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: ACC419
COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING
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.**

1. Custom Safe Electric has authorised and issued share capital of N200 million, made up of 400 million ordinary shares of 50 kobo each. The following is the company's trial balance as at 30 April 2008.

PARTICULARS	**DR**	**CR**
	N'000	N'000
Freehold land	25,000	
Short term deposits	50,000	
Sundry debtors	60,820	
Cash and bank	50,862	
Furniture and fitting-	44,720	
cost		11,180
Accumulated		
depreciation		
Machinery and	164,000	
equipment-cost		
Accumulated		32,800
depreciation	27,160	
Stock at 1 may 2003		19,420
Sundry creditors		15,000
Bank overdraft	77,280	
Wages	2,100	
Postages and telephone	6,060	
General expenses	560	
Bad debts written off	2,000	
Auditors remuneration	2,140	
Distribution expenses	2,060	1,000

Insurance	4,100	
Bank interest paid and received	3,800	
Electricity	66,850	
Salaries (including directors remuneration N2m)	1,580	
Rates	306,832	
Purchases		640,124
Sales	24,000	
Dividends(interim)		2,400
Profit and loss account		200,000
Share capital	**921,924**	**921,924**

The following adjustments are necessary for the year ended 30/4/2008:
(a) The directors recommended that 5% of debtors should be set aside for possible bad debt.

(b) Stock w as valued at N28,648,000 as at 30 April, 2008.

(c) W ages outstanding at 30 April, 2008 amounted to N 2,400,000 and electricity accrued w as N280,000.

(d) Depreciation is to be written off machinery and equipment at 10% per annum and Furniture and Fittings at 5% per annum.

(e) The Sales Manager is entitled to sales commission of 2% of gross profit. The commission is payable on 1 May, 2008.

(f) Insurance has been paid in advance amounting to N 285,000.

(g) Machinery which stood in the books at 1 May, 2007 at N 8million has been sold for N6 million in part exchange for a new machinery costing N 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 N 10million. 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.

(h) The Directors proposed a final dividend of 8%, making a total of 20% dividend in respect of the year to 30 April, 2008.
(i) Provision for company income tax was N 35million.

Required: Prepare the profit and loss account for the year ended 30 April, 2008 and balance sheet as at 30 April, 2008 in a form suitable for publication. Notes to the accounts are not required but show your workings.
2.Set below is the Profit and Loss Account of CROSSLEM Plc, a manufacturing company, for the year ended 31 December 2008, together with its comparative figures.

	2008	2007

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

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 benefits totaling ₦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
Land & Building	34,982	314,479
Plant, machinery & vehicle	17,117	21,041
Goodwill & Patents	262,039	-
	314,138	335,520

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. GATEWAY plc acquired the entire share capital of LEKWAY plc for N120million cash on 31 December 2012. The balance sheets of the two companies at that date were as follows:

	GATEWAY plc	LEKWAY plc
	₦'000	₦'000
Fixed assets	240,000	98,000
Investment	120,000	-
Current assets	520,000	26,000
	880,000	124,000

Share capital of N1.00 per share	400,000	70,000
Profit and loss a/c	140,000	20,000
Current Liability	340,000	34,000
	880,000	124,000

There is no significant difference between the book value and the fair value of LEKWAY plc's assets. You are required to:

(a) Calculate goodwill;

(b) Prepare the consolidate balance sheet of GATEWAY Plc at 31 December 2012

4 The balance sheet of Touch Light limited, a manufacturing company, as at 31 December 2010 was as follows:

	₦'000	₦'000
FIXED ASSETS (NET)		12,000
Investments		500
Goodwill		1,900
		14,400
CURRENT ASSETS		
Stocks & work in progress	11,900	
Debtors	11,700	
Bank and cash balances	300	
	23,900	
DEDUCT: CURRENT LIABILITIES		
Creditors	8,900	
Bank overdraft	7,200	
Tax payable	400	
Dividends payable	700	
	17,200	
NET CURRENT ASSETS		6,700
NET ASSETS		21,100
FINANCED BY		
CAPITAL AND RESERVES		
Ordinary share capital- issued and fully paid		10,000
Revenue reserves		3,900
Shareholders' fund		13,900
Deferred tax		1,200
Long term loan		6,000
		21,100

Turnover during the year 2010 was ₦ 39million.

Required:

a. Compute the following:
   i. current ratio;
   ii. acid test ratio;
   iii. working capital ratio; and
   iv. stock turnover ratio.
b. Briefly state the purpose of current ratios.
c. What is the implication of working capital ratio?

5. AHMED Ltd decided to issue 1,000,000 shares of N 1.00 each at par, 10kobo payable on application, 40kobo on allotment and 50kobo on first and final call. OKAFOR Ltd, a finance company, agrees to underwrite the whole issue, at a commission of 2.5% and to apply firm for 200,000 shares. OKAFOR Ltd arranged with ADU Ltd that they sub-underwrite 25% of the shares for a commission of 2%. The public applies for and was allotted 400,000 shares and OKAFOR Ltd w as allotted the firm's application for 200,000 shares.

OKAFOR Ltd had deposited cheque designed for the application money on shares underwritten and ADU Ltd in turn, had deposited the relevant cheques and which cleared when the result of the issue became known and commission due was paid. After allotment and before final payment, OKAFOR Ltd sold 100,000 shares at 45k each, having made the final payment. OKAFOR Ltd then sold 250,000 shares at 110k each.
At the end of the financial year of OKAFOR Ltd, shares of AHMED Ltd were valued at 120k each.
Required: Prepare the Underwriting Account of OKAFOR Ltd reflecting the above transactions.

6a) List any five purposes of the conceptual framework for the preparation and presentation of financial statements put together by the International Financial Standards Board(IFSB).
b) What is the scope of the conceptual framework?