ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART II EXAMINATIONS – MARCH 2022

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. The totality of methods adopted by an economic entity for applying fundamental accounting concepts to its financial transaction is

   A. Accounting estimates
   B. Accounting concepts
   C. Accounting methods
   D. Accounting basis
   E. Accounting principles

2. In recording the values of a newly acquired non-current asset in the books of economic entity, which of the following should be considered?

   A. Depreciated value
   B. Estimated value
   C. Verifiable objective value
   D. Conservative value
   E. Set-off value

3. Just-in-time enterprises received GMD15,000 from a customer (Teniola Amusan) and the amount was erroneously recorded on the credit side of the Cash Book with the double entry completed in the customer's account. The correcting journal entries are

   A. Dr. Teniola Amusan Account GMD15,000
      Cr. Cash Book GMD15,000
   B. Dr. Cash Book GMD15,000
      Cr. Teniola Amusan Account GMD15,000
   C. Dr. Cash Book GMD30,000
      Cr. Teniola Amusan Account GMD30,000
   D. Dr. Teniola Amusan Account GMD30,000
      Cr. Cash Book GMD30,000
   E. Dr. Suspense Account GMD30,000
      Cr. Teniola Amusan Account GMD30,000

Use the following to answer questions 4 - 6

Alex and Umaru are in partnership with the following relevant information for the year ended 31 December, 2021.

	Alex	**Umaru**
	₦	**₦**
Fixed Capital	1,500,000	2,500,00
Current Account (Cr.)	400,000	600,000
Salary per annum	600,000	800,000
Interest on capital p.a	3%	3%
Drawings for the year	300,000	400,000
Interest on Drawings	4%	4%
Profit or loss sharing ratio	2:5	3:5

The net profit for the year ended 31 December, 2021 is ₦2,800,000

4. What is the distributable profit for the year ended 31 December, 2021?

   A. ₦2,800,000
   B. ₦2,772,000
   C. ₦2,762,000
   D. ₦2,708,000
   E. ₦2,680,000

5. What is the net income realised by Alex from the partnership?

   A. ₦1,624,800
   B. ₦1,128,000
   C. ₦1,120,000
   D. ₦1,116,200
   E. ₦1,083,200

6. The accounting entries to record Umaru's share of profit from the partnership for the year ended 31 December, 2021 are

   A. Dr. Appropriation Account ₦1,083,200
      Cr. Capital Account ₦1,083,200
   B. Dr. Capital Account ₦1,083,200
      Cr. Appropriation Account ₦1,083,200
   C. Dr. Appropriation Account ₦1,624,800
      Cr. Capital Account ₦1,624,800
   D. Dr. Capital Account ₦1,624,800
      Cr. Appropriation Account ₦1,624,800
   E. Dr. Appropriation Account ₦1,624,800
      Cr. Current Account ₦1,624,800

7. The profit on hire purchase transaction is calculated, by the hire purchase vendor as

   A. Cash selling price less cost price
   B. Hire purchase price less cost price
   C. Hire purchase price less cash selling price
   D. Cash selling price less higher purchase price
   E. Cash selling price less deposits

8. Okoro, a non-governmental, not-for-profit organisation uses indirect method to prepare its statement of cash flows. In determining its net cash flow from operating activities Okoro must add back which of the following

   A. Purchase of equipment and proceeds from sales of equipment
   B. Amortisation and profit on sale of equipment
   C. Loss on sale of equipment and depreciation
   D. Proceeds on sales of equipment and depreciation
   E. Amortisation and purchase of equipment

9. Master Company Limited's closing inventory was over stated in the financial statements for the year ended 31 December, 2021. What will be the effect on the company's cost of sales for the year?

   A. Cost of sales will be over stated
   B. Current year cost sales will be equal to previous year cost of sales
   C. Cost of sales will be understated
   D. Purchases will be greater than the cost of sales
   E. Cost of sales will be greater than revenue

10. Accra Limited purchased land for GH¢450'000 as a factory site. An existing building on the site was razed before construction began. Additional information is as follows:

	GH¢'000
Cost of razing old building	60
The insurance and legal fee to purchase land	30
Architect fees	95
New building construction cost	1,850

What amount should Accra Limited capitalised as cost of the completed factory building?

   A. GH¢1,910,000
   B. GH¢1,945,000

C. GH¢1,975,000
D. GH¢2,005,000
E. GH¢2,485,000

11. The following information relates to Adatan Nigeria Limited's Electricity bills

Period Covered	**Amount**	**Date Paid**
	Le'000	
16 April – 15 May	5,000	1st June
16 May – 15 June	6,000	1st July
16 June – 15 July	8,000	1st August

Electricity bill accrue evenly over the month

What is the electricity bill outstanding for the company as at 30 June?

