

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART II EXAMINATIONS – SEPTEMBER 2021**

PRINCIPLES AND PRACTICE OF FINANCIAL ACCOUNTING

Time Allowed: 3 hours

SECTION A: PART I MULTIPLE-CHOICE QUESTIONS (30 Marks)

ATTEMPT ALL QUESTIONS

Write ONLY the alphabet (A, B, C, D or E) that corresponds to the correct option in each of the following questions/statements

1. Which of the following is issued by the seller when goods bought on credit are returned?
 - A. Debit note
 - B. Credit note
 - C. Credit invoice
 - D. Goods return note
 - E. Bill of exchange

2. A company with an authorised share of ₦1.00 each, issued the shares at a price of ₦1.20 per share. The discount or premium per share is
 - A. Discount of 80kobo per share
 - B. Premium of 80kobo per share
 - C. Premium of 20kobo per share
 - D. Discount of 20kobo per share
 - E. Premium of ₦1.10 per share

3. Alice Ventures Limited has the following information;

Opening Inventory - Le 370, 000

Closing Inventory - Le 260, 000

Cost of inventory sold - Le 3, 307, 500

The annual rate of inventory turnover is times

- A. 12.7
 - B. 11.5
 - C. 10.5
 - D. 9.5
 - E. 5.3
4. Dividends received by a company from another company should be treated in its statement of cash flows as
- A. Cash and cash equivalent
 - B. Non-cash transaction
 - C. Financing activities
 - D. Investing activities
 - E. Operating activities
5. Which of the following is **NOT** a feature of property, plant and equipment (PPE)?
- A. They are used for production of goods & services
 - B. They have useful life of more than one year
 - C. They are non-current assets
 - D. They are free from any encumbrances
 - E. They are acquired not for resale
6. Which of the following is **NOT** an item under liabilities?
- A. Accruals
 - B. Long term debt
 - C. Recoverable tax
 - D. Provisions
 - E. Creditors

- E. Dr. Trade Receivables Account Cr. Profit or loss Account
10. The necessary accounting entries required to record Goodwill value in the books of partnership business on admission of a new partner is
- A. Dr. New partner Capital Account Cr. Goodwill Account
 B. Dr. Goodwill Account Cr. New partner Capital Account
 C. Dr. Realisation Account Cr. Goodwill Account
 D. Dr. Goodwill Account Cr. Realisation Account
 E. Dr. Goodwill Account Cr. Revaluation Account
11. **Use the following details to answer question 11**
- | | |
|--|----------|
| Trade receivables control account balance | ₦750,000 |
| Provision for doubtful debt | ₦75,000 |
| Provision for discount allowed on receivable | 5% |
- What is the trade receivables to be shown under current assets in the statement of financial position?
- A. ~~₦~~637,500
 B. ~~₦~~641,250
 C. ~~₦~~675,000
 D. ~~₦~~678,750
 E. ~~₦~~712,500
12. Acid test ratio means?
- A. The total of non-current assets less current assets
 B. The excess of the current assets over the current liabilities
 C. The total assets less total capital
 D. Current assets minus inventory over the current liabilities
 E. The amount of capital invested by the shareholder
13. A value added statement should, as a minimum, contain the following, **EXCEPT**
- A. Turnover
 B. Investment
 C. Tax payable
 D. Employees' wages and benefits
 E. Bought-in materials and services

14. Assets are revalued when there is a change in partnership because
- A. The law insists upon it
 - B. The agreement favours new partners
 - C. Inflation affects all values
 - D. It helps prevent injustice to some partners
 - E. It protects the interest of the incoming partner
15. In a limited liability company, which of the following is **NOT** an appropriation account item?
- A. Preference share dividend
 - B. Final dividend
 - C. Net profit
 - D. Transfer to reserve
 - E. Interest on overdraft
16. Joint venture differ from partnership in that
- A. Joint venture are formed to deal with inventory only
 - B. Co-venturer do not contribute capital
 - C. No-prior agreement are required to form a joint venture
 - D. Joint venture are usually for a limited period
 - E. Joint venture are carried on indefinitely
17. Which of the following ratios measures the efficiency of operation of an entity?
- A. Current ratio
 - B. Dividend yield ratio
 - C. Gross profit to turnover ratio
 - D. Acid test ratio
 - E. Net profit to capital employed ratio
18. Which of the following is required to record transaction with the sub-tenant when accounting for royalties?
- A. Royalties payable account
 - B. Short working receivable account
 - C. Royalties receivables account
 - D. Landlord account
 - E. Minimum rent account

