	80,000	
Investments in Shares (Quoted)	54,000 ✓	
Inventory and WIP	200,494	
Receivables	101,384 ✓	
Retained Earnings	79,642	
Interest payable on debenture		25,600
Account Payable		192,494
Loan from Directors		32,000
Bank Overdraft		73,426 ✓
	823,520	823,520

Authorized capital is 1billion ordinary shares of N1.00 each and 500million 5% cumulative preference shares of N1.00 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:

- Each ordinary share is to be reduced to a share of 25k
- The existing 5% cumulative preference shares are to be exchanged for new issue of 70m 8% cum preference shares of N1.00 each and 280million ordinary shares of 25k each.
- Ordinary shareholders accepted a reduction in the nominal value of the ordinary shares of N1.00 for 25k, with subscription to a new issue on the basis of 1 to 1 at a price of 30k per share.
- N12million of Directors' loan is to be cancelled. The balance is to be settled by issue of 20million ordinary shares of 25k each.
- Goodwill and loss balance in retained earnings accounts are to be written off.
- Investments in shares are to be sold at market price of N120million.
- Bank overdraft is to be repaid; N40million is to be paid on account payable and the balance payable instalmentally.
- 20% of Receivables is to be written off.
- Assets are revalued as follows:

	N'000
Land	580,000
Building	160,000
Equipment	20,000

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Required:

- (a) Show the necessary journal entries to effect the reconstruction scheme. **10 marks**
 (b) Prepare the Statement of Financial Position after the reconstruction. **5 marks**

4. (a) The rules and regulations which apply to financial reporting may be collectively referred to as the "regulatory framework". In practice, most of this framework applies only to companies, but it is important to realize that financial reporting regulations could be made in relation to any class of business entity.

Required:

- i. Discuss the three components of regulatory framework that apply to financial reporting. **5 Marks**
 ii. State the membership and functions of Financial Reporting Council of Nigeria **10 Marks**
5. Fowosere Ltd acquired 70% interest in the equity shares of Fidipote Ltd for ₦4,500,000 on January 1, 2018. The abridged Statements of Financial Position of both companies at that date of acquisition were as follow:

	Fowosere Ltd.	Fidipote Ltd.
	₦'000	₦'000
Identifiable Assets	49,200	12,000
Investment in Fidipote Ltd	4,500	-
	<u>53,700</u>	<u>12,000</u>
Equity	36,000	7,200
Identifiable Liabilities	17,700	4,800
	<u>53,700</u>	<u>12,000</u>

The fair value of the identifiable assets of Fidipote Limited amounts to ₦16,800,000 and the fair value of its liabilities is ₦4,800,000. The Non-Controlling Interest will be measured as a percentage of the Net Asset of the acquiree.

Required:

- Calculate the gain on bargain purchase arising from the acquisition. **15 Marks**

6. Mr. Dudu was the consultant on accounting and taxation to Bright Ideas Company Ltd. The company is owned and managed by Chief Money Power who recently retired as a government official. Mr. Dudu is reputed for his professional skill and diligence and his clients have absolute confidence and reliance on his professional judgment. Information was freely shared with the consultant in the course of his duty and he is adequately remunerated for his services by the clients.

The government recently issued a policy directive promising a reward to anyone with useful information on any person or body that could assist government in recovering stolen funds from such person or body. Mr. Dudu took advantage of this policy by giving secret information to the relevant authority on the financial transactions of his client. Relying on the information, the authority recovered substantial amount from the client and Mr. Dudu promptly collected his reward as promised by the authority.

The client later sued the consultant for failure to give him loyalty and honour the confidentiality of information between them as enshrined in the code of conduct of Professional Institutes.

Required:

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| i. | Discuss the ethical issues involved in this case. | 5 Marks |
| ii. | How would this case be decided?
Give reasons to justify your position. | 5 Marks |
| iii. | What are the principles upon which a professional is not obliged to honour the implied duty of privacy of, and loyalty to, the client? | 5 Marks |