A. Le6,000,000
B. Le7,000,000
C. Le10,000,000
D. Le14,000,000
E. Le19,000,000

12. How is a bank overdraft classified in the statement of financial position?

A. Current liability
B. Non-current asset
C. Current asset
D. Non-current liability
E. Owner's equity

13. Which of the following items are non-current assets?

I. Land
II. Machinery
III. Bank overdraft
IV. Inventory

A. I
B. I and II
C. I, II and III
D. II, III and IV
E. I, III and IV

14. Which of the following is **NOT** true about the accounts of clubs and societies?

   A. A deficit on income and expenditure account reduces accumulated fund
   B. Income and expenditure account does not contain capital receipts and expenditure
   C. The excess of total assets over total liabilities represents accumulated fund
   D. The closing balance of receipts and payments account is not transferred to income and expenditure account
   E. The gains or losses on bar trading account is transferred to receipts and payments account

15. When no partnership agreement exists, which of the following will govern the partnership?

   A. Trade laws
   B. Constitution
   C. Memorandum and articles of association
   D. Partnership Act
   E. Deed of agreement

16. Which of the following would result from an increase in the provision for doubtful debts?

   A. A decrease in gross profit
   B. An increase in gross profit
   C. A decrease in net profit
   D. An increase in net profit
   E. An increase in receivable figures

17. Calculate the interim profit where the final costs on a contract are estimated at GH₵2,500,000, the contract price is GH₵3,500,000 and cash received to date is GH₵2,625, 000

   A. GH₵1,000,000
   B. GH₵875,000
   C. GH₵850,000
   D. GH₵750,000
   E. GH₵125,000

18. Under IAS 2, which of the following is **NOT** permitted as a cost of inventory?

A. Cost of Purchase
B. Cost of shipping transport and non-recoverable taxes
C. Cost of storage
D. Cost of Conversion including fixed and variable manufacturing overhead.
E. Other costs incurred in bringing the inventory to present location and conditions

19. Under IAS 16, what is an impairment loss?

A. The amount by which the market value of an asset exceeds the net present value
B. The amount by which the carrying amount of an asset exceeds the realisable amount
C. The difference between the fair value of an asset and the net realisable value
D. The amount by which the carrying amount of an asset exceeds the book value
E. The amount by which the market value exceeds the fair value

20. Which of the following is **NOT** true of the difference between salaries and drawings of a sole-trader?

A. Salaries are charge against profit while drawing is a withdrawal of income
B. Salaries reduces the amount of net income while drawings only reduces equity
C. Salaries may be constant from month to month, Drawings are usually unregulated
D. Salaries are subject to pay as you earn tax while drawings are subject to personal income tax
E. Sometimes Drawings may be taken in kind - goods, while salaries are usually taken in cash

21. Which of the following product is **NOT** exempted from VAT?

A. Agricultural Equipment
B. Basic food items
C. Pharmaceuticals and Medicals
D. Cements to repair government roads
E. Books or Educational materials

22. When shares are issued at a bonus, which of the following accounts may be affected?

I. Ordinary share capital
II. Preference share capital
III. Share premium
IV. Cash account

A. I and III
B. I, II and III
C. I and IV
D. I, II and IV
E. I, III and IV

23. Which of the following adjustment should be recognised retrospectively?

A. Recognition on change from cost method to revaluation method in revaluation of property, plant and equipment
B. Change in the useful life of assets
C. Change in recognition of item from administration overhead to cost of sales
D. Change in the allowances for bad and doubtful receivables
E. Reduction in the net realisable value of inventory below cost

24. The following balances were extracted from the account of Jebu Limited at 31 March 2020 and 31 March 2019.

	31 March 2020	**31 March 2019**
	L$	**L$**
Cash in hand	1,000	1,100
Cash at bank	20,402	-
Bank overdraft	-	26,071

Calculate the net cash and cash equivalents for the period.

A. L$5,069
B. L$5,169
C. L$20,069
D. L$46,373
E. L$46,983

25. Which of the following does **NOT** affect acid-test ratio?

A. Cash sales
B. Credit sales
C. Goods purchased on credit
D. Cash received from customers
E. Cash paid to suppliers

26. In the books of consignee, the sale of goods is credited to

A. Consignor's account
B. Sales account
C. Consignee's account
D. Consignment account
E. Goods sent on consignment account

27. On 30 Sept. 2019, a fire destroyed some of the company inventory and its inventory records. Extracts from the company's records:

	GMD'000
Inventory on 1 Sept. 2019	159,000
Sales for Sept 2019	306,000
Purchases for Sept. 2019	206,000
Inventory in good condition @ 30 Sept. 2019	107,000

Standard gross profit on sales is 25%

What is the value of inventory lost?

A. GMD13,200,000
B. GMD28,500,000
C. GMD48,000,000
D. GMD135,500,000
E. GMD137,000,000

28. Which of the following sets of items will appear on the same side of the Trial Balance of a company?

A. Revenue, prepayments, share capital
B. Receivables, drawings, non-current assets
C. Sundry expense, interest received, commission paid
D. Share premium, office expenses, salaries & wages
E. Other income, interest paid, cash and bank

29. The opening inventory of a firm at the beginning of the financial year is Le300,000 and at the end of the financial year it is Le200,000 while the turnover and purchases are Le3,500,000 and Le2,500,000 respectively.

