



COLLEGE OF BUSINESS AND SOCIAL SCIENCE
CRAWFORD UNIVERSITY, FAITH CITY IGBESA OGUN-
STATE

ACC 402 (ADVANCED FINANCIAL ACCOUNTING 11)
2012/2013 RAIN SEMESTER EXAMINATION

Instruction: Attempt all questions in Section A, and Section B

Time allowed; 2hours 30minutes.

Section A

1. One of the following is not what an undischarged bankrupt suffers.
 - (a) He cannot vote or be voted for
 - (b) He cannot represent his country in any competition
 - (c) He cannot join in the formation of a company or partnership
 - (d) He cannot be a chairman or a member of any government parastatals.
2. The only current assets possessed by a company are cash N1, 050,000. Stock N5,600,000 debtors N4,200,000 and the current ratio of the company is 2:1 then the acid test ratio is
 - (a) 0.67:1
 - (b) 0.97:1
 - (c) 0.89:1
 - (d) 0.99:1
 - (e) 0.77:1
3. Which of the following combination of ratios would you focus attention on in a situation where a bank is approached by a company for an overdraft of N50m to finance working capital?
 - (a) Acid test ratio, dividend per share, price earning ratio
 - (b) Debt ratio, earnings per share, current ratio
 - (c) Debtors collection period, interest cover, return on capital employed
 - (d) Payout ratio, creditors' payment period, P/E ratio.
 - (e) Working capital ratio, market price per share, gearing ratio.
4. The order of the court declaring the debtor to be bankrupt is called.
 - (a) Adjudication order.
 - (b) Public Examination order
 - (c) Discharge order
 - (d) First meeting order
5. In opening the book of a new company, a compound journal is raised where the debit side of the journal is greater than the credit side, the balancing figure is called.
 - (a) Goodwill
 - (b) Capital reserve
 - (c) Liability
 - (d) Assets
 - (e) Balancing figure
6. One of the following is not a purpose of bankruptcy law
 - (a) To jail the bankrupt
 - (b) To inquire into the reason(s) for the bankrupt
 - (c) To free bankrupt from his debts

- (d) To secure a fair distribution of the bankrupt properties among his creditors
7. Which of the following is a characteristic of the statement of affairs prepared when a Company is being liquidated?
 - (a) The shareholders fund is revealed
 - (b) Preferential creditors are paid before debentures with floating security
 - (c) Assets are arranged in a reverse order of liquidity
 - (d) Assets are recorded at book values.
 - (e) It is usually supported by the income statement
 8. In bankruptcy proceedings the purpose of the first meeting of creditor is-----
 - (a) To arrest the debtor
 - (b) To consider the amount of debt put forward by the debtor
 - (c) To consider any proposal put forward by the debtor to avoid adjudication
 - (d) To plead with the creditor to give the debtor more time to pay the debt
 9. One of the following is not a limitation of ratio analysis for the purpose of interpreting financial statements
 - (a) A financial analysis based on accounting ratios may give misleading result if there is a change in price level
 - (b) There are no fixed standard for an ideal ratio
 - (c) Financial statements only disclose monetary facts; non-monetary facts can only be disclosed in notes to the accounts.
 - (d) Ratios only trigger off points for further investigation when carrying out financial analysis
 - (e) Ratios calculated at a point in time are less informative and defective as they suffer from short-term changes.
 10. All but one of the following is not a measure of profitability in an organization
 - (a) Operating expenses ratio
 - (b) Return on capital Employed
 - (c) Cash ratio
 - (d) Gross profit margin
 - (e) Net profit margin

(10 marks).

SHORT ANSWER QUESTIONS

1. Where a liability of the discontinuing business is taken over by a new company above the book value, the difference between the takeover value and the book value is transferred to
2. _____ is define as a compulsory administration of the estate of an insolvent person by the court for the benefit of his creditor.
3. Business combination is desirable however; it has its own disadvantages. Mention two major disadvantages of business combination.
4. In a sentence, differentiate between insolvency and bankruptcy.
5. The officer of the court who exercises the power of the court custody and control over the debtor's estate on behalf of the court is called -----
6. Return on capital employed (ROCE) is regarded as a primary ratio because it measured the overall performance of the business. Mention two secondary ratios.