19. Which of the following is included in cash and cash equivalent in the statement of financial position of a company?
- A. Bank overdraft
 - B. Loan notes
 - C. Equity shares
 - D. Fixed deposits
 - E. Inventories
20. The valuation of long term contract work-in-progress to date is determine as follows:
- A. Cost of contract+ Profit recognised + Forseable losses – Progress pay recorded
 - B. Cost of contract – Profit recognised – Foreseable losses + Progress payment review/receivable
 - C. Cost of contract + Profit recognised – Foreseable losses – Progress payment recorded/review
 - D. Cost of contract – Profit recognised – Foresable losses – Progress payment receivable/review
 - E. Cost of contract + Profit + Foresable losses + Progress payment review/receivable
21. Faulty goods costing ₦96,690 were returned to a supplier but this was recorded as ₦96,960 in the ledger accounts. The journal entry necessary to correct the error is
- A. Dr. Purchases returns ~~₦270~~ Cr. Payables ~~₦270~~
 - B. Dr. suspense ~~₦270~~ Cr. purchases ~~₦270~~
 - C. Dr. purchases ~~₦270~~ Cr. payables ~~₦270~~
 - D. Dr. payables ~~₦270~~ Cr. purchase returns ~~₦270~~
 - E. Dr. purchases ~~₦270~~ Cr. purchase returns ~~₦270~~

22. In line with classification by nature, which of the following must be disclosed on the face of the statement of comprehensive income?
- I. Income tax expense
 - II. Depreciation
 - III. Finance cost
 - IV. Dividends paid
- A. I and II
 - B. I and III
 - C. I, II and III
 - D. I and IV
 - E. II and IV
23. Which of the following will involve movement of cash?
- A. Depreciation
 - B. Credit sales
 - C. Bonus issue of shares
 - D. Forfeiture of shares
 - E. Rights issue of shares
24. Which of the following double entry represents a situation where goodwill is not retained in partnership accounts?
- I. Dr. Goodwill Cr. Capital account in old ratio
 - II. Dr. Capital account in old ratio Cr. Goodwill account
 - III. Dr. Goodwill account Cr. Capital account in new ratio
 - IV. Dr. Capital account in new ratio Cr. Goodwill account
- A. I and II
 - B. I and III
 - C. I and IV
 - D. II and IV
 - E. III and IV

25. Which of the following should be recognised in the statement of profit or loss?
- A. Dividends paid to ordinary shareholders
 - B. Dividends paid to both preference and equity shareholders
 - C. Effect of change in accounting policy
 - D. Deficit on revaluation of property, plant and equipment
 - E. Surplus on revaluation of property, plant and equipment
26. Dapo sold goods to Nkechi on a sale or returns basis. The period of return has not expired. In Dapo's accounts the transaction could be recorded as
- A. Recognise the transaction as an outright sale
 - B. Recognise the total profit generated in the transaction
 - C. Recognise the total goods at cost in the inventory
 - D. Recognise a certain percentage of the profit
 - E. Recognise Nkechi as a debtor for the amount
27. Which of the following is **NOT** suffered by a limited partner in partnership?
- A. He cannot withdraw any part of his capital
 - B. He cannot take part in the management
 - C. He cannot dissolve the partnership by giving notice
 - D. He cannot share in the profit of the partnership without increasing fixed liability
 - E. Other partners can be introduced without his consent
28. Which of the following is **NOT** a heading Under IAS 7?
- A. Cash flows from investing activities
 - B. Cash flows from normal activities
 - C. Cash flows from operating activities
 - D. Changes in working capital
 - E. Cash flows from financing activities
29. Given that sales is ₦2,600,000, purchases ₦1,500,000, opening inventory ₦220,000 and closing inventory is ₦260,000; what is the inventory turnover?
- A. 6.1 times
 - B. 6.6 times

- C. 10 times
 - D. 7 times
 - E. 10.8 times
30. Value of inventory destroyed by fire in an entity is ~~N~~1,800,000, inventory salvaged is ~~N~~200,000 while the insurance policy taken against loss of inventory is ~~N~~1,600,000. There is an average clause in the policy taken by the entity. How much is recoverable for the loss of inventory?
- A. ~~N~~1,240,000
 - B. ~~N~~1,422,222
 - C. ~~N~~1,440,000
 - D. ~~N~~1,600,000
 - E. ~~N~~1,800,000

SECTION A: PART II SHORT-ANSWER QUESTIONS (20 MARKS)

ATTEMPT ALL QUESTIONS

Write the correct answer that best completes each of the following questions/statements.

