



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi-Abuja**  
**Faculty of Management Sciences, Department of Financial Studies**  
**October/November Examination 2016**

**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.

**QUESTION ONE**

Goodwill 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 2014:

	Dr	Cr
	₦'000	₦'000
Freehold land	25,000	
Short-term deposits	50,000	
Sundry debtors	60,820	
Cash and bank	50,862	
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	182,388	
Turnover		520,000
Dividends (interim)	48,000	
Profit and loss account		2,400
Share capital		<u>200,000</u>
	<u>835,800</u>	<u>835,800</u>

The following adjustments are necessary for the year ended 30/4/2014:

- 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<sup>th</sup> April, 2014.
- Wages outstanding at 30<sup>th</sup> April, 2014 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 2014.
- Insurance has been paid in advance amounting to ₦285,000
- Machinery which stood in the books at 1 May, 2013 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 5%, making a total of 29% dividend in respect of the year to 30 April, 2014.
- Provision for company income tax was ₦35 million.

You are required to prepare the profit and loss account for the year ended 30<sup>th</sup> April, 2014 and balance sheet as at 30<sup>th</sup> April, 2014 in a form suitable for publication. Notes to the accounts are not required but you should show your workings.

## QUESTION TWO

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. Show your workings.

### **QUESTION THREE**

Exotic Furniture Nig. Ltd recorded the following transactions in the first week of January 2009:

- (a) Rented an office space in Port Harcourt for ₦1 million per annum and paid ₦5 million, being rent for five years demanded by the landlord.
- (b) Bought office equipment for ₦240,000 on credit from Modern Business machines Ltd. The expected useful life of the equipment is four years.
- (c) Received cheque of ₦1.3 million from Rivers State Polytechnic, Bori, being final payment for sales made to the Institution in 2007.
- (d) Sold furniture items on credit to a local government in Rivers State for ₦4 million. The local government did not pay until the following year.

You are required to prepare extracts of the income statement and balance sheet of the company for the year ended 31 December, 2009, on the assumption that financial statements are prepared under (a) the accrual basis and (b) the cash basis accounting.

#### **QUESTION FOUR**

- a. According to the International Accounting Standard Board framework, define qualitative characteristic and mention the principal qualitative characteristics.
- b. Define the term 'accounting policies'.
- c. with reference to accounting policies, explain how stock is recognised in the financial statement.

#### **QUESTION FIVE**

What are the limitations to the usefulness of ratios?

#### **QUESTION SIX**

According to the provision of Section 359(6) of the Companies and Allied Matters Act, Cap, C20 LFN, discuss the responsibilities of the Audit Committee.