7. The temporary inability to pay debt as at when fall due because of lack of sufficient liquid asset is known as -----
8. Current ratio and acid test ratios are two popular ratios used in measuring short term solvency and liquidity of companies. Mention two other ratios in this class.
9. Mention two other ratios that would give further interpretations to the retention ability of a company when dividend per share is compare with earning per share.
10. TRUE or FALSE. Bankruptcy is a criminal offence. (10 marks)

SECTION B.

1. The partnerships of K and T and Company of OMONIYI Ltd have agreed to amalgamate with effect from 1st July 2012.

A new company FAREWELL Ltd has been established for this purpose. By the 30th June 2012, FAREWELL has issued 100,000 ordinary shares of N1.00 per share at par and N70, 000. 8% Debentures as part, in each case for cash.

At close of business on 30th June, 2012, the separate balance sheets of the partnership and of the old company were as set out below:

X and Y Statement of financial position as at 30th June, 2012.

	N 000	N 000		N 000	N 000
Capital Accounts			Fixed Assets		
X	120		Freehold Premises		70
Y	60	180	Vehicles		15
			Equipment		46
Current Accounts			Current Assets		
X	10		Stocks	55	
Y	13	23	Debtors	27	
			Bank/Cash	21	
			Less: Current Liabilities		
			Creditors	(31)	
			Working Capital		72
		203			203

OMONIYI Ltd Statement of Financial position as at 30th june 2012

	N 000		N 000	N 000.
Share Capital	200		Fixed Assets	
			Freehold Property	100
			Plant & Machinery	95
			Vehicles	20
Reserves:			Current Assets	
Retained Profit	60			

Stock	109
Debtors	64

Less Current Liabilities

Creditors	57
Pro.Dividend	22
Bank Overdraft	49

	Working capital	45
260		260

- A. Under the terms of the agreement, FAREWELL Ltd acquired all the assets of the partnership, except for bank and cash. This balance was retained by the partner in order to discharge some of the creditors. Other assets were taken over at the following values:

	N
	000,
Freehold property	120
Vehicles	8
Equipment	40
Stocks	50
Debtors	27

The agreed consideration consisted of N23,000 in cash and N200,000 ordinary shares of N1.00 per share in FAREWELL Ltd at a premium of 25K per share, of which 130,000 were taken by K and 70,000 by T. The partners then discharged the remaining creditors. The profit and losses of the partnership were shared by the partners in capital account proportions:

- B. FAREWELL Ltd acquired all the assets in OMONIYI Ltd and also assumed responsibility for discharging all the creditors, at the following agreed amounts.

	N
	000
Freehold property	200
Plant and Machinery	80
Vehicles	20
Stocks	81
Debtors	62
Creditors	53

Goodwill was valued at N90,000

The purchase consideration of N480,000 was discharged by the issue of N320,000 ordinary shares of N1.00 per share in FAREWELL Ltd and the payment of N80,000 in cash to enable OMONIYI Ltd settle the outstanding bank overdraft balance and pay the proposed dividend and Liquidation expenses of N6,000.

You are required to:

- Make the necessary entries to dissolve the partnership of K and T and to Liquidate OMONIYI Ltd.
- Make the necessary entries, in the main accounts affected, to record the amalgamation in the books of FAREWELL Ltd.

c) Prepare a balance sheet for FAREWELL Ltd, immediately after all the transactions have taken place on 1st July 2012, (20 marks).

2. Eka and Olu who are friends, are also majority shareholders and managing directors of their respective electrical businesses of Eka & sons Limited and Olu & sons Limited. For the purposes of access to more funds and rationalization. It was agreed that Eka & sons Limited should absorb the business of Olu & sons Limited.

The statements of the financial positions of the companies prior to subscription on 30 April 2000 were as follows:

	Eka& Sons Ltd. N 000	Olu & Sons Ltd. N 000		Eka & Sons Ltd. N 000	Olu & Sons Ltd. N 000
Share capital					
Authorized of 50k					
Each	1,200	200	Goodwill		60
Issues:			Fixed Asset	980	150
Redeemable preference					
Share	40				
Ordinary share	800	100	Current Asset	310	240
Share premium	100				
Revenue Reserve	180	300			
Current Liabilities	170	50			
	1,290	450		1,290	450.

