THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FINANCIAL ACCOUNTING

TIME ALLOWED: 3¼ hours (including 15 minutes reading time)

PILOT QUESTIONS AND SOLUTIONS

MULTIPLE CHOICE QUESTIONS

SECTION A: 20 marks (compulsory)

ATTEMPT ALL QUESTIONS IN THIS SECTION

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 **NOT** an external user of accounting information?
- **A.** Competitor
- **B.** Customer
- **C.** Manager
- **D.** Supplier

2. What is the primary difference between debit cards and credit cards?
- **A.** Debit cards are issued by banks, while credit cards are issued by financial institutions
- **B.** Debit cards access funds directly from a bank account, while credit cards allow users to borrow money
- **C.** Debit cards are used for online purchases, while credit cards are used for physical purchases
- **D.** Debit cards are free, while credit cards have annual fees

3. The following information relates to Wuse Enterprises as at December 31, 2024.

	₦'000
Allowance for bad debts brought forward	10,000
Accounts receivable	129,500
Bad debt to be written off	9,500

Allowances for bad debts should be adjusted to 5% of accounts receivable balance. What amount of allowance for bad debts would be written-back in 2024 financial year?

- **A.** ₦10,000
- **B.** ₦9,500
- **C.** ₦6,000
- **D.** ₦4,000

4. According to IAS 37 (Accounting for Provisions, Contingent Liabilities and Contingent Assets), a provision is
- **A.** A present obligation arising from past events
- **B.** A liability of uncertain timing or amount
- **C.** A possible obligation arising from past events
- **D.** A liability of uncertain timing, amount and settlement

5. A and B had been in partnership business sharing profits/losses in ratio 2:1 respectively. They decided to admit C into the partnership to take one-fifth of profits/losses while the relative profit-sharing ratio of A and B remains the same. What would be the partners new profits/losses sharing ratio?
   A. 2 : 1 : 1
   B. 2 : 2 : 1
   C. 8 : 4 : 3
   D. 8 : 4 : 2

6. A company's tax liability at the beginning of the year was ₦420,000, current tax for the year was ₦850,000. The tax charged for the previous year was under-estimated by ₦14,200. During the year a tax of ₦428,000 was paid by the company. How much tax should be charged to the statement of profit or loss for the year?
   A. ₦413,800
   B. ₦422,200
   C. ₦835,800
   D. ₦864,200

7. Which of the following is **NOT** a typical benefit of using an accounting package?
   A. Enhanced efficiency in preparing financial statements
   B. Increased accuracy of accounting entries
   C. Reduction in the need for skilled accounting staff
   D. Improved data security and access control

8. Which of the following best describes the purpose of the conservatism convention in accounting?
   A. To ensure that all material information is disclosed in the financial statements
   B. To always recognise the highest possible value of assets and liabilities
   C. To record transactions consistently from one period to the next
   D. To prioritise the recording of potential losses and liabilities over potential gains and assets

9. Assets are always equal to
   A. Equity
   B. Liabilities
   C. Equity + liabilities
   D. Liabilities + accounts payable

Use the following information to answer questions 10 and 11

	₦
Balance as per cash book	220,000
Dishonoured	100,000
Bank charges	10,500
Uncredited cheques	70,000

10. The adjusted cash book balance is
   A. ₦100,000
   B. ₦109,500
   C. ₦155,500
   D. ₦209,500

11. The balance as per bank statement is
   A. ₦39,500
   B. ₦41,500
   C. ₦139,500

D. ₦179,500

12. Which of the following costs should **NOT** be included in the initial measurement of property, plant and equipment (PPE)?

- **A.** Purchase price
- **B.** Site preparation cost
- **C.** Professional fees
- **D.** Installation cost

13. A not-for-profit organisation received a significant donation of equipment valued at ₦1,000,000. How should this donation be treated in the financial statements?

- **A.** As a revenue item in the income and expenditure account, and the equipment capitalised as an asset in the statement of financial position
- **B.** As a capital gain in the income and expenditure account, and the equipment recognised as a non-current asset in the statement of financial position
- **C.** As an expense in the income and expenditure account, and the equipment as a current asset in the statement of financial position
- **D.** As a reduction in the accumulated fund, and the equipment recognised as a non-current asset

14. Which of the following ratios is used to assess a company's ability to meet its short-term obligations using its most liquid assets?

