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REDEEMER'S UNIVERSITY, EDE

P.M.B. 230, Ede, Osun State



FACULTY OF MANAGEMENT SCIENCE

DEPARTMENT OF ACCOUNTING

COURSE CODE /TITLE ACC 201 - FINANCIAL ACCOUNTING I

..... **FIRST** **SEMESTER EXAMINATIONS**

..... **2019/2020** **SESSION**

INSTRUCTIONS ON CHOICE OF QUESTIONS TO BE ANSWERED

ANSWER QUESTION ONE AND ANY OTHER THREE.

TIME ALLOWED 2½ HOURS

QUESTION 1

- a. Define concisely Accounting as a science, and financial Accounting as a concept. **(3 Marks)**
- b. Define three basic key qualities of good accounting information. **(3 Marks)**
- c. Explain three common accounting concepts you are familiar with. **(3 Marks)**
- d. The following are the balances extracted from the books of ABC International Nigeria Limited as at 31st December, 2019:

	DEBIT	CREDIT
	=N=	=N=
Issued and Paid-up Capital (200,000 Ord. Shares of N2.00 each)		400,000
Share Premium		100,000
Inventory as at 1 st January 2019	272,000	
6% Debenture		200,000
Debenture Interest to 30/6/19	6,000	
Freehold land & Building	422,000	
Motor Vehicle (Original Cost N160,000)	64,000	
Directors Remuneration	104,000	
Purchases/Revenue (Sales)	3,004,000	3,928,400
Retained Earnings (1 st January, 2019)		161,200
General expenses	328,700	
Wages & Salaries	356,000	
Electricity	13,000	
Bank	107,800	
Interim Dividend Paid	19,500	
Motor Vehicle Expenses	16,600	
Rates & Insurance	17,200	
Discount Allowed/Received	33,600	22,800
Bad Debts	9,200	
Provision for Bad Debts		6,400
Receivables/Payables	<u>369,200</u>	<u>324,000</u>
TOTAL	<u>5,142,800</u>	<u>5,142,800</u>

Additional Information

- i. The authorized Capital of the company is N500,000 divided into 500,000 shares of N2.00 each
- ii. Provision is to be made for final dividend at 8%.
- iii. Motor Vehicle Expenses outstanding as at 31/12/19 was N1,400; no entry was passed in the books for purchased on credit as of 31/12/19 for N1,800, and do not appear in the closing inventory figure for the year.
- iv. Provision must be made for accrued interest on debenture. Provision for doubtful debts is to be adjusted to amount to 10% of Receivables outstanding as at 31/12/19; while Motor vehicle should be depreciated on a straight-line basis for 5 years.

- v. Amount paid in advance on Insurance and rates as at 31/12/19 was N2,400.
- vi. Inventory as at 31st December, 2019 amounted to N326,000
- vii. It was discovered that the figure passed into the books in respect of discount allowed was overcast by N7,500; while electricity bill of N3,500 was not entered in the ledger.
- viii. Sales on credit amounting to N25,000 was inadvertently omitted from the books at the year end.

You are required to prepare the following statements for ABC Ventures Limited as at December, 31st, 2019:

- a. Statement of Comprehensive Income (including Appropriation Account) (8 Marks)
- b. Statement of Financial Position (4 Marks)

Total –21 Marks

QUESTION 2

- a. What is a partnership? (2 Mark)
- b. What do you understand by Goodwill in partnership relationship? Identify four factors that can give rise to Goodwill valuation in the partnership accounting books. (4 Marks)
- c. Taiwo and Kehinde Capital employed is N600,000, and their Gross profit is N213,750. Running expenses is N65,000. There is a reason necessitating the computation of Goodwill in the relationship. You are engaged as an accountant to do the assignment. You are required to calculate the Goodwill using 4 years purchase of super profit. There is an alternative investment option giving rise to a yield of 21%. (4 Marks)
- d. The Financial Position of ABC Investment Ltd as at 31st December, 2019 is as follows:

	=N=	=N=
Non-Current Assets		
Land & Building		1,000,000
Furniture		<u>500,000</u>
		1,500,000
Current Assets		
Inventory	60,000	
Receivables	40,000	
Cash	<u>70,000</u>	
	170,000	
Less: Current Liabilities		
Payables	<u>140,000</u>	<u>30,000</u>
		<u>1,530,000</u>
Represented By:		
Capital		1,220,000
Revenue		<u>310,000</u>
		<u>1,530,000</u>

On the same day, JKF Investment & Management Limited decided to purchase the business by taking over all assets and liabilities with the exception of cash and payables for N1,650,000.

