

CRAWFORD UNIVERSITY
IGBESA, OGUN STATE

TITLE OF EXAMINATION: BSc. EXAMINATION

COLLEGE: COLLEGE OF BUSINESS AND SOCIAL SCIENCES

DEPARTMENT: ACCOUNTING AND FINANCE

SESSION: 2017/2018

SEMESTER: RAIN

COURSE: FINANCIAL ACCOUNTING II

COURSE CODE: ACC302

TIME ALLOWED: 3 HOURS

INSTRUCTIONS: ATTEMPT FOUR QUESTIONS ONLY

QUESTION 1

Financial ratios is the relationship between two pieces of financial data so as to enable users of financial statements gain insight into better understanding of the financial statements.

- (a) Discuss the limitations of financial ratio analysis 4marks
(b) The statement of profit or loss and other comprehensive income of Tosin Plc for the last 2 years are given as follows:

	2017	2016
	N'00 0	N'000
Turnover		288,000
Cost of goods sold		189,000
Gross profit		99,000
Operating expenses		
Selling & Distribution	42,000	39,000
Administrative expenses	30,000	31,200
Total operating expenses		70,200
Earnings before interest and tax		28,800
Interest		2,400
Profit before tax		26,400
Tax		7,920
Profit after tax		18,480
Preference dividend	1,200	1,200
Ordinary dividend	3,120	4,800
Transfer to capital reserves	4,000	4,000
		10,000
Retained earnings		8,480

- i. Purchases totaled ₦240million in 2017, whereas purchases totaled ₦200million in 2016.
- ii. Inventory as at 31st December 2015 was ₦57million
- iii. Leases payment amounting to ₦2.4million have been included in general and administrative expenses in both 2016 and 2017.
- iv. The transfer of ₦4 million to reserves represents an annual sinking fund of ₦4million towards the replacement of fixed assets.

Tosin Plc's Statement of financial position as at December,

2017

2016

ASSETS	₦'000	₦'000	₦'000	₦'000
Non-current Assets				
Land & Building		24,000		24,000
Plant & Machinery	81,525		49,500	
Less Accumulated depreciation	18,000		13,500	
		63,525		36,000
Total Non-current Assets		87,525		60,000
Current assets				
Inventory	48,000		60,000	
Trade receivables	36,000		24,000	
Prepaid expenses	3,000		1,200	
Cash	6,000		15,420	
Total Current Assets		93,000		100,620
Total Assets		180,525		160,620
Equity and Liabilities				
Equity: Ordinary shares of ₦1 each		36,000		36,000
Capital reserves		10,000		6,000
Retained profits		35,525		28,620
10% Preference share capital		12,000		12,000
		93,525		82,620
Non-current liabilities				
5% Debentures	45,000		48,000	
Total Non-current liabilities		45,000		48,000
Current liabilities				
Short term loans & overdraft	3,000		3,000	
Trade payables	36,000		25,200	
Accrued expenses	3,000		1,800	
Total Current Liabilities		42,000		30,000
Total equity and liabilities		180,525		160,620

- i. The market price per share as at 31st December 2017 is ₦2.75, whereas the market price as at 31st December was ₦2.45.
- ii. Accumulated depreciation as at 31st December 2015 was ₦10,500,000

Required:

- (i) Calculate the relevant liquidity ratios for the two years. 8marks
 (ii) Comment on the liquidity of the company. 3marks

Total 15marks

QUESTION 2

- a. Mention the relevant laws guiding the preparation of bank accounts. 3marks

In the world of banking, a risk asset is a bank-owned asset whose value may change due to fluctuating interest rates, changes in credit quality. repayment risk, risk assets are classified into two performing and non-performing

- b.i Mention the risk assets of banks 4marks

- b.ii. Discuss performing and non-performing risk assets. 8marks

Total 15marks

QUESTION 3

Below is the trial balance of the account of Timilehin Plc for the year ended 31st December 2017.

Trial balance as at 31st December, 2017

	Debit (N'000)	Credit (N'000)
Share capital: Ordinary share capital of ₦1 each		10,000
Share premium		3,000
Trade and other payables		3,744
Land and buildings – cost	17,000	
- Accumulated depreciation 1/1/2017		848
Plant and equipment – cost	11,600	
- Accumulated depreciation 1/1/2017		5,800
Trade and other receivables	8,470	
Prepayments	30	
5% bank loan repayable 2022		8,000
Cash and cash equivalents	770	
Retained earnings at 1 st January 2017		7,750
Interest paid	400	
Sales revenue		51,680
Purchases	25,930	
Distribution cost	10,936	
Administrative expenses	5,866	
Inventories at 1 st January	8,570	
Dividend paid	1,250	

TOTAL	90,822	90,822
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Further information:

- i. The inventories at the close on 31st December 2017 cost ₦10,324,000.
- ii. Land which is not depreciated is included in the trial balance at a value of ₦6,000,000. It is to be revalued at ₦7,000,000 and this revaluation is to be included in the financial statements for the year ended 31st December, 2017.
- iii. Depreciation is to be provided for the year to 31st December, 2017 as follows:
 Building 2% per annum straight line basis.
 Plant and equipment 20% per annum reducing balance basis
- iv. Depreciation is to be apportioned as follows:
 Cost of sales 40%
 Distribution costs 40%
 Administrative expenses 20%
- v. Trade receivables include a debit of ₦20,000 which is to be written off, irrecoverable debts are to be classified as administrative expenses.
- vi. Distribution costs of ₦36,000 owing at 31st December are to be provided for.
- vii. The corporation tax charge for the year has been calculated as ₦2,950,000.
- viii. All of the operations are continuing operations.