What is the gross profit or loss?

A. Le900,000 loss
B. Le900,000 profit
C. Le500,000 profit
D. Le200,000 profit
E. Le100,000 loss

30. Which of the following disclosure is **NOT** required under IAS 1?

A. A description of the entity's operation and its' principal activities
B. The level of rounding used in presenting the financial statements
C. Name of the reporting entity
D. Name of major shareholders of the entity
E. The measurement basis used in preparing financial statement

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

ATTEMPT ALL QUESTIONS

Write the correct answer that best completes each of the following questions/statement:

1. An expenditure which would normally be treated as revenue expenditure but is not written off in one period is called ....
2. An error in Trial Balance where an account which should have been debited was credited while an account that should have been credited was debited with similar amounts is called ....
3. An accounting concept that says every transaction has two folds, for every credit, a corresponding debit is made is called ....
4. The accounting entries to record goods bought for sale on credit later returned are .... and ....
5. The principal who owns the goods and sends them to an agent for sale is called ....
6. The accounting ratio that shows the relationship existing between the shareholders' fund and long-term liabilities is called ....
7. With regards to a not-for-profit organisation, a debit balance on the subscription account is reported in .... Account
8. The fact that provisions are made against doubtful debts upholds the concept of ....
9. TWO standard headings in statement of cash flows according to IAS 7 is .... and ....
10. When a partnership is converted into a company, the purchase consideration could be in the form of .... and ....
11. TWO reasons why partners of a firm may decide to dissolve a partnership are .... and ....
12. The condition where a company increases its sales revenue without having adequate financial capacity to cope with rate of expansion is called.....................................

13. Which users of financial statement will be interested in the gearing ratio of a company?

14. The necessary accounting entries required to record the cash sale price of the goods on hire when Hire Purchase Interest suspense account method is used are .... and ....

15. The necessary accounting entries required to record profit on goods sent to branch when adjustment account method is used are ....

16. In partnership business, state the condition(s) that will warrant the preparation of Revaluation account and Realisation account respectively.

17. The formula for the computation of rate of return on sales or profit margin is ....

18. Loss on revaluation of property, plant and equipment is recognised in the statement of ....

19. Income received in advanced is shown as .... in the statement of financial position?

20. An account that an entity prepares, when it sends goods to another person to sell or return on its behalf is called ....

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 MARKS)

QUESTION 1

On 31 July, 2019, SuperV Limited appointed Jude as its sales agent in Akwa. On 15 August, 2019 SuperV sent 400 computer laptops to Jude to be sold on behalf of SuperV Limited The cost of one computer laptop was Le60,000, but was invoiced to Jude at Le70,000. SuperV Limited incurred Le1,000,000 on freight and insurance. Jude received the consignment on 10 August 2019 and accepted a draft drawn on him by SuperV Limited for Le16,000,000. Jude paid Le52,500 as rent and Le12,500 as insurance.

By 31 March 2020, Jude had disposed 320 laptops at Le82,000 each. Jude is entitled to a commission of 5 percent on sales including a del credere commission of 1 percent.

You are required to:

Prepare the following ledger accounts in the books of SuperV Limited.

a. Consignment to Jude's account ($5^1/_2$ Marks)

b. Goods on consignment account ($1^1/_2$ Marks)

c. Consignment inventory account ($1^1/_2$ Marks)

d. Bills receivables account ($1^1/_2$ Marks)

e. Jude's account ($2^1/_2$ Marks)

(Total $12^1/_2$ Marks)

QUESTION 2

The main objective of International Accounting Standard (IAS) 2 is to prescribe the acceptable accounting treatment for inventories when an economic entity is presenting its Final Accounts.

a. Define Net Realisable Value of Inventories according to IAS 2. ($2^1/_2$ Mark)

b. According to IAS 2, state **FIVE** items that must **NOT** be included in the measurement of inventory in the books of an economic entity. (5 Marks)

c. What are the Disclosure Requirements for inventories according to IAS 2? (5 Marks)

(Total $12^1/_2$ Marks)

QUESTION 3

a. Identify and explain **FOUR** key issues that should be covered in a partnership agreement when setting up a partnership. (4 Marks)

b. Edo and Rivers are in partnership sharing profit and loss in the ratio of 2:1. They had originally invested ₦2,500,000 and ₦2,000,000 respectively. Their current account balance on 1 January 2019 were ₦700,000 credit for Edo and ₦495,000 debit for Rivers.

The partnership agreement specify the following:

(i) The payment of interest on drawings and receipts of interest on capital at the rate of 5% p.a. and 3% p.a. respectively.
(ii) The partners receive drawings in the same proportion as they share profit or losses. Edo receives drawings of ₦120,000 a month with Rivers taking the amount of drawings as allowed by the partnership rules.
(iii) Rivers is entitled to take a salary of ₦100,000 a month.
(iv) The interest on drawings is calculated as if the drawings for the six month period had been taken in full on the first day of the period.