1. The international accounting standard (IAS) 8 is on
2. An integral part of financial statements that provides details or supplementary information in respect of items disclosed in the Income Statement and Statement of Financial Position is
3. A document drawn up so as to agree the bank account position with the balance of the cash book is called
4. By carrying forward subscription in advance, one is applying concept
5. Loss on revaluation of property, plant and equipment is recognised in the statement of
6. A statement prepared to show the statement of affairs of a firm at any point in time is called

7. A liability which is payable in a period longer than one year is called .
8. The IASB conceptual framework identified two classes of qualitative characteristics for useful financial information. They are and characteristics.
9. In partnership account, the journal entry for Interest on drawings is and
10. A suspense account is an account showing a balance which is equal to the difference in a
11. In business equation of a sole trader, profit increase is net assets less capital introduced plus
12. The amount advanced by a contractee to a contractor to enable construction work to commence on site is
13. The necessary accounting entries required to record the value of provision no longer required in the partnership books on termination of partnership are and
14. The necessary accounting entries required to write-off the profit made on the Re-issued Forfeited Shares are and
15. The cost of goods sold for a manufacturing company is calculated by adding opening inventory to less closing inventory.
16. When current ratio is less than 1, working capital is
17. The account debited when short working is recovered is
18. The account in the books of P, who is in a joint venture with Q under memorandum joint venture method is headed as account
19. Discount on bills discounted is debited to
20. The payments over the lease term that are required to be made are called

SECTION B: ATTEMPT ANY FOUR QUESTIONS 50 MARKS

QUESTION 1

The statement of Financial position of Solomon Jubril Enterprises, a Rice merchant as at 31 December 2017 are as follows; The only books kept by the merchant are a cash book and a ledger.

SOLOMON JUBRIL ENTERPRISES

STATEMENT OF FINANCIAL POSITION AS AT 31 December 2017

<u>Non-Current Assets</u>	N'000	N'000
Freehold Premises	1,600	
Plant and Machinery	<u>450</u>	
	<u>2050</u>	2050
<u>Current Asset</u>		
Inventory	900	
Receivables (Debtors)	980	
Cash	<u>30</u>	
	<u>1910</u>	<u>1910</u>
		<u>3,960</u>
<u>Equity & Liabilities</u>		
Capital		3,200
Payables (Creditors)		<u>760</u>
		<u>3,960</u>

The following is a summary of his Receipts and Payments during the year ended 31 December 2018.

<u>RECEIPTS</u>	N'000	PAYMENTS	N'000
Capital paid in	250	Additions to machinery	150
Cash sales	1,860	Wages	750
Cash on account of		General Expenses	640
Credit sale	4,520	Creditors for goods Purchased	4,000
		Drawings	520
		Balance c/d	<u>570</u>
	<u>6,630</u>		<u>6,630</u>

Additional Information;

- On 31 December, 2018 the amount due to creditors was ~~N~~820,000 and the Debtors and Inventory amounted to ~~N~~940,000 and ~~N~~860,000 respectively.
- Depreciation of 10% is to be written off the plant and machiner including additions during the year.
- A provision of ~~N~~150,000 is to be made for Bad debt
- The sum of ~~N~~50,000 for goods supplied to the proprietor was included in the debtors' balances as at 31st December 2018.

You are required to;

Prepare the Trading and Profit or loss account for the year ended and the statement of financial position as at 31 December 2018.

Show your cash book and the ledger postings.

(Total 12 ½ Marks)

QUESTION 2

IAS 2 inventory, states that inventory should be valued at the lower of cost and net realisable value.

- Define Inventory (2 Marks)
- Explain what is meant by Realisable value. (3 Marks)
- Jacko Limited has the following products in inventory at 30 September, 2019:

	Units	Cost per units N
Santona	17,400	187
Cracky	5,800	136

Jacko normally sells Santona at ~~N~~289 per unit, and Cracky at ~~N~~240 per unit. Jacko Limited expected to incur ~~N~~77.35 per unit in selling costs. ~~N~~34 per unit is expected to be incurred to complete cracky.

Calculate the amount at which inventory should be stated in the statement of financial position at 30 September, 2019.