You are required to:

Calculate the Goodwill and prepare the new Statement of Financial Position for JKF Investment & Management Limited after the take-over (31st December, 2019). (3 Marks)

Total – 13 Marks

QUESTION 3

Adio-Bukunmi Ventures is a retailer. On 1st January 2019, its Assets were as follows:

	=N='000
Cash In Hand	686
Inventories	916
Furniture and Fittings	396
Sundry receivables: Peter	36
James	78
John	52
The Liabilities include:	
Nicodamus	24
Andrew	42

The following transactions took place during the month of January, 2019:

		=N='000
January 1	Sold goods to James on credit	248
5	Paid wages	24
6	Bought goods on credit from Nicodemus	300
8	Peter settled his account	
9	Paid Andrew what is owed	
10	Cash sales	128
13	Paid wages	28
17	Bought goods for cash	150
18	Paid Nicodemus the balance on his account	
19	Bought a new office desk for cash	64
20	Paid wages	34
23	Cash sales	220
24	Paid office expenses	6
25	James paid on account	50
26	Cash sales	168
27	Paid wages	30
30	Cash sales	60

You are required to

- a. Enter the transactions in Adio-Bukunmi Ventures accounting records
- b. Prepare a Trial balance as at 31st January, 2019

(10 Marks)

(3 Marks)

Total – 13 Marks

QUESTION 4

- a. Explain THREE distinguishing features of Debenture and Shares (3 Marks)
- b. The summarized Statement of Income and Statement of Financial Position of Silver and Gold Plc, a manufacturing firm, for internal circulation is as follows:

SILVER AND GOLD NIGERIA PLC
INCOME STATEMENT FOR THE YEAR ENDED 31st DECEMBER, 2019

	N'000	N'000
Sales revenue		411,590
Cost of Sales		<u>(247,860)</u>
Gross Profit		163,730
Distribution Expenses	(66,040)	
Administrative Expenses	(46,270)	
Debenture Interest paid	<u>(1,500)</u>	<u>113,810</u>
Profit before Taxation		49,920
Less: Taxation		<u>(19,960)</u>
Profit After Taxation		29,960
Dividend Proposed		<u>(15,410)</u>
Retained Profit		<u>14,550</u>

STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER, 2019

	N'000	N'000
Non-Current Assets		159,300
<u>Current Assets</u>		
Inventory and Work-In-Progress	60,020	
Receivables	10,870	
Bank Balances	41,120	
Cash at Hand	<u>20,000</u>	
	132,010	
<u>Less Current Liabilities</u>		
Trade Payables	83,110	
Bank Overdraft	1,800	
Taxation	7,860	

Dividend	<u>15,410</u>	<u>108,180</u>
Net Current Assets		<u>23,830</u>
		<u>183,130</u>

Financed By:		N'000
Ordinary Shares of N0.80 each		50,000
Share Premium		28,400
Capital Reserves		41,230
Revenue Reserve		<u>48,500</u>
		168,130

<u>Long Term Liabilities</u>		
10% Debenture		<u>15,000</u>
Capital/Reserves & Long Term Liabilities		<u>183,130</u>

Additional Information:

- Inventory as at 1/1/19 was N51,390,000
- All sales and purchases are on credit
- Purchases during the year amounted to N256,490,000
- The market price of the company's share has been fairly stable at N20.14/share

You are required to calculate the following ratio for 2019:

- | | | |
|-------------------------------|-----------------------------|------------------------------|
| i. Acid Test | ii. Fixed Interest Cover | iii. Inventory Turnover Rate |
| iv. Average Collection Period | v. Creditors Payment Period | vi. Earnings per Share |
| vii. Price-Earnings Ratio | viii. Dividend per Share | ix. Earnings Yield |
| x. Return On Capital Employed | | |

(10 Marks)