On 1 July 2019 Edo decides to retire. Both partners agree to have the partnership valued and bring in the resultant goodwill into the partnership. Edo agrees to leave ₦1,500,000 of his capital as a loan to the business earning interest at the rate of 4% p.a and to withdraw the balance of what is due to him. An independent expert values the goodwill on 1 July, at ₦4,500,000.

On 1 July, 2019 'Rivers' decides to enter a new partnership with 'Ogun' where they share profit or losses in the ratio of 3:1. They decided to keep the same interest rates from the previous partnership agreement in relation to drawings and capital. Rivers salary was changed to ₦110,000 a month from this period to the year end. Rivers took drawings of ₦500,000 and Ogun took drawings of ₦250,000. Ogun introduced capital of ₦1,250,000 on his admission to the partnership. The goodwill was cancelled in the same proportion as they share profit or losses.

The profit for the year amounted to ₦5,400,000 and this profit accrued evenly throughout the year.

Required:
Prepare the profit or loss appropriation accounts for the year ended 31 December 2019 in columnar form. (8½ Marks)

(Total 12½ Marks)

QUESTION 4

The following is a summary of the cash book of the Likeminds Club for the year ended December 31, 2019

RECEIPTS	**GH¢**	**PAYMENTS**	**GH¢**
Bank balance - 1/1/19	838,000	Bar wages	1,000,000
Annual subscription	2,820,000	Bar purchases	1,900,000
Entry fees	706,000	Rent	3,300,000
Gala night ticket sales	240,000	Secretary allowance	360,000
Bar sales	3,150,000	Cost of gala night	140,000
Donation by a Patron	2,000,000	Competition prizes	585,000
		Treasurer honorarium	600,000
		Club house repair	40,000
		New members night	100,000
		Purchase of furniture	600,000
		Bank balance 31 Dec	1,129,000
	9,754,000		9,754,000

Examination of the club's records disclosed the following:

(i) The assets of the club at January 1, 2019 were furniture GH¢1,500,000 and bar inventory GH¢210,000.

(ii) Membership subscriptions for the year ending December 31, 2019 in arrears was GH¢360,000.

(iii) On December 31, 2019 the bar inventory was GH¢150,000 and GH¢40,000 as owing for bar purchases.

(iv) The rent paid during the year was paid in December and was for 5 years beginning from January 1, 2020.

(v) Depreciation on furniture is 10% per annum.

Required:

a. Prepare an income and expenditure account for the year ended December 31, 2019;and (6½ Marks)

b. Statement of financial position as at December 31, 2019. (6 Marks)

(Total 12½ Marks)

QUESTION 5

a. Distinguish between Accounting Concepts and Accounting Conventions (3½ Marks)

b. State and explain **FIVE** accounting concepts (5 Marks)

c. State and explain **FOUR** Accounting Conventions (4 Marks)

(Total 12½ Marks)

QUESTION 6

The following Trial Balance relates to the operations of Kafo Limited for the year ended 31 December, 2019

	DR L$'000	CR L$'000
Revenue		98,200
cost of sales	51,000	
Admin expenses	31,350	
Building at cost	120,500	
Equipment at cost	26,500	
Motor vehicle at cost	17,200	
Accumulated depreciation 1/1/2019		28,500
Accumulated depreciation 1/1/2019		5,600
Accumulated depreciation 1/1/2019		8,160
10% Preference shares		20,000
Ordinary shares of ₦1 each		70,000
10% loan notes		30,000

Inventory 31/12/2019	27,220	
Receivables	18,610	
Loan interest	1,500	
Bank	8,390	
Trade payables		11,370
Share premium		14,000
Dividend paid on ordinary shares	3,500	
Preference dividends paid	2,000	
Retained earnings 1/1/2019		21,940
	307,770	307,770

The following information is also relevant

(i) Accrued loan interest is L$1,500,000

(ii) Preference shares is treated as debt instrument

(iii) Estimate of income tax expense is L$3,000,000

You are required to prepare for Kafo Limited:

a. Statement of profit or loss for the year ended 31 December 2019. (4 Marks)

b. Statement of changes in equity for the year ended 31 December 2019 (3 Marks)

c. Statement of financial position as at 31 December 2019 ($5^1/_2$ Marks)

(Total 12½ Marks)

SOLUTION TO QUESTIONS

MCQ

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

WORKINGS

4.