(7½ Marks)

(Total 12 ½ Marks)

QUESTION 3

Two companies Alafia Limited and Karaole Limited trade in same market selling hand sanitiser and face masks. Their financial statement for the year ended 31 October 2019 are summarised below:

STATEMENT OF PROFIT OR LOSS

	Alafia Limited	Karaole Limited
	GH¢'000	GH¢'000
Revenue	1,420	1,525
Cost of sales	(775)	(755)
Gross profit	645	770
Expenses:		
Admin Exp.	(120)	(185)
Distribution cost	(175)	(265)
Depreciation	(45)	(60)
Interest on loan notes	--	(25)
Net profit for the year	<u>305</u>	<u>235</u>

STATEMENT OF FINANCIAL POSITION

	Alafia Limited	Karaole Limited
	GH¢'000	GH¢'000
Assets		
Property plant & equipment	1,600	2,575
Accum. Depreciation	<u>(375)</u>	<u>(480)</u>
Carrying amount	1,225	2,095
Current Assets		
Inventory	455	1,465
Trade receivable	230	375
Cash and cash equivalent	<u>320</u>	<u>75</u>
	<u>1,005</u>	<u>1,915</u>
Total assets	<u>2,230</u>	<u>4,010</u>
Equity & Liabilities		
Equity		
Share capital	750	1,250
Retained earnings	<u>540</u>	<u>885</u>
	1,290	2,135
Non-Current Liabilities		
10% loan notes	--	250
Current Liabilities	<u>940</u>	<u>1,625</u>
Total liabilities & equities	<u>2,230</u>	<u>4,010</u>

Required:

- a. Calculate the following ratios for Alafia Limited and Karaole Limited.

Profitability Ratios

Gross profit margin

Net asset percentage

Assets turnover ratios

Liquidity Ratios

Current ratios

Quick ratios

Receivable collection period (days)

(6 Marks)

- b. Compare and comment on the performance of the two companies as at 31 October 2019.

(6½ Marks)

(Total: 12½ Marks)**QUESTION 4**

Olu, Bisi and Abiodun have been in practice under the name OBA partners for many years sharing profits and losses in the ratio of 4:3:3. Bisi decided to retire on December 31, 2019 due to her relocation to Canada. The statement of financial position as at December 31, 2019 was as shown below:

OBA Partners**Statement of financial position as at December 31, 2019**

	N'000	N'000
Non-current assets		
Freehold land and building		5,400
Plant and machinery		1,800
Office equipment		450
Motor vehicles		1,050
Current assets		
Inventory	1,000	
Receivables	1,250	
Bank balances	<u>230</u>	
	<u>2,480</u>	
Current liabilities		
Payables	1,580	
Bank overdraft	<u>300</u>	
	<u>1,880</u>	<u>600</u>

	<u>9,300</u>
Financed by:	
Capital accounts	
Olu	4,200
Bisi	3,000
Abiodun	<u>2,100</u>
	<u>9,300</u>

The partners noted that the account did not reflect the followings:

- (i) Interest should be charged on partners' drawings at 5%
Each of the partners had drawn ~~₦~~600,000.
- (ii) Interest on partner's capital account to be credited at 6%. Partners account for the purpose of the interest calculation is to be taken as follows:
Olu ~~₦~~2,100,000
Bisi ~~₦~~1,050,000
- (iii) Bisi received ~~₦~~2,400,000 paid by cheque immediately.
- (iv) Goodwill was valued at ~~₦~~3,000,000 and was to be retained in the books.
- (v) Other assets and liabilities were valued as follows:
Freehold land and buildings ~~₦~~6,000,000
Plant and machinery ~~₦~~2,400,000
Office equipment ~~₦~~350,000
Motor vehicles ~~₦~~1,560,000
- (vi) Discount to be received from creditors amounted to ~~₦~~270,000.
- (vii) 20% of the receivables was irrecoverable.
- (viii) 15% of inventory was obsolete.
- (ix) The balance due to Bisi is to be kept in the firm as a loan.

You are required to prepare:

- a. The revaluation account. (3 Marks)
- b. The partners' capital accounts. (5 Marks)
- c. The adjusted statement of financial position. (4½Marks)

(Total 12½Marks)

QUESTION 5

Luckydip Nigeria Limited

Profit or loss Account for the year ended 30 September 2019

	N'000	N'000
Turnover		5,200
Cost of Goods sold		<u>2400</u>
Gross Profit		<u>2,800</u>
Salaries & Wages	1,600	
General expenses	480	
Provision for	400	
Depreciation		
Interest on Debentures	80	
		<u>2,560</u>
		240
Corporate tax for the year	50	
Proposed Dividend	40	<u>90</u>
		<u>150</u>