Required:

- (a) Prepare a statement of profit or loss and other comprehensive income for Timilehin Plc for the year ended 31st December, 2017. 6marks
- (b) Prepare the statement of changes in equity for Timilehin Plc. for the year ended 31st December, 2017. 3marks
- (c) Prepare the statement of financial position for Timilehin Plc as at 31st December, 2017. 6marks

Total 15marks

QUESTION 4

Find below the trial balance of Adila Life Insurance Plc as at 31st December, 2016

	DR. (₦)	CR. (₦)
Direct premium		50,792,100
Inward re-insurance premium		15,468,000
Outward re-insurance	11,077,410	
Share capital- ordinary share capital of ₦1 each.		12,000,000
Investment (cost)	7,506,000	
Commission received		3,415,,250
Direct claim (Policy matured)	11,077,410	
Inward re-insurance claim	6,750,000	
Policies surrendered	785,520	
Acquisition cost	960,000	

Maintenance expenses	252,000	
Investment income		1,035,000
Loan on policies	20,250,000	
Actuary consulting fees	300,000	
Audit fees	6,000,000	
Contingencies reserves		7,500,000
Medical expenses	2,880,000	
Salaries & wages	5,852,280	
Printing & stationery	108,000	
Cash bonuses paid	50,000	
Commission to agents	1,020,000	
Cash at bank	21,886,200	
Statutory deposit	15,006,000	
Federal Government Securities	24,021,000	
Property cost	9,480,000	
Interest on policy loan		2,947,500
Director remuneration	750,000	
Provision for depreciation property		2,556,000
Rent paid	2,100,000	
Transport and travelling	1,000,000	
Agency debtors/ receivables	4,740,000	
Provision for bad debts		2,403,000
Endowment policy matured not paid		1,506,000
Commission due not paid		1,144,000
Life fund 31/12/2015		53,084,970
TOTAL	153,851,820	153,851,820

Additional information:

- i. Tax provision of ₦5,000,000 is to be made for the year.
- ii. The company proposed dividend at 8½ Kobo per share.
- iii. Actuarial valuation for outstanding policies and annuities held by the company is ₦59,004,600.
- iv. Provision against agent balances to be increased by ₦461,352.
- v. 10% depreciation on property.

Required:

- (i) Prepare the Revenue account as at 31st December, 2016. 5marks
- (ii) Prepare Profit or loss statement of Esther Life Insurance Plc for the year ended 31st December, 2016. 10marks

Total 15marks

QUESTION 5

Insurance is a contract purchased to guarantee compensation for a specified loss.

(a) Mention the relevant statutory and regulatory framework guiding the insurance business.

5marks

(b) The following is the trial balance extracts from the book of Ariyo Bank Plc. on 31st December, 2017.

	DR. (₦)'000	CR. (₦)'000
Share capital: Ordinary share of ₦1.00 each		1,800,000
Plant & Machinery at cost	500,000	
Depreciation on Plant & Machinery		10,000
Land & Building	400,000	
Advances given to staff	200,000	
Other loans (Secured on property)	500,000	
Investment: Quoted	1,400,000	
Unquoted	1,300,000	
Contingent Reserves		1,000,000
Capital Reserves		400,000
Revenue Reserves		150,000
Money at call on short notice		50,000
Demand deposit		100,000
Bills discounted in US	50,000	
Balance from other banks	150,000	
Cash in hand & Short Term Funds	100,000	
Special deposit with CBN	500,000	
Provision for bad doubtful debts		10,000
Taxation (provision)		100,000
Accounts Payables		600,000
Liability for confirmed documentary credit, guarantee and endorsement	5,000	5,000
Interest on loans & advances		26,000
5% Debentures		400,000
Commission and service charges		104,000
Income from foreign exchange		2,500,000
Interest paid	50,000	
Directors remuneration	400,000	
Auditors remuneration	1,000,000	
Other expenses	700,000	
TOTAL	7,255,000	7,255,000

Additional information:

- i. Interest received on loan and advances should be at the rate of 5%.

- ii. Provision for corporation tax on current years' profit ₦150,000.
- iii. Depreciation is to be provided at the rate of 55 on Plant & Machinery.
- iv. Transfer ₦20,000 to Revenue Reserve.
- v. *A dividend of 5% is proposed on share capital.*
- vi. Provision for bad and doubtful debts is to be increased by ₦5,000.
- vii. The market value of quoted investment is ₦1,700,000.
- viii. Payment of interest on debenture is withheld for a reason best known to the bank (Do not also accrue for it).

Required:

5b. Prepare the statement of profit or loss for the bank for the year ended 31st December 2016.

10marks

Total 15marks