



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi-Abuja
Faculty of Management Sciences, Department of Financial Studies
2020_1 Examination

COURSE CODE: ACC311

CREDIT UNIT: 3

COURSE TITLE: Financial Accounting

TIME ALLOWED: 2 1/2 HOURS

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**

Question One

Three brothers; Wa, Zo and Bia are in partnership, trading under the name and style WaZoBia. The partnership agreement provides for:

	%	₦'000
i. Annual commission payable to:		
- Wa		4,000
- Bia		8,000
ii. Annual salary payable to:		
- Wa		5,000
- Zo		8,000
iii. Interest on partners' fixed capital	5	
iv. Interest on partners' drawings	5	
v. Equal share of profit or loss (1:1:1)		

The extract of the partnership balances for the period under review are as follows:

Wazobia

Trial Balance for the year ended October 31, 2019

	Debit	Credit
	N'000	N'000
Partners' capital as at November 01, 2018:		
- Wa		60,000
- Zo		60,000
- Bia		50,000
Partners' drawing		
- Wa	5,000	
- Zo	4,000	
- Bia	2,000	
Gross profit for the year		116,000
Trade receivables and payables	55,000	27,560
Irrecoverable debt	1,000	
Utility	8,600	
Postage and communication	3,200	
Allowances for bad debt at November 01, 2018		6,000
Property, plant and machinery	270,400	
Staff cost	18,360	
Distribution cost	5,000	
Other Income	4,000	
Finance cost	1,000	
5% Loan notes	50,000	
Inventory at October 31, 2019	6,000	
Accumulated depreciation on freehold properties		16,720
Accumulated amortisation of leasehold property		2,000
Rent and rates	3,360	
Cash and cash equivalent	9,360	
	<u>392,280</u>	<u>392,280</u>

The following information is also relevant for the preparation of the financial statements:

i Allowances for doubtful debts should be adjusted to 10% of trade receivables;

ii Accrued expenses for the period were:

- Utility N400,000; and
- Postage and communication N200,000

iii Prepaid expenses were:

- Rent and rates N600,000; and
- Staff cost N300,000

- iv Property, plant and equipment (PPE) includes a leasehold property of ₦20,000,000 which is amortised over 10 years. Depreciation charge for the year on freehold PPE has been estimated to be ₦5,000,000; and
- v Finance cost in the trial balance includes interest paid on 5% loan notes amounting to ₦500,000.

You are required to prepare for the partnership firm:

- Partners' capital Account
- Appropriation Account
- Statement of profit or loss for the year ended October 31, 2019.

(25 marks)

Question Two

Graystone is the proprietor of a shop selling shoes, other footwear, perfumes and cosmetics. For the purpose of accounting and control the business is divided into two departments as follows:

Department A: Shoes and other footwear;

Department B: Perfumes and cosmetics

For the year ended 31st March, 2018, the following balances were extracted from his books of accounts:

	Dr	Cr
	₦	₦
Sales:		
Department A		30,000
Department B		20,000
Inventory (1 st April, 2017):		
Department A	500	
Department B	400	
Purchases:		
Department A	23,600	
Department B	16,400	
Salaries:		
Department A	2,000	
Department B	1,500	
Wages for shoe packers	600	
Rates	420	
Insurance of building	200	
Lighting and heating	480	
Repairs to premises		100

(i) Inventory at 31st March, 2018 were valued at:

Department A, ₦600; Department B; ₦300

(ii) All common expenses incurred by Departments A and B should be apportioned in the prepared ratio of 4:1 respectively.

You are required to prepare Graystone's Trading and Profit or Loss Accounts for the year ended 31st March, 2018, apportioning the overhead expenses, where necessary, to show the profit and loss of each department. **(10 marks)**

B. State FIVE advantages of departmental account. **(5 marks)**
(Total 15 marks)

Question Three

- a. Define the concept company according to the Company and Allied Matters Act (2004 as amended). **(3 marks)**
- b. Explain the following:
 - i. Legal personality
 - ii. Limited Liability
 - iii. Perpetual existence **(3 marks)**
- c. State THREE differences between a private company and a public company **(4 marks)**
- d. Distinguish between a memorandum of association and an article of association. **(5marks)**
(Total 15 marks)

Question Four

On 1 July 2018 the directors of ABC Limited decided to increase the issue share capital of the Company by offering for subscription 500,000 ordinary shares of ₦2 each at a price of ₦4 per share.

	Per share
On application including premium	₦2.50
On allotment	₦0.70
On first allotment on 1 October 2018	₦0.40
On second and final call on 1 April 2019	₦0.40

The application lists were closed on 15 July 2018, by which date applications for 1,250,000 shares had been received. The directors decided to allot the shares to the applicants for the first 600,000 shares pro rata to their original application, the balance of the money received on application being applied to the amounts due on allotment. The shares were allotted on 22 July 2018, and the cash paid by unsuccessful applicants was returned to them on the same date. The balance of the allotment money was received by 31 July 2018 and the 'call' monies were received on the due dates. Show the following accounts - Bank, application and allotment, share capital, share premium, 1st call and second call- of the above transactions.