The redemption at 5% premium of redeemable preference shares took place on 1 May 2000. In order to partially finance the redemption, 80,000 Ordinary shares at a premium of 5 kobo were issued to existing shareholders and paid in full on that date.

Olu & Sons Limited was Liquidated on 1 May,2000 When all its assets, except certain items of stocks valued at N40,000, were purchased from the liquidator by Eka and sons Ltd. The company was also to assume all the liabilities of Olu & Sons Ltd, and

- (i) To issue 260,000 of its ordinary shares of 50k each at a premium of 8 kobo per share and;
- (ii) To pay N300,000 in cash.

The Purchase consideration was effected on 2 May 2000 and share issue expenses amounted to N60,800.

You are required to:

- (a) Prepare the Financial position of Eka & Sons Limited after the absorption had been effected.
- (b) Show your workings for Calculations of:
 - (i) Current Assets
 - (ii) Share premium, and:
 - (iii) Revenue Reserve. (20 marks).

3. EBENEZER (NIG) LTD PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012.

	2011 N'000	2010 N' 000
Turnover	411,590	349,200.
Less: Cost of Sales	<u>(247,860)</u>	<u>(214,720)</u>
Gross Profit	163,730	134,480
Distribution Expenses	(66,040)	(54,270)
Administrative Expenses	(46,270)	(34,830)
Debenture Interest	<u>(1,500)</u>	<u>(1,500)</u>
Net profit before Taxation	49,920	43,880
Less: Taxation	<u>(19,960)</u>	<u>(15,550)</u>
Net Profit after Taxation	29,960	28,330
Dividend Proposed	<u>(15,410)</u>	<u>(12,140)</u>
Retained profit transferred to revenue Reserve	<u>14,550</u>	<u>16,190</u>

**STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2012**

	2011 N' 000	2010 N'000
Fixed Assets	159,300	130,400
Current Assets:		
Stock and W-I-P	60,020	51,390
Debtors	10,870	4,180
Bank & Cash	<u>61,120</u>	<u>43,640</u>
	291,310	229,610
Creditors (failing due within one year)		
Trade Creditors	83,110	53,120
Bank Overdraft	1800	9,210
Taxation	7,860	6,170
Dividend	<u>15,410</u>	<u>12,140</u>
	<u>108,180</u>	<u>80,640</u>
Net Assets	<u>183,130</u>	<u>148,970</u>
Financed by:	2011	2010
	N' 000	N' 000
Ordinary shares of N1 each	59,000	50,000
Share premium	28,400	28,400
Capital reserve	41,230	41,230
Revenue reserve	<u>39,500</u>	<u>14,340</u>
	<u>168,130</u>	<u>133,970</u>
Long-term Liabilities		
10% debentures	<u>15,000</u>	<u>15,000</u>
	<u>183,130</u>	<u>148,970</u>

Additional information:

- (i) All Sales and Purchases are on credit.
(ii) Purchases/Debtors and Creditors during the year are:
- | Year | Purchases | Debtors | Creditors |
|------|-----------|---------|-----------|
|------|-----------|---------|-----------|

	N'000	N' 000	N'000
2011	256,490	10,870	83,110
2010	220,150	4,180	53,120
2009	180,190	2620	40,050

(iii) The market price of the company shares has been fairly stable at N20.14 per share. The Closing stock of EBENEZER (Nig) Ltd as at 31st December 2009 is N42, 500. You are required to compute the following for 2010 and 2011. and interpreter your answer.

1. Gross profit percentage.
2. Net profit percentage.
3. Operating expenses ratio
4. Asset turnover.
5. Working capital ratio
6. Quick assets ratio
7. Cash ratio
8. Stock turnover period
9. Gearing ratio
10. Debt ratio

(20 marks).

4. Vividly discuss at least 5 steps or proceedings that must be taken in law under Bankruptcy proceedings in chronological order. (20 marks)

GOODLUCK.