Net Profit			2,800,000
Add: Int. on drawings:			
	A	12,000	
	U	16,000	
			28,0000
Less: Int. on capital:			2,828,000
	A	45,000	
	U	75,000	120,000
Adjusted profit			2,708,000
Share of profit			
	A = 2/5 x 2,708,000		1,083,200
	U = 3/5 x 2,708,000		1,624,800
			2,708,000

5. 1,083,200 + 4,500- 12,000 = ₦1,116,200

11 [6,000,000 + ½ (8,000,000)] = ₦10,000,000]

27 [159,000 + 206,000 – 107,000 – (75% X 306,000) = ₦28,500

29

29	Turnover		3,500,000
	Opening inventory	300,000	
	Add: Purchases	2,500,000	
		2,800,000	
	Less: Closing inventory	200,000	2,600,000
	Gross Profit		**900,000**

SHORT ANSWER QUESTION

1. Deferred Revenue Expenditure
2. Complete Reversal of Entries
3. Dual or double Aspect concept
4. Dr Trade Payables Account
   Cr Return outward/Purchases Return Account
5. Consignor
6. Gearing ratio or debt/equity ratio
7. Statement of financial position
8. Prudence or conservatism
9. Operating activities, Investing activities, financing activities, cash and cash equivalents (Any two).
10 Component of purchase consideration
   - Cash and cash equivalent
   - Cash
   - Issues of shares to the partners
   - Issue of debentures
   - Liabilities taken over
11. Two reasons for dissolution of partnership
   - The death of partner
   - The bankruptcy of partner,
   - The lunacy of a partner.
   - Misunderstanding among the partners
   - A withdrawal of a major technical partner which handicapped the partnership financially
   - Withdrawal of technical partners
   - The business, which partnership is involved, declared illegal
   - The partnership is no longer doing well and cannot be revamped
12. Over-trading
13. Lenders and Creditor
14. Dr Hire Purchase Receivables Account or Hirer/ Cr Hire purchase sales account
15. Dr. Branch Inventory Account
    Cr. Branch Adjustment Account
16. Revaluation Account can be prepared under any of the following situations in a going concern partnership.
   - When assets has been fully depreciated but still remain productive
   - When there is a strong belief that the book value does not reflect its current economic value
   - When there is a change of interest
   - When partners(s) is/(are) admitted
   - When partners retire
   - When partnership businesses are amalgamated

Realisation Account can be prepared under any of the following situations in a partnership business.

- When partnership businesses are amalgamated
- When partnership business is dissolved
- When partnership is converted to Limited Liability Company
- When there is absorption of partnership

17. Profit/Revenue x 100
18. Statement of Profit or Loss
19 Current Liabilities
20. Consignment account

Examiner's report
The question tests candidates' knowledge on all the areas of the syllabus. All the candidates attempted the question and their performance was good Candidates' observed major pitfalls were their poor preparation for their examination.

SECTION B

QUESTION 1

In the Book of the Consignor - SuperV Limited

a. Consignment to Jude's Account

	Le		Le
Consignor:			
Goods on Consignment	28,000,000	Sales	26,240,000
Freight and Insurance	1,000,000	Closing Inventory	5,813,000
Consignee:			
Rent	52,500		
Insurance	12,500		
Commission on sales	1,312,000		
Del-credere Commission	262,400		
Gross Profit - SOPL	1,413,600		
	32,053,000		32,053,000

b. Goods on Consignment Account

	Le		Le
Consignment Inventory	28,000,000	Consignment to Jude	28,000,000

c. Consignment Inventory Account

	Le		Le
Trading Account	5,813,,000	Goods on Consignment	5,813,,000

d. Bills Receivables Account

	Le		Le
Consignee - Jude's Account	16,000,000	Balance c/d	16,000,000
Balance b/d	16,000,000		

e. Consignee - Jude's Account

	Le		Le
Sales - 320 laptops	26,240,000	Rent	52,500
		Insurance	12,500
		Commission on sales	1,312,000
		Del-credere Commission	262,400
		Bills Receivables	16,000,000
		Bank	8,600,600
	26,240,000		26,240,000

Workings

i Choosing inventory

Goods on consignment	28,000,000
Freight and Insurance	1,000,000
Rent	52,500
Insurance	12,500
	29,065,000

=29,065,000 x 400 - 320

= 72,662.50 x 80= 5,813,000

ii Commission on sales

5% of 26,240,000

= 1,312,000

iii Del-credre commission

1% of 26,240,000

= ₦262,400

QUESTION 2

a. Net Realisable Value of inventories is the estimated selling price in the ordinary course of business, less the estimated cost of completion and estimated costs necessary to make the sale.

b. In the measurement of inventories the following must not be included
   (i) Abnormal waste
   (ii) Storage cost
   (iii) Administrative overheads unrelated to production
   (iv) Selling cost
   (v) Foreign exchange differences arising directly on the recent acquisition of inventories invoiced in foreign currency.
   (vi) Interest cost when inventories are purchased with deferred settlement terms

c. Disclosure Requirement for inventories according to IAS2

   (i) Accounting policy for inventories
   (ii) Carrying amount, generally classified as merchandise, supplies, materials, work-in-progress and finished goods. The classification depend on what is appropriate for the entity
   (iii) Carrying amount of any inventories carried at fair value less cost to sell.
   (iv) Amount of any write-down of inventories recognized as an expense in the accounting year.
   (v) Amount of any reversal of a write-down to Net Realizable value and the circumstances that led to such reversal.
   (vi) Carrying amount of inventories pledged as security for liabilities.
   (vii) Cost of inventories recognized as expense (Cost of goods sold).

