



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91, Cadastral Zone, NnamdiAzikiwe Express Way, Jabi-Abuja
Faculty of Management Sciences, Department of Financial Studies
JULY 2017 Examinations

COURSE CODE: ACC311
COURSE TITLE: INTERMEDIATE FINANCIAL ACCOUNTING I
CREDIT UNIT: 3
TIME ALLOWED: 2 HOURS 30 MINUTES

Instructions:

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

QUESTIONS

1. Todaka Electricals Nigeria Plc is an Electrical Components assembly outfit with authorised and issued share capital of ₦200 million, made up of 400 million ordinary shares of 50 kobo each. The following is the company's trial balance as at 30 April 2015:

	Dr	Cr
	₦'000	₦'000
Freehold land	25,000	
Short-term deposits	50,000	
Sundry debtors	60,820	
Cash and bank	100,862	
Furniture and fittings- cost	44,720	
Accumulated depreciation		11,180
Machinery and equipment- cost	164,000	
Accumulated depreciation		32,800
Stock at 1 May 2013	20,000	
Sundry creditors		39,420
Bank overdraft		25,000
Wages	87,000	
Postages and telephone	2,100	
General expenses	6,060	

Bad debts written-off	560	
Auditors' remuneration	2,000	
Distribution expenses	2,000	
Insurance	2,060	
Bank interest paid and received	6,000	5,000
Electricity	3,800	
Salaries (including directors remuneration N2m)	76,850	
Rates	1,580	
Purchases	282,388	
Turnover		720,000
Dividends (interim)	98,000	
Profit and loss account		2,400
Share capital		<u>200,000</u>
	<u>1,035,800</u>	<u>1,035,800</u>

The following adjustments are necessary for the year ended 30/4/2015:

- The directors recommended that 5% of debtors should be set aside for possible bad debts.
- Stock was valued at ₦15,000,000 as at 30 April, 2015.
- Wages outstanding at 30 April, 2015 amounted to ₦1,300,000 and electricity accrued was ₦280,000.
- Depreciation is to be written off machinery and equipment at 10% per annum and furniture and fittings at 5% per annum.
- The sales manager is entitled to sales commission of 2% of gross profit. The commission is payable on 1 May 2015.
- Insurance has been paid in advance amounting to ₦285,000
- Machinery which stood in the books at 1 May, 2014 at ₦8 million has been sold for N6 million in part exchange for a new machinery costing ₦12 million. A net invoice for N6 million has been posted into the purchases account. No other entry has been made in respect of this transaction. The original cost of the old machinery was ₦10 million. It is the company's policy to charge a full year's depreciation in the year of purchase and none in the year of sale.
- The directors proposed a final dividend of 6%, making a total of 55% dividend in respect of the year to 30 April, 2015.
- Provision for company income tax was ₦35 million.

You are required to prepare the profit and loss account for the year ended 30 April, 2015 and balance sheet as at 30 April, 2015 in a form suitable for publication. Notes to the accounts are not required but you should show your workings.

- Below is the profit and loss account of Magodo PLC, a manufacturing company, for the year ended 31 December 2008, together with **its** comparative figures.

2008	2007
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	₦'000	₦'000
Turnover	8,074,458	5,201,750
Cost of sales	<u>(5,015,397)</u>	<u>(3,021,246)</u>
Gross profit	3,059,061	2,180,513
Distribution costs	(520,162)	(364,475)
Administrative costs	<u>(1,366,742)</u>	<u>(681,787)</u>
Trading profit	1,172,157	1,134,251
Interest payable (net)	<u>(386,079)</u>	<u>(235,739)</u>
Profit before exceptional items & taxation	786,078	898,512
Exceptional items	<u>113,169</u>	<u>-</u>
	672,909	898,512
Taxation	<u>(314,138)</u>	<u>(335,520)</u>
Profit after taxation	358,771	562,992
Proposed dividend	<u>(351,000)</u>	<u>(234,000)</u>
Retained profit	<u>7,771</u>	<u>328,992</u>

The following notes are relevant:

1. Included in cost of sales is excise duty amounting to ₦2,095,631,000 (2007 ₦1,028,900,000) charged on the manufactured goods.
2. Included in distribution and administration costs are staff salaries wages and fringe benefit totalling ₦495,872,000 (2007 ₦306,062,000) and depreciation charged on fixed assets of ₦200,264,000 (2007- ₦132,397,000).

3. Taxation comprises:	2008	2007
	₦'000	₦'000
Income tax	34,982	314,479
Educational tax	17,117	21,041
Deferred tax	<u>262,039</u>	<u>-</u>
	<u>314,138</u>	<u>335,520</u>

Required:

Prepare the statement of value added of the company for the year ended 31 December, 2008 as it will appear in its published financial statements.

3. From the following information, compute consequential loss claim:

Financial year ended 31 December 2006 with turnover of ₦200,000.

Fire takes place 1 June- 1 November.

Period of indemnity is 6 months

Net profit ₦12,000; plus insured charges ₦24,000

Sum insured ₦36,300

Uninsured standing charges ₦2,000

Standing turnover; that is, corresponding months (1 June – 1 November 2006 is ₦75,000).

Turnover in the period of interruption is ₦22,500.

Annual turnover for twelve months preceding the fire (1 June – 3 May 2007) is ₦220,000.

Increase in cost of working ₦4,000, during the period of interruption (with a saving of insured standing charges ₦1,500).

Reduced turnover avoided, through increase in cost of working ₦10,000 (that is) but for this expenditure, the turnover after the fire would have been only ₦12,500.

Owing to reserves acceptance to the insurer, the “special” circumstances clause stipulates for:

- (a) Increase of turnover (standard & annual) by 10%
- (ii) Increase of rate of gross profit by 2%.

You are required to compute the consequential loss claim

- 4. What is the usefulness of a cash flow statement?
- 5. According to the provision of Section 359(6) of the Companies and Allied Matters Act, Cap, C20 LFN, outline the responsibilities of the Audit Committee.
- 6. What are the limitations to the usefulness of ratios?