



ELIZADE UNIVERSITY, ILARA-MOKIN, ONDO STATE

FACULTY: HUMANITIES, SOCIAL & MANAGEMENT SCIENCES
DEPARTMENT: ACCOUNTING & FINANCE
FIRST SEMESTER EXAMINATIONS: 2020/2021 ACADEMIC SESSION
COURSE CODE: ACF 301
COURSE TITLE: INTERMEDIATE FINANCIAL ACCOUNTING & REPORTING I.
DURATION: 2^{1/2} HOURS.
INSTRUCTION: YOU ARE REQUIRED TO ANSWER FOUR (4) QUESTIONS OUT OF SIX (6) IN THIS PAPER. SECTION A IS COMPULSORY

Section A

COMPULSORY QUESTION

QUESTION 1.

The following figures have been extracted from the financial statements of Lanke Plc and Ogogo Ltd for the years ended December 31st, 2018 and 2019.

	Lanke Plc		Ogogo Ltd	
	2019	2018	2019	2018
	N'm	N'm	N'm	N'm
Revenue	21,843	17,519	15,848	12,198
Cost of Sales	15,676	12,571	11,165	8,588
Gross Profit	6,167	4,948	4,683	3,610
Other Income	234	308	612	34
Selling & Distribution Exps.	(1,413)	(1,368)	(951)	(844)
Admin. Expenses	(1,817)	(1,702)	(1,150)	(1,260)
	3,171	2,186	3,194	
Interest Expenses	(499)	(546)	(298)	(429)
Profit before taxation	2,672	1,640	2,896	1,111
Tax expenses	(481)	(283)	(313)	(185)
Profit for the year	<u>2,191</u>	<u>1,357</u>	<u>2,583</u>	<u>926</u>
Property, Plant and Equipment	9,587	9,102	6,381	6,876
Investments	3,767	3,131	4,609	3,731
	<u>13,354</u>	<u>12,233</u>	<u>10,990</u>	<u>10,607</u>
Current Assets	7,076	6,221	3,820	3,772
Current Liabilities	7,750	7,863	3,463	5,777
Net-Current Assets/(Liabilities)	(674)	(1,642)	357	(2,005)
	<u>12,680</u>	<u>10,591</u>	<u>11,347</u>	<u>8,602</u>

	Lanke Plc		Ogogo Plc	
	2019	2018	2019	2018
	N'm	N'm	N'm	N'm
Share Capital	454	454	454	454
Capital Reserve	3,182	3,182	3,147	3,147
General Reserve	<u>6,283</u>	<u>4,793</u>	<u>6,176</u>	<u>4,218</u>
Equity	9,919	8,429	9,777	7,819
Loan Notes	2,761	2,162	1,570	783
	<u>12,680</u>	<u>10,591</u>	<u>11,347</u>	<u>8,602</u>

The directors of Lanke Plc. would like to know how the individual performance of the company and that of Ogogo Plc, its competitor, compares with each other and over the two years. They are interested in performance measure around profitability, long term solvency and asset utilisation (using only the ratios indicated below). They would also want a brief explanation of why the analysis of the performance of companies cannot be fully relied upon through ratio analysis.

Required:

- (a) Prepare a performance report that addresses the needs of the directors of Lanke Plc for the two-year period 2019 and 2018.

Note: Limit your ratio computation to the following:

- (i) Return on Capital Employed (ROCE) (4 Marks)
- (ii) Profit margin (4 Marks)
- (iii) Asset turnover (4 Marks)
- (iv) Gearing (4 Marks)
- (v) Interest cover (4 Marks)

(Show all workings)

- (b) Explain **Four (4)** limitations of using financial ratios to analyse the Financial Statements of public entities. (4 Marks)

(Total 24 Marks)

Section B: Answer any TWO (2) questions from this section.

QUESTION 2

The following is the balances of Sunola Ltd as at 31st March 2019.

	N	N
Non-Current Assets		58,750
Current Assets		
Inventories		17,000
Receivables		7,000
Bank		<u>26,000</u>
Total Assets		<u>108,750</u>
Equity and Liabilities		
Ordinary Shares at N1		50,000
Redeemable preference share of N1 each		15,000
Share premium		2,750
Retained Earnings		36,000

Current Liabilities

5,000

Total Equity and Liabilities

108,750

The following transactions occurred on 1st April 2019:

- 9,000 ordinary shares of ₦1 each are issued at a premium of 5%, these are paid for immediately. The proceeds are to be used in redeeming the preference shares.
- All redeemable preference shares are redeemed at a premium of 25%.
- ₦40,000 7% Debentures are drawn up in the revised Statement of Financial Position as at 1st April 2016 after the above transactions have been completed.

Required:

- Prepare Ledgers to record the above transactions. (8 Marks)
 - Draw up the revised Statement of Financial Position as at 1st April 2019. (4 Marks)
- (Total: 12 marks)

QUESTION 3

Ajanlekoko Plc is considering acquiring a machine. It has two options: cash purchase at a cost of ₦11,420,000 or a lease.

The terms of the lease are as follows:

- The lease period is for four years from 1 January 2018 with an annual rental of ₦4,000,000 payable on 31 December each year.
- The lessee is required to pay all repairs, maintenance, and other incidental costs.
- The interest rate implicit in the lease is 15% p.a.

Note: Estimated useful economic life span of the machine is four years.

You are required to:

- State the type of lease arrangement in the above transaction, giving reason(s) (2 Marks)
- Prepare a schedule of the allocation of the finance charges in the books of Ajanlekoko Plc for the entire lease period. (8 Marks)
- Prepare an extract of the Statement of Financial Position of Ajanlekoko Plc for the year ended 31 December 2018. (2 Marks)

(Total 12 Marks)

QUESTION 4

You are recently employed in the firm of Ahuja & Co, a firm of Chartered Accountants, to enlighten Labour Union leaders in your client's manufacturing company on contributory pension matters.

You are required to prepare to:

- Explain Contributory Pension Schemes (4 Marks)
- List 4 Functions of Pension Fund Administrators (4 Marks)
- List 4 Functions of Pension Fund Custodians (4 Marks)

(Total: 12 Marks)

Section C: Answer One (1) question from this section.

QUESTION 5

(a). IFRS allows an entity to change its accounting policies if it so desires.

- State the accounting treatment in the records of the entity when such change is made. (4 Marks)
- What are the disclosure requirements to be made for such a change? (3 Marks)

(b). The Financial Accountant of BOLBABS Limited encountered the following during the process of preparing the financial statements of the company.

- (i) In preparing the financial statements for the year ended 31 December 2017, the Accountant discovers an error affecting the 31 December 2016 financial statements.
- (ii) During the year to 31 December 2018, the company change its accounting policies.

You are required to:

State how the Accountant should treat the above situation while complying with the provisions of IAS 8 on Accounting Policies, Changes in Accounting Estimates and Errors. (5 Marks)

(Total: 12 marks)

QUESTION 6.

In accordance with IFRS 9

- a. Define Financial Instruments, Financial Assets and Financial Liabilities. (4 marks)
- b. Mention 3 information to be disclosed on Financial instruments in Financial Statements. (4 marks)
- c. Explain 2 ways Financial instruments could be measured for presentation in the Financial Statements. (4 marks)

(Total: 12 marks)