QUESTION 3

a. The following are the key issues that should be covered in a partnership agreement when setting up a partnership:
   i. Capital: The agreement would indicate whether each partner should contribute a fixed amount of capital or not and how much each partner should contribute.
   ii. Profit Sharing: How profits and losses should be shared among the partners will be spelt out; whether they are capital or revenue profits or losses.
   iii. Interest on capital and drawings: Whether interest on capital or drawings should be allowed or charged before arriving at divisible profits, and if so at what rate.

iv. Interest on loan by partners: The rate of interest payable on any loan advanced by any of the partners.
v. Whether current accounts are to bear interest, and if so at what rate;
vi. Whether partners' drawings are to be limited in amount so that the current account does not turn into debit balance or not;
vii. Whether partners are entitled to remuneration for their services before arriving at divisible profits and if so what amounts and which of the partners;
viii. How the books of account would be kept and where they should be kept.
ix. The method for the valuation of assets i.e. goodwill in case of an incoming or outgoing partner;
x. The method and procedures for settlement of disputes;

b. Edo, Rivers and Ogun

Profit or Loss Appropriation Account for the year ended December 31, 2019

	Jan. - June (6months)		July - Dec. (6months)		Jan. - Dec. (12months)	
	N	N	N	N	N	N
Net Profit for the year		2,700,000		2,700,000		5,400,000
Less: Interest on loan		-		(30,000)		(30,000)
Adjusted Net Profit		2,700,000		2,670,000		5,370,000
Interest on Drawings:						
Edo		18,000		-		18,000
Rivers		9,000		12,500		21,500
Ogun		-		6,250		6,250
Profit avail. for appropriation		2,727,000		2,688,750		5,415,750
Deduct:						
Interest on Capital:						
Edo	37,500		-		37,500	
Rivers	30,000		30,000		60,000	
Ogun	-		18,750		18,750	
Partner's Salary - Rivers	600,000	(667,500)	660,000	(708,750)	1,260,000	(1,376,250)
Divisible Profit		2,059,500		1,980,000		4,039,500
Share of Profit:						
Edo	1,373,000		-		1,373,000	
Rivers	686,500		1,485,000		2,171,500	
Ogun	-		495,000		495,000	
		(2,059,500)		(1,980,000)		(4,039,500)
		NIL		NIL		NIL

Examiner's report

The question tests candidates' knowledge on the preparation of partnership appropriation accounts in columnar form.

About 40% of the candidates attempted the question and their performance was below average.

Candidates' major pitfall was their poor understanding of Partnership appropriation accounts in columnar form.

Candidates are advised to prepare well for the future examination.

QUESTION 4

LIKEMINDS CLUB
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER,2019

	₦		₦
Secretary allowance	360,000	Subscription (2,820 +360)	3,180,000
Cost of gala night	140,000	Entry fee	706,000
Competition prizes	585,000	Sales of ticket	240,000
Treasurer honorarium	600,000	Profit from bar	150,000
Club house repair	40,000	Donation	2,000,000
New members' night	100,000		
Depreciation on furniture	210,000		
	2,035,000		
Net surplus	4,241,000		
	6,276,000		6,276,000

17 ticks at ¼ mark = 41/4 Marks

LIKEMINDS CLUB
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER, 2019

	₦	₦	₦
Non-current asset	Cost	Depreciation	NBV
Furniture	2,100,000	210,000	1,890,000
Current assets			
Bar inventory		150,000	
Subscription in arrears		360,000	
Bank		1,129,000	
Rent in advance		3,300,000	
		4,939,000	
Current liabilities			
Bar creditors		40,000	4,899,000
			6,789,000
Represented by			
Accumulated fund			2,548,000
Add: Net surplus			4,241,000
			6,789,000

BAR TRADING ACCOUNT

	₦	₦		₦
Opening inventory		210,000	Sales	3,150,000
Add: Purchases	1,900,000			
Add: Accrued purchases	40,000	1,940,000		
		2,150,000		
Less: Closing inventory		150,000		
		2,000,000		
Add: Bar wages		1,000,000		
		3,000,000		
Profit taken to income & expenditure		150,000		
		3,150,000		3,150,000

QUESTION 5

a. Difference between Accounting Concepts and Accounting Conventions
Accounting concepts are basic assumption, postulations or ideas adopted and used in accounting practice for the preparation of financial statements. They are said to be the broad basic assumptions used in preparing the periodic financial accounts of a business. It can be defined as those sets of rules and regulations guiding the way and manner in which financial transaction of an entity are to be recorded, analyzed and interpreted to the management and other users for the purpose of making an economic decision.