Total – 13 Marks

QUESTION 5

Glory, Mercy and Blessing are partners sharing profit and losses in the ratio 3:2:1 respectively. The partners Trail Balance as at December 31, 2019 is as follows:

PARTICULAR	=N='000	=N='000
Premises	90,000	
Plant & Equipment	37,000	
Motor Vehicle	15,000	
Furniture	2,000	
Inventory	62,379	
Receivables	34,980	
Capital Account:		
Glory		85,000
Mercy		65,000
Blessing		35,000
Current Account:		
Glory		3,714
Mercy	2,509	
Blessing		4,678
Payables		19,036
Partner's Loan – Blessing		28,000
Bank		<u>3,440</u>
	<u>243,868</u>	<u>243,868</u>

Additional information

- i. Blessing retires on 31st December, 2019 and Praise was admitted as a partner on the same date.
- ii. Assets were valued as follows – Premises N120,000,000; Plant & Equipment N35,000,000 and Stock N54,179,000
- iii. Goodwill of N42 million is to be recorded in the books on the day Blessing retires and a sum of N3million is to be written off the debts
- iv. The partners in the new firm do not wish to maintain goodwill account. Glory and Mercy are to share profit and loss in the same ratio as before and Praise is to have same sharing ratio as Mercy

- v. Blessing is to take her car at its book value of N3.9 million in part payment and the balance of all she is owed by the firm is to be paid in cash except N20million which she is willing to leave in the firm as a loan.
- vi. The partners in the new firm are to start on an equal so far as Capital and Current accounts are concerned. Praise is to contribute cash to bring his capital and current accounts to the same amount as the original partners from the old firm who has the lower investment in the firm.
- vii. The original partner in the old firm who has the higher investment will draw out cash so that his capital and current accounts will equate those of the new partners.

You are required to prepare:

- a. Ledger accounts to record the above transactions including the Goodwill account and the retiring partner account **(10 Marks)**
- b. Statement of Financial Position of the new firm (Glory, Mercy & Praise) as at 31st December, 2019. **(3 Marks)**

Total – 13 Marks

QUESTION 6

The following information is extracted from the books of ABC Ventures Limited for the month of January 2019.

January 1	Start business with a capital of N1.5 million which was paid directly into the bank account; Purchased Motor Vehicle with cash N540,000; Purchased goods for resale N382,500
January 2	Received cheque of N186, 900 from Gbadeyan Gift allowing cash discount of N2,040
January 3	Purchased office stationery with cash N23, 280
January 4	Withdrew cash from bank for office use N150,000
January 5	Sold goods for cash N70,020; Paid rent by cheque N180,000
January 6	Cash sales amounting to N141,900
January 7	Cash lodged into bank N260,220; Sold goods on credit to Mrs. Lawal N400,000
January 8	Cash Sales N167,220
January 9	Issued cheque of N94,500 to Adio Dayo in full settlement of his account of N97,500
January 10	Paid Carriage for cash N4,500
January 13	Issued cheque for telephone expenses of N37,500
January 14	Purchased goods for cash N66,720; Purchased goods on credit N200,000
January 15	Received cheque of N129,000 from Ike Uche after allowing cash discount of N2,700; Office cash banked N62,220
January 16	Received cash from Mr. Obikoya N80,460; Issued cheque for personal use N52,500
January 20	Paid cash for motor vehicle expenses N8,100
January 23	Paid Cash for electricity expenses N18, 000; Cash sales paid into bank directly N187,500
January 24	Cash sales N29,700
January 25	Drew cheque for salaries N166,800
January 26	Paid Babalakin, B. N213,720 by cheque claiming cash discount of N45,000
January 27	Received cheque from Mr Subomi N146,220 in full settlement of N150,000 Purchased postage stamps for cash N12,840
January 28	Paid vehicle fuel in cash N51,000
January 31	Cash sales N73,020

- a. You are required to drawn up a three column cash book of ABC Ventures Ltd for the month of January, 2019. **(11 Marks)**
- b. Using the basic accounting equation and the following data, determine the value of capital. Cash at Bank N167,600; Cash at hand N181,160; Receivables N296,000; Overdraft N250,000; Inventories N224,000; Premises & Building N920,000; Furniture & Fittings N304,000; Payables N376,000 and Net Income N394,000. **(2 Marks)**

Total - 13 Marks