Statement of Financial Position as at

	30 September 2019		1 October 2019			
	N'000	N'000	N'000	N'000	N'000	N'000
Non-Current Assets (Cost)			3,600			3040
Accumulated Depreciation			<u>1,840</u>			<u>1440</u>
			1,760			1600
Current Assets						
Inventory	320			460		
Trade Receivables	120			160		
Bank	<u>168</u>			<u>88</u>		
		608			708	
Current Liabilities						
Tax	50			60		
Trade Payables	220			200		
Accrued Wages	20			40		
Proposed Dividend	<u>40</u>			<u>40</u>	340	
		<u>330</u>	<u>278</u>			<u>368</u>
			<u>2038</u>			<u>1,968</u>

Financed by:

Ordinary Shares	800	800
Retained Profit	518	368
10% Loan Notes	<u>720</u>	<u>800</u>
	<u>2,038</u>	<u>1968</u>

You are required to:

Prepare Statement of Cash Flows for the year ended 30 September, 2019 using direct method. Show all workings. **(Total 12½ Marks)**

QUESTION 6**INCOME & EXPENDITURE**

The Treasurer of Agege Recreation Club prepares the receipt and payment account of the club for the year ended 31 December 2019 as follows;

RECIEPTS**PAYMENT**

	N'000		N'000
Cash in hand 31/12/18	10	Bar Purchases	1885
Balances of Bank at 31/12/18		Wages	306
- Current Account	263	Rent and Rates	184
- Deposit Account	585	Lighting and heating	143
Entrance fees	54	New Lawn mower (Less allowance for old one N40,000)	120
Subscriptions; to 31/12/2018	30	General expenses	132
to 31/12/2019	574	Catering Purchase	80
to 31/12/2020	44	Additional furniture	460
Bar takings	2,285	Cash in hand	8
Catering receipts	120	Balances at bank 31/12/19	
Deposit account interest	<u>26</u>	Current Account	176
	<u>3,991</u>	Deposit Account	<u>497</u>
			<u>3991</u>

Additional information;

(i) Book Values of Non –Current Assets as at 31 December 2018 were

- Furniture, Fixtures & Fittings ~~₦~~396,000 (Cost ~~₦~~440,000)

- Lawn mower ~~₦~~20,000 (Cost ~~₦~~120,000)

(ii) Other Current Assets and Liabilities were as follows:

	31/12/19 ₦'000	31/12/18 ₦'000
Bar Stock at cost	209	176
Amount Owed to Brewery for Bar purchases	186	248
Arrears of Rent and Rates	12	26
Arrears of Lighting & Heating	9	11
Subscription in arrears	30	50

(iii) A provision of 40% bonus on gross profit arising from the catering sales is to be made for the steward in the annual account.

(iv) Depreciation on furniture, fixtures and fittings is to be provided for at the rate of 10% on cost. No depreciation is to be provided on the new Lawn Mower, but a full year on the new furniture and fittings.

You are required to:

a. A statement showing the accumulated fund as at 31/12/2018
(3 ½ Marks)

b. An Income and Expenditure Account for the year ended 31/12/2019.
Showing separately a trading account for Bar sales and catering
(5 Marks)

c. A statement of financial position as at 31 December 2019.
(4 Marks)
(Total: 12½ Marks)

Solutions to Questions

MCQ

- 1 B
- 2 C
- 3 C
- 4 D
- 5 D
- 6 C
- 7 D
- 8 A
- 9 B
- 10 E
- 11 B
- 12 D
- 13 B
- 14 D
- 15 E
- 16 D
- 17 E
- 18 C
- 19 D
- 20 C
- 21 A
- 22 C
- 23 E
- 24 C
- 25 D
- 26 C
- 27 D
- 28 B
- 29 A
- 30 C

WORKINGS

7) Trade Receivables account.

Balance b/d	1,200,000
Less Bad Debts	<u>5,000</u>
Balance c/f	<u>1,195,000</u>

Provision for Doubtful Debts

Balance b/d	25,000
P/L	<u>10,850</u>
	35,850

$$3\% \times \text{\#}1,195,000 = 35,850$$

$$\text{Statement of Financial Position } \text{\#}1,195,000 - \text{\#}35,850 = \text{\#}1,159,150$$

Q11	Trade receivable balance	750,000
	Provision for doubtful debts	<u>75,000</u>
	Net receivable	<u>675,000</u>
	Provision for discount on receivable at 5% of 675,000 =	33,750
	Current provision + new provision 75,000 + 33,750 =	108,750
	Receivable to be shown = 750,000 - 108,750 =	<u>N641,250</u>

21 .Returns outward was overstated by ₦270 hence payables was understated by ₦270