(15 marks)

Question Five

Bendos Trading Company Limited

Trading and profit or loss account for the year ended 31 December 2018

	2018		2017	
	₦'000	₦'000	₦'000	₦'000
Revenue		1,840		1,444
Less cost of sales				
Opening inventory	116		90	
Purchases	1,388		1,061	
Warehouse expenses	64		48	
	<u>1,568</u>		<u>1,199</u>	
Closing inventory	157		116	
		<u>1,411</u>		<u>1,083</u>
Gross profit		429		361
Less expenses:				
Salaries and expenses of selling	78		72	
Salaries and wages	56		50	
Rent and rates	25		24	
Bad and doubtful debts	6		8	
Depreciation	44		32	
Interest on mortgage loans	8		10	
Power and lighting	17		15	
General expenses	72		61	
Director's fees	34		24	
Audit fees	7		7	
		<u>347</u>		<u>303</u>
Net profit		<u>82</u>		<u>58</u>
Appropriation				
Provisions for taxation		18		12
Transfer to general reserves		10		8
Dividend payable		30		20
Retained in the profit or loss account		<u>24</u>		<u>18</u>
		<u>82</u>		<u>58</u>

Bendos Trading Company Limited

Statement of Financial Position as at 31 December 2018

	2018		2017	
	₦'000	₦'000	₦'000	₦'000
Non-current assets:				
Land and buildings		83		60
Plant and machinery		240		160
Motor vehicles		40		40
Total non-current assets		<u>363</u>		<u>260</u>

Current assets			
Inventory (Work in progress)	67	46	
Inventory (finished goods)	90	70	
Trade receivables (less doubtful debts)	110	20	
Bank cash	20	30	
		<u>287</u>	<u>226</u>
Total assets		<u><u>650</u></u>	<u><u>486</u></u>
Equity and liabilities			
Equity funds:			
Issued/paid up capital	300	200	
Capital reserves	23	--	
General reserves	60	50	
Profit and loss	42	18	
	<u>425</u>	<u>268</u>	
10 per cent mortgage loan	80	100	
		<u>505</u>	<u>368</u>
Current liabilities			
Trade payables	45	60	
Bank overdraft	52	26	
Dividend payable	30	30	
Taxation	18	12	
Total current liabilities		<u>145</u>	<u>118</u>
Total equity and liabilities		<u><u>650</u></u>	<u><u>486</u></u>

Required: From the above financial statements of Bendos prepare the following accounting ratios for 2017 and 2018.

- i. Net profit margin **(2 marks)**
- ii. Current ratio **(2 marks)**
- iii. Quick assets ratio **(2 marks)**
- iv. Debt ratio **(2 marks)**
- v. Total assets turnover **(2 marks)**
- vi. Sales to debtors **(2 marks)**
- vii. Earnings per share **(3 marks)**

(15 marks)

Question Six

The following information relate to the affairs of Success Plc for the period ended 31st December:

Statement of financial position as at 31 December:

	20x9	20x8
	₦'000	₦'000
Non-Current assets	321,000	340,000
Long-Term Investment	<u>50,000</u>	<u>30,000</u>
	<u><u>371,000</u></u>	<u><u>370,000</u></u>
Current Assets:		

Inventories	200,000	90,000
Trade Receivables	82,000	60,000
Cash and bank balances	<u>62,000</u>	<u>50,000</u>
	<u>344,000</u>	<u>200,000</u>
TOTAL ASSETS	<u>715,000</u>	<u>570,000</u>
Equity and Liabilities		
EQUITY		
Issued share capital	200,000	160,000
Share Premium	56,000	40,000
Retained Earnings	<u>273,000</u>	<u>243,000</u>
	<u>529,000</u>	<u>443,000</u>
Non-Current Liability		
Long-Term Loan	40,000	22,000
Current Liabilities		
Trade payables	62,000	30,000
Bank overdraft	28,000	15,000
Income tax payable	24,000	20,000
Other payables	<u>32,000</u>	<u>40,000</u>
	<u>146,000</u>	<u>105,000</u>
Total Liabilities	<u>186,000</u>	<u>127,000</u>
Total equity and liabilities	<u>715,000</u>	<u>570,000</u>

Statement of Profit or Loss for the year ended 31st December 20x9

	N'000
Revenue	488,000
Cost of sales	<u>(285,000)</u>
Gross profit	203,000
Distribution costs	(44,000)
Administrative expenses	(81,000)
Interest and dividends received	3,000
Finance cost	<u>(1,000)</u>
Profit before tax	80,000
Income tax expense	<u>(24,000)</u>
Profit for the period	<u>56,000</u>

Additional Information:

1. Depreciation charge for the year was N8million on land and building and N22 million on plant and machinery.
2. During the year a plant with a carrying amount of N35million was sold for N42million.
3. During the year, an investment that had cost N8million some years earlier was sold for N13million.
4. Dividend paid in the year amounted N26million.

Required: Prepare statement of cash flows of Success Plc for the period ended 31st December 20x9 using the Indirect Method. **(15 marks)**