Accounting Conventions on the other hand are generally accepted approaches to the application of the concepts. They are those set of rules and regulations guiding the way and manner in which conflicts arising as a result of the application of two or more accounting concepts are to be resolved.

b. State and Explain Five Accounting Concepts

i. Business Entity or Entity Concept
ii. Dual Aspect concept
iii. Matching concept
iv. Accrual concept
v. Money measurement concept
vi. Realisation or Recognition concept
vii. Historical cost concept
viii. Going concern concept
ix. Stable Monetary Concept
x. Periodicity or Time Interval Concept
xi. Cost concept

1. **MONEY MEASUREMENT**: This state that events that are recorded, in any business organization are those that can be expressed in monetary term in order words; in naira and kobo. Measuring items in terms of money is objective and does not rely on personal opinions. There are many aspects of a business which do not appear in the accounting records because they cannot be measured in terms of money. The value of a good manager, a loyal workforce and high staff morale are of great benefit to a business.

2. **STABLE MONETARY CONCEPTS**: In other for people to have Confidence in the way they record, there is an assumption that the value of money will be stable whenever events are being expressed in monetary terms.

3. **HISTORICAL CONCEPTS:** the amounts that are recorded in accounting are normally real amount. In other words, they are truthful and actual figure. They are amount that has already occurred and are recorded as certainty. All these are done in other for people to have confidence in the financial report.

4. **GOING CONCERN**: Accounting always assumes that the business will continue to operate for an indefinite period of time. The final account of a business are prepare on the basis that there is no intention to close down the business or to reduce the size of the business by any significant amount. Therefore, accounts are prepared on the basis that the business will continue to operate for an indefinite period of time e.g. the fixed assets of a business appear in the balance sheet at the book value.

5. **BUSINESS ENTITY:** For accounting purpose, the business is traded as completely separate from the owner of that business. There are distinct between the business and the owner. The business is regarded as an artificial person in other words, as a party or entity that can sue and can be sued. It can own property and be liable. The owner's personal assets, the owner's personal spending etc. do not appear in the accounting records of the business. The only time that the personal transaction appears in the accounting records of the business, when the business is also affected. This can occur when the owner introduces capital into the business and when he/she makes drawings from the business. In the books of the business, capital introduced will appear as a credit in the capital account showing the funds coming from the owner who thus becomes a "creditor" of the business. Drawings are debited to the owner's account in the books of the business showing the amount going to the owner and so reducing the indebtedness of the business to the owner.

6. **PERIODICITY OR TIME INTERVAL**: This concept is telling us that there must be a specified period of time when the business will want to find out whether or not its objective has been achieved. This period of time is common to all business. It is called financial year and is normally 12 months calendar year.

7. **ACCRUAL CONCEPT**: During the period when we want to determine whether the objective of the business have been achieved or not, the expense used is the expenses incurred and not expenses paid. That is income and expenses are recognized when earned and incurred and not when received and paid for.
   - Expenses incurred = expenses paid + expenses incurred but not yet paid – expenses paid but not yet due.
   - Income earned = income received + income due but not yet received – income received but not yet due.

8. **RECOGNITION OR REALISATION**: This concept is telling us about the point at which recognition is given to both income and expenses. It is important that a profit is only recorded when it has actually been earned. Profit is not regarded as being earned when the customer actually pays for the goods or services. In accounting, profit is regarded as being earned at the time the goods or services pass to the customer. Realization concept states that sales are recognised when the ownership of goods sold and legal liability to pay passes to the customer. Revenue relates to the output of goods and services. In most cases revenue is recognised when goods are delivered or services rendered. In some cases revenue is recognised:
   i. During production
   ii. When production is completed or
   iii. When cash is collected.

9. **MATCHING CONCEPT**: It states that at the end of a define period the expenses are deducted from income of the same period in order to calculate the profit. The figure shown in the trading and profit and loss account should relate to the period of time covered by that account irrespective of the actual amount paid or received. It is therefore, necessary to adjust the items of income and expenses for amounts prepaid or accrued.

10. **DUALITY:** This is the rule guiding how our transactions are recorded. Tells us that every transaction must be recorded twice; the first entry is called the debit while the other is called credit entry. The term double entry is used to describe how the dual aspect of all transactions is recorded.

11. **COST CONCEPT:** This concept holds that all assets of the enterprise are recorded in the account at costs i.e. purchase price. In other words, at any moment in time the value recorded in books do not necessarily reflect the current value of the assets.

c. State and Explain Four Accounting Conventions

1. Materiality
2. Consistency
3. Fairness
4. Prudence or conservatism
5. Objectivity
6. Substance over form
7. Disclosure

1. **MATERALITY:** This rule means that in the application of the accounting concept, the items that are accorded the specific rules are those that are significant. In most cases, significant has something to do with size of the transactions. What is significant in a business may not be treated as being significant in another business. The accountant must be practical and must consider the relative importance of data; the decision as to what is material and what is unimportant require judgment rather than inflexible rules.

2. **CONSISTENCY**: In some areas of accounting, a choice of method is available e.g. depreciation. The accounting method which is likely to give the most realistic outcome should be selected. Once a certain method is chosen it should be applied consistently from year to year. Changing to a different method would lead to profits being distorted and would make comparism of the financial results of different years impossible e.g. a company cannot use a straight-line method of calculating depreciation in one year and suddenly change to the use of reducing balancing method in another year.