- **A.** Current ratio
- **B.** Debt-to-equity ratio
- **C.** Acid-test ratio (quick ratio)
- **D.** Inventory turnover ratio

15. Which of the following is **NOT** an advantage of using digital technologies in financial accounting?

- **A.** Improved accuracy and efficiency in data processing
- **B.** Reduced need for manual bookkeeping
- **C.** Enhanced data security through blockchain technology
- **D.** Increased cost of software and implementation

16. A company received a payment of ₦200,000 from a customer for an outstanding invoice. Which of the following is the correct double entry?

A.	Debit: Accounts receivable account	Credit: Cash account
B.	Debit: Cash account	Credit: Accounts receivable account
C.	Debit: Revenue account	Credit: Accounts receivable account
D.	Debit: Accounts receivable account	Credit: Revenue account

17. Which of the following would be included in the cost of inventories according to IAS 2?

- **A.** Purchase price plus import duties, plus transport costs, less trade discount
- **B.** Purchase price less trade discount
- **C.** Purchase price plus transport costs less trade discount
- **D.** Purchase price less import duties less trade discount

18. The following information is obtained from the books of a sole trader.

(i)	Opening capital as at January 1, 2024	₦330,000
(ii)	Closing capital as at December 31, 2024	₦ 95,000
(iii)	Additional capital introduced during 2024	₦150,000
(iv)	Cash withdrawn during 2024	₦350,000

Calculate the profit or loss during the period.

- **A.** ₦445,000 loss

B. ₦35,000 loss
C. ₦35,000 profit
D. ₦480,000 profit

19. Which of the following items will appear in a statement of cashflows prepared in accordance with IAS 7?
A. Revenue reserve
B. Capital reserve
C. Retained earnings
D. Right issue of shares

20. A company acquires a trademark for ₦5,000,000.00. The trademark has an indefinite useful life. Which of the following statements is **TRUE**?
A. The trademark should be amortised over its useful life
B. The trademark should be tested for impairment annually
C. The trademark should be amortised over 10 years
D. The trademark should be capitalised and not amortised

SECTION B: OPEN ENDED QUESTIONS (80 MARKS)
INSTRUCTION: YOU ARE REQUIRED TO ANSWER FOUR OUT OF SIX QUESTIONS IN THIS SECTION

Question 1:

a) Financial information is normally provided for the use of both internal and external group.
Required:
Explain the type of financial information each of the following user group typically requires and why it is significant to them:
i) Shareholders
ii) Creditors
iii) Government agencies 12 marks

b) Kano Supplies Ltd purchased office materials worth ₦1,290,000 inclusive of VAT and sold them to a customer for ₦1,720,000, inclusive of VAT.

Required:
i) Compute the input VAT and output VAT.
ii) Determine the VAT payable to the tax authorities.
iii) Provide the journal entries for both the purchase and the sale.
(VAT rate is 7.5%) 8 marks
Total **20 Marks**

Question 2

a) The following transactions relate to Olamide Enterprises in the month of July:
July 1: Started business with ₦600,000 cash.
July 3: Paid ₦500,000 into a business bank account.
July 5: Purchased goods for ₦250,000, payment made by cheque.

July 6: Bought office furniture for ₦120,000, paying by cheque.
July 8: Sold goods for ₦400,000 on credit.
July 10: Received ₦200,000 through the bank from a customer for goods sold on credit.
July 12: Paid rent of ₦30,000 by cheque.
July 15: Paid ₦10,000 for electricity expenses in cash.
July 18: Took ₦20,000 cash drawings for personal use.
July 20: Received a loan of ₦500,000, credited directly into the bank account.

Required:
Prepare the journal entries for each of the above transactions. 10 Marks

b) Zeta Industries Ltd is a manufacturing company that specialises in producing industrial components. One of its major production machines was purchased three years ago for ₦40,000,000 and has been depreciated using the straight-line method over its estimated useful life of 10 years, with no residual value. Due to recent technological advances, a new and more efficient machine has been introduced into the market. Consequently, the company expects a significant drop in the demand for its current products.
As part of the year-end financial reporting process for the year ended December 31, 2024, management conducted an impairment review. The recoverable amount of the machine, based on fair value less costs to sell, was estimated at ₦18,000,000. The value-in-use, based on