Correction is Dr purchases returns and credit payables by ₦270

29. Inventory turnover is cost of sales	<u>220+1500-260</u>
Average inventory	(220+260)/2

$$30 \text{ Amount claimable} = \frac{1800}{(1,800+200)} * 1,600,000 = \text{\#}1,440,000$$

SHORT ANSWER QUESTIONS

1. Accounting policies, changes in accounting estimates and errors.
2. Notes to the Accounts
3. Bank Reconciliation Statement
4. Matching
5. Overstated
6. Statement of Financial position
7. Non – Current liability
8. Fundamental and Enhancing.
9. DR: Partner's Current Account
CR: Statement of Distribution of Income.
10. Trial balance
11. Drawings
12. Mobilization fee
13. Dr. Provision Account; Cr. Realization Account
14. Dr. Forfeited Shares Re-issued Account ; Cr. Shares Premium Account
15. Production cost
16. Negative
17. Royalty account
18. Joint venture with q
19. Statement of profit or loss
20. Minimum lease

ESSAY QUESTIONS

QUESTION 1

SOLOMON JUBRIL ENTERPRISES

TRADING, PROFIT OR LOSS FOR THE YEAR ENDED 31ST DECEMBER 2018

	N'000	N'000	N'000
Sales			6290
Opening Inventory	900		
Purchases	<u>4010</u>	4910	
Less; closing inventory		(860)	
Wages		<u>750</u>	<u>4800</u>
GROSS PROFIT			1,490
General Expenses		640	
Depreciation – Plant and Machinery		60	
Bad Debt		<u>150</u>	<u>850</u>
NET PROFIT			<u>640</u>
Depreciation ;(450, 000 + 150, 000=600,000 x 10%)= 60, 000.			

SOLOMON JUBRIL ENTERPRISES

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2018

<u>ASSETS</u>	N'000	N'000	N'000
Non- Current Assets;			
Plant and machinery		450	
Additions		150	
Less Depreciation		<u>(60)</u>	
			540
Freehold Premises			<u>1600</u>
			<u>2140</u>
CURRENT ASSETS;			
-Receivable		890	
Less Bad Debt Provision		<u>150</u>	
			740
-Inventory			860
-Cash			<u>600</u>
			<u>2200</u>

	<u>4,340</u>
<u>EQUITY AND LIABILITY</u>	
-Capital - brought forward	3200
- Additions	<u>250</u>
	3450
Net Profit	<u>640</u>
	4090
Less: Drawings	<u>570</u>
	3520
-Payable	<u>820</u>
	<u>4340</u>

QUESTION 2

a). Inventory is an asset that is;

- I) held for sale in the ordinary course of business
- II) In the process of production for such sale
- III) In the form of materials or supplies to be used in the production process or in the rendering of services.

b) Net realisable value is the estimated selling price in the ordinary course of business less;

- I) estimated costs of completion, and
- II) estimated costs necessary to make the sale.

c) Valuation of inventory

	Units	cost ₦	NRV ₦	Valuation ₦
Santona	17, 400	187	211.65	187
Cracky	5,800	136	128	88.65

Working -Determination of NRV

	Selling price ₦	Selling cost ₦	Cost to Complete ₦	NRV ₦
Santona	289	77.35	Nil	211.65
Cracky	240	77.35	34	128.65

QUESTION 3

S/N	Ratio	Formulae	Workings	Alafia Ltd	Working	Karaole Ltd
1.	Gross profit margin	$\frac{\text{Gross Profit}}{\text{Revenue}} \times \frac{100}{1}$	$\frac{645}{1420} \times \frac{100}{1}$	= 45.4%	$\frac{770}{1525} \times \frac{100}{1}$	= 50.5%
2.	Net profit percentage	$\frac{\text{Net Profit}}{\text{Revenue}} \times \frac{100}{1}$	$\frac{305}{1420} \times \frac{100}{1}$	=21.5%	$\frac{235}{1525} \times \frac{100}{1}$	= 15.4%
3.	Assets Turnover	$\frac{\text{Revenue}}{\text{Capital Employed}}$	$\frac{1420}{1290}$	=1.1 times	$\frac{1525}{2385}$	0.64times
4.	Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{1005}{940}$	= 1.07:1	$\frac{1,915}{1625}$	1.18:1
5.	Quick ratio	$\frac{\text{CA} - \text{Inventory}}{\text{Current Liabilities}}$	$\frac{550}{940}$	=0.6:1	$\frac{450}{1625}$	=0.3:1
6.	Receivable collation period	$\frac{\text{Receivable}}{\text{Sales}}$	$\frac{230}{1420} \times \frac{365}{1}$	=59 days	$\frac{375}{1525} \times \frac{365}{1}$	= 90 days

(b) (i) The gross profit margin is high for or both companies, Karaole Ltd has a higher revenue figure in absolute terms and also a high gross profit margin. As the two companies in the same market. It's possible that it is the geographical location that makes the difference in the profit margin.

