



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja**  
**FACULTY OF MANAGEMENT SCIENCES**  
**DEPARTMENT OF FINANCIAL STUDIES**  
**2019\_2 EXAMINATION**

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**Course Code:** ACC419 **Credit Units:** 3  
**Course Title:** ADVANCED FINANCIAL ACCOUNTING  
**Time Allowed:** 2 ½ Hrs

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**Instructions:**

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

Below are the statements of financial position of 3 companies as at 31/12/2010

	XLtd	YLtd	ZLtd
	N'000	N'000	N'000
Non-current Assets			
Property, plant and equipment	1,120	980	840
Investments			
672,000 shares in YLtd	644	-	-
168,000 shares in ZLtd	224		
	<hr/> 1,988	<hr/> 980	<hr/> 840

Current Assets

Inventory	380	640	190
Receivables	190	310	100
Bank	<u>35</u>	<u>58</u>	<u>46</u>
	<u>605</u>	<u>1,008</u>	<u>336</u>
Total assets	2593	1988	1176
Equity and Liabilities			
Equity			
N1 Ordinary shares	1,120	840	560
Retained Earnings	<u>1,232</u>	<u>602</u>	<u>448</u>
	<u>2,352</u>	<u>1,442</u>	<u>1,008</u>
Current Liabilities			
Trade payables	150	480	136
Taxation	<u>91</u>	<u>66</u>	<u>32</u>
	241	546	168
Total equity and Liabilities	2,593	1,988	1,176

You are also given the following information:

1. X Ltd acquired its shares in Y Ltd on 1 Jan 2010 when Y Ltd had retained losses of N56,000
2. X Ltd acquired its shares in Z Ltd on 1<sup>st</sup> Jan 2010 when Z Ltd had retained earnings of N140,000
3. An impairment test at the year-end shows that goodwill for Y Ltd remains impaired but the investment in Z Ltd has impaired by N2,800.
4. The X Group values the non-controlling interest (NCI) using the fair value method. The fair value of 1<sup>st</sup> January 2010 was N160,000

Required: Prepare the consolidated statement of financial position as at 31/12/2010

Note: show workings on the following:

- Shareholdings

- Net asset of Y Ltd
- Calculation of goodwill
- Non-controlling interest
- Group retained earnings
- Investment in associates

**(15 MARKS)**

b) In preparing the accounts for an entity, including an unincorporated entity such as a partnership, over which an investor has significant influence and which is neither a subsidiary nor an interest in a joint venture, explain 10 consolidation procedures? **(5 MARKS)**

c) Where sales have been made between two companies within the group, there may be an element of profit that has not been realised by the group if the goods have not then been sold to a third party before the year-end. Calculate the unrealised profit on stock where: goods were invoiced by parent company Y to subsidiary company Z at cost plus mark-up of 25%. At the end of the year, included in the stock of the subsidiary was this inter-company sales of N24,000,000 at invoiced price. **(5 MARKS)**

## QUESTION 2

Pepsi Co acquired 75% of the ordinary shares of Strawberry Co on that company's incorporation in 20X3. The summarized income statements and movement on retained earnings of the two companies for the year ending 31 December 20X6 are set out below.

	Pepsi Co N	Strawberry Co N
Sales revenue	75,000	38,000
Less: Cost of sales	<u>30,000</u>	<u>20,000</u>
Gross profit	45,000	18,000
Administrative expenses	<u>(14,000)</u>	<u>(8,000)</u>
Profit before tax	31,000	10,000
Income tax expense	<u>(10,000)</u>	<u>(2,000)</u>
Profit for the year	<u>21,000</u>	<u>8,000</u>
Retained earnings brought forward	87,000	17,000
Profit for the year	<u>21,000</u>	<u>8,000</u>
	<u>108,000</u>	<u>25,000</u>

Prepare the consolidated income statement and the statement of changes in equity showing retained earnings and non-controlling interest. **(15 MARKS)**

## QUESTION 3

Treasure & Co. has been making losses over the last few years. Its statement of financial position at 31 December, 2013 showed the following:

	N	N
Non-current assets:		
Property, plant and equipment		80,000
Current assets:		
Inventory	20,000	

Receivables	<u>40,000</u>	<u>60,000</u>
		<u>140,000</u>

Equity & Liabilities:

Ordinary capital		
100,000		
Retained earnings		(140,000)
Secured loan stock		100,000
Payables		<u>80,000</u>
		<u>140,000</u>

On liquidation, the assets would realise the following:

	N	N
Property, plant & Equipment		30,000
Inventory		12,000
Receivables		<u>36,000</u>
		<u>78,000</u>

If the company continues to trade for the next four years, profit after charging N20,000 per annum as depreciation on the property, plant and equipment would be as follows:

	N
2014	4,000
2015	20,000
2016	26,000
2017	<u>28,000</u>
	<u>78,000</u>

Assume that there would be no surplus cash to settle the payables and loan- stock holders until after four years when inventory and receivables could be realised at their book values.

Required:

- (a) Advise the management of Treasure & Co on the options available to them. **(10 MARKS)**
- (b) Redraft the statement of financial position of Treasure & Co after the exercise. **(5 MARKS)**

**QUESTION 4**

Nail and Hammer Construction Company Plc is in financial difficulty. The following is the Trial Balance of the company as at 30 June, 2015.

	DR	CR
	N	N
Land	580,000	
Building (Net)	136,230	
Ordinary shares of N1 each		500,000
5% cum-preference shares @ N1 each		350,000
8% Debenture (2020)		400,000
Equipment (Net)	53,770	
Goodwill	200,000	
Investment in shares (quoted)	135,000	
Inventory and work in progress	501,235	

Debtors	253,460	
Profit/Loss Account	199,105	
Interest payable on debentures		64,000
Trade creditors		481,235
Loan from Directors		80,000
Bank Draft		<u>183,565</u>
	<u>2,058,800</u>	<u>2,058,800</u>

Authorized capital is 1,000,000 ordinary shares of 1.00 each and 500,000 5% cumulative preference shares of 1.00 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 175,000 8% cum preference shares of 1.00 each and 700,000 ordinary shares of 25k each.
  - Ordinary shareholders accepted a reduction in the nominal value of the shares of 1.00 for 25k, with subscription to a new issue on the basis of 1 to 1 at a price of 30k per share.
  - 30,000 of Directors loan is to be cancelled. The balance is to be settled by issue of 50,000 ordinary shares of 25k each.
  - Goodwill and loss in the profit and loss account are to be written off.
  - Investments in shares are to be sold at market price of 300,000.
  - Bank overdraft to be repaid, 100,000 is to be paid to trade creditors and the balance payable by installment.
- 20% of debtors are to be written off.
- Assets are revalued as follows:

Land	1,450,000
Building	400,000
Equipment	50,000
Inventory and work-in-progress	250,000

Required: Show the necessary journal entries to effect the reconstruction scheme. **(15 Marks)**

### QUESTION 5

Business valuation is a process and a set of procedures used to determine what a business is worth. Residual Income is one of the approaches of valuation. It is the income left over after the firm has satisfied its investors' required return.

- What are the circumstances in which Residual Income model is most appropriate?

**(5 MARKS)**

- The following is extracted from the Income statement and Balance sheet of a firm for 2011.

	N'000
Operating Income (after tax)	17,507
Net financial expenses	<u>3,060</u>
Comprehensive income	<u>14,447</u>

The firm paid out all income in dividends at the end of the year and there were no share issues during 2011. The book value of common equity at the end of 2001 was N100,600. The cost of equity capital is 11%.

(a) Calculate residual income for 2011.

**(5 MARKS)**

(b) The residual income for 2012 and all subsequent years is expected to be the same as in 2011. Calculate the value of the equity at the end of 2011.

**(5 MARKS)**

### **QUESTION 6**

a) Distinguish between a Statement of affairs under bankruptcy and a Statement of financial position of a going concern.

**(5 marks)**

b) You are considering an investment in Rain & Shower Ltd. During the past year, the firm's Income statement had retained earnings of N 4.8 million and common stock dividends of N2.2 million. The year-end Statement of Financial Position shows common stockholders' equity of N35 million with 10 million shares of common stock outstanding. The common stock's market price per share is N9.00. What is Rain & Shower's Earnings Per Share and PE ratio.

**(5 marks)**

c) In accordance with Section 338 of CAMA, discuss the conditions under which a company (A) is deemed to be the subsidiary of another company (B).

**(5 marks)**