3. **FAIRNESS:** This is an extension of the objectivity principle this rules state that when we are keeping records, analyzing and interpreting it, we should realize that many parties will make use of the records. When such records are being interpreted accountant must ensure that none of the parties involved is favored. In other words, we should not be biased or manipulate the record to favor any party.

4. **PRUDENCY OR CONSERVATION**: The following phrase is often used to describe this concept "never anticipate a profit but provide for all possible losses". The accountant should be cautious and always avoid overstating profit, overvaluing assets and understating liabilities. Profit should always be recognized when it is reasonably certain that they will be realized, and all known liability should be provided for. If it seems likely that a proportion of the debtors will not pay their accounts, this expected loss should be anticipated by making a provision for doubtful debts. The term "prudence prevails" is often used as this concept overrides (overrules) the other entity concept. In a situation where applying one of the other concepts would go against prudence, then the concept of prudence is applied in preference to the other concept e.g. under the realization concept, profit is regarded as being earned when the goods pass to the customer after the debt has been owing for some time, the prudence concept may override this and the debt may be written off.

5. **OBJECTIVITY:** This rule is telling us that we should be very objective during the course of recording and preparing financial statement and the interpretation of the statement there is need to be uniformity in the acceptance of opinion expressed and the content of the financial statement prepared. For statement to be universally acceptable, such statement must be factual. It is the statement that is based on historical that can have above properties.

6. **SUBSTANCE OVER FORM OR REALITY OVER LEGALITY**: This principle holds that although business transaction are usually governed by legal principles, they are nevertheless accounted for and presented in accordance with their substance and financial reality and not merely with legal form. This principle emphasizes the need to present

information based on reality, which in certain situation will deviate from the expectation of the owner of the business. It is ideal for us to place reality above legality. E.g. if an asset is purchased on hire purchase, it is recorded in the books, but legally the asset could be recovered if there is any default in payment of any installment.
Traditionally, there are two competing views of accounting.

a) The legal view
b) And the economic view.

According to the legal view, accounting should reflect the legal nature of transactions, whereas under the economic view, it should reflect their economic substance.

To show the opposition between these two approaches let us consider the case of financial leases, such as leases that give the lessee the right to acquire the lease asset by the end of the lease term.

i. According to the legal view of accounting the leased asset should be recognized in the balance sheet of the lessor because as long as title has not been transferred, the lessor has the ownership of the asset.
ii. According to the economic view of accounting, the relevant issue is not who has the ownership title but bears the risks and rewards incidental to the ownership of the asset. In a financial lease contract, these risk and rewards have been transferred to the lessee at the inception date. The leased asset should thus be recognised in the balance sheet of the lessee.

In a nutshell, the substance over form convention requires that transaction be accounted for and presented in accordance with their substance and economic reality and not merely their legal form. In order words, the economic view of accounting prevails over the legal view.

7. **DISCLOSURE:** This means that the financial statement should be prepared in such a way that it fairly discloses all material information to the users so as to help in taking rational decisions.

QUESTION 6

Kafo Limited

Statement of Profit or Loss for the year ended December 31, 2019

	L$'000	L$'000
Revenue		98,200
Cost of Sales		(51,000)
Gross Profit		47,200
Administrative Expenses		(31,350)
Profit from operation		15,850
Finance Cost/Interest Expenses:		
Loan Interest (1,500 + 1,500	3,000	
Preference dividends paid	2,000	(5,000)
Profit Before Taxation		10,850
Income Tax Expenses		(3,000)
Profit for the year		7,850

Kafo Limited

Statement of Changes in Equity for the year ended December 31, 2019

	Ordinary Share	Share Premium	Retained Earnings	Total
	₦'000	₦'000	₦'000	₦'000
Balance 1/1/2019	70,000	14,000	21,940	105,940
Dividend paid			-3,500	-3,500
Profit for the year			7,850	7,850
Balance31/12/2019	70,000	14,000	26,290	110,290

Kafo Limited

Statement of Financial Position as at December 31, 2019

	Cost	Acc. Depr.	C. Amount
Non-Current Assets:	L$'000	L$'000	L$'000
Building	120,500	(28,500)	92,000
Equipment	26,500	(5,600)	20,900
Motor Vehicle	17,200	(8,160)	9,040
	164,200	(42,260)	121,940
Current Assets			
Inventories		27,220	
Receivables		18,610	
Bank		8,390	

Total Current Assets			54,220
Total Assets			176,160
Equity and Liabilities:			
Ordinary Share Capital of N1 each			70,000
Share premium			14,000
Retained earnings			26,290
Total Equity			110,290
Non-Current Liabilities:			
10% Loan Notes	30,000		
10% Preference Shares	20,000		
Total Non-Current Liabilities		50,000	
Current Liabilities:			
Trade Payables	11,370		
Accrued Loan Note Interest	1,500		
Income Tax Payables	3,000		
Total Current Liabilities		15,870	
Total Liabilities			65,870
Total Equity and Liabilities			176,160