(ii) Net profit percentage of Alafia Ltd is 21.5% and his higher than that of Karaole Ltd. which is 15.4%. There is strong indication

that Alafia Ltd. controls is overheads better than Karaole Ltd. Also Karaole Ltd. was also paying interest on loan.

- (iii) Assets turnover ratios show that Alafia Ltd is marking more efficient use of assets than Karaole Ltd as it is generating proportionally more revenue from assets. Karaole Ltd problem might be due to the fact that. Its working capital is tied up in inventory.
- (iv) The current ratio of both companies is greater than one, with Karaole Ltd. having on edge slightly. This ratio indicates that both companies have sufficient current assets to meet its current liabilities/obligation.
- (v) Both companies quick ratio is less than one, indicating potential liquidity problems. However Alafia Ltd situation appeared better than Karaole Ltd.
- (vi) Receivable collection period of Alafia Ltd is also better which is an indication that Alafia working capital management may be better than that of Karaole Ltd.

In conclusion although Karaole Ltd has a higher profit margin, it has liquidity problems and is less efficient and has inefficient credit control. Alafia Ltd is therefore a better investment prospect.

Marking Guides

6 Ratio correctly calculated @ 1 mk each = 6 marks

6 Correct interpretation @ 1 mk each = 6 marks

Correct conclusion ½ mark ½ mark
12½ mark

QUESTION 4

Revaluation Account			
	N		N
Office equipment	100,000	Freehold land & Building	600,000
Receivables	250,000	Machinery	600,000
Inventory	150,000	Motor vehicles	510,000
Balance c/d	4,480,000	Goodwill	3,000,000
		Payables	270,000
	<u>4,980,000</u>		<u>4,980,000</u>
Capital accounts:		Balance b/d	4,480,000
Olu 4/10	1,792,000		
Bisi 3/10	1,344,000		
Abiodun 3/10	<u>1,344,000</u>		
	<u>4,480,000</u>		<u>4,480,000</u>

Any 12 ticks at $\frac{1}{4}$ Marks = 3 Marks

Partners' capital Account							
	Olu	Bisi	Abiodun		Olu	Bisi	Abiodun
	N	N	N		N	N	N
Int on draw g	30,000	30,000	30,000	Bal b/d	4,200,000	3,000,000	2,100,000
Bank	-	240,000	-	Revalu . a/c	1,792,000	1,344,000	1,344,000
P or L App a/c	75,600	56,700	56,700	Int on Cap.	126,000	90,000	63,000
Bal c/d	<u>6,012,400</u>	<u>4,107,300</u>	<u>3,420,300</u>				
	<u>6,118,000</u>	<u>3,343,000</u>	<u>3,507,000</u>		<u>6,118,000</u>	<u>3,343,000</u>	<u>3,507,000</u>

Any 20 ticks at $\frac{1}{4}$ Marks = 5 Marks

Olu, Abiodun & Co
Adjusted Statement of financial position at December 31, 2019

	N	N
Non-current Assets		
Freehold land and Building		6,000,000
Machinery		2,400,000
Office equipment		350,000
Motor vehicles		<u>1,560,000</u>
		10,310,000
Goodwill		3,000,000
Current Assets		
Inventory	850,000	
Receivables	<u>1,000,000</u>	
	<u>1,850,000</u>	
Current liabilities		
Payables	1,310,000	
Bank overdraft	<u>310,000</u>	
	<u>1,620,000</u>	230,000
Non-current liabilities – Loan (Bisi)		<u>(4,107,300)</u>
		<u>9,432,700</u>
Financed by:		
Capital accounts		
Olu		6,012,400
Abiodun		<u>3,420,300</u>
		<u>9,432,700</u>

Any 18 ticks at ¼ Mark = 4½ Marks.

QUESTION 5

Luckydip Nigeria Ltd

Statement of Cash Flows for the year ended 30 September, 2019

	#'000	#'000
Cash flow from Operation	900	
Tax paid	(60)	
Net Cash flow from operation		840
Cash flow from Financing activities:		
Debenture interest paid	(80)	
Dividend paid	(40)	
Redemption from debentures	(80)	
Net cash flow from financing activities		(200)
Cash Flow from investing activities		
Purchase of non-current asset		(560)
Net increase in cash and cash equivalent		<u>80</u>
Represented by:		
Bank balance at the end of the year		168
Bank balance at the beginning of the year		<u>(88)</u>
		<u>80</u>

12 Ticks @ ½ mark each = (6 marks). No tick for entity name and statement heading.

Notes:

(1)Cash flow from operation

	#'000
Cash received from customers	5,240
Cash paid to suppliers	(2,240)
Cash paid to employees	(1,620)
Cash paid for general expenses	<u>(480)</u>
	<u>900</u>

Trade Receivables Account

	#'000		#'000
Balance b/d	160	Bank	5,240
Sales	<u>5,200</u>	Balance c/d	<u>120</u>
	<u>5,360</u>		<u>5,360</u>
Balance b/d	120		

Trade Payables			
	#'000		#'000
Bank	2,240	Balance b/d	200
Balance c/d	<u>220</u>	Purchases	<u>2,260</u>
	<u>2,460</u>		<u>2,460</u>
		Balance b/d	220

Salaries & Wages Account

	#'000		#000
Bank	1,620	Balance b/d	40
Balance c/d	<u>20</u>	P or L	<u>1,600</u>
	<u>1,640</u>		<u>1,640</u>
		Balance b/d	<u>20</u>

Non-current Assets

	#'000		#'000
Balance b/d	3,040	Balance c/d	3,600
Bank	<u>560</u>		
	<u>3,600</u>		<u>3,600</u>
Balance b/d	3,600		

Inventory Account

Balance b/d	460	Trading	2,400
Purchases	<u>2,260</u>	Balance c/d	<u>320</u>
	<u>2,720</u>		<u>2,720</u>
Balance b/d	320		

Any 26 ticks in the notes @ 1/4 each = 6½ marks. No ticks for account headings and ledger total balances.

QUESTION 6

AGEGE RECREATION CLUB.

STATEMENT SHOWING THE ACCUMULATED FUND AS AT DECEMBER 2018

	N'000	N'000
Furniture, Fixtures and fitting at cost	440	
Less; Depreciation	<u>44</u>	396
Lawn mower at cost	120	
Less; Depreciation	<u>100</u>	20
Barstock		209
Subscription in arrears		30
Cash in Hand		10
Bank Balances; Current Account		263
- Deposit Account		<u>585</u>
		1513
Less;		
Creditors – Bar	186	
Rent and Rates	12	
Lightings and heating	<u>9</u>	<u>207</u>
Accumulated fund as at 31 st December 2018		<u>1306</u>

BAR SALES ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2019

(B)	N'000	N'000
Sales		2285
Opening stock	209	
Purchases	<u>1947</u>	
	2156	
Less; closing stock	<u>178</u>	
Cost of Sales	<u>1978</u>	<u>1978</u>
Gross profit		
(Carried to income and expenditure a/c)		<u>307</u>

WORKINGS

Purchases; $1885 + 248 - 186 =$	<u>1947</u>
<u>Catering sales</u>	N'000
Receipts	120
Purchases	<u>(80)</u> <u>40</u>

40% of 40,000 =	
Commission	16,000

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2019

INCOMES

	N'000	N'000
Entrance fee		54
Subscriptions		624
Gross profit from Bar b/d		307
Gross profit on catering services		40
Profit on sale of Lawn mower		20
Interest on Deposit Account		<u>26</u>
		1071

Less;

EXPENDITURE

Wages		306
Rent & Rates		198
Light and Heating		145
General Expenses		132
Steward bonus		16
Depreciation on furniture & fittings (10% of (440+460))		<u>90</u>
		<u>887</u>
Excess of income over expenditure		<u>184</u>

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2019

	N'000	N'000
<u>Non - Current Assets:</u>		
- Furniture, fittings & fixtures - cost	900	
- Less Depreciation (90+44)	<u>134</u>	
	766	766
- Lawn mower at cost		<u>160</u>
		926
<u>CURRENT ASSETS:</u>		
Bar Stock		178
Subscription due		50
Cash in Hand		8
Bank Balances:		
- Current Account	176	
- Deposit Account	<u>497</u>	
	673	<u>673</u>
		<u>1835</u>

Accumulated fund

As at 31 st December 2018	1306
Excess of income over expenditure for the year	<u>184</u>
	1490

Current Liabilities;

Creditors – Bar	248
General expenses	37
Standard Bonus	<u>16</u>
	301
Subscription in advance	<u>44</u>
	345
	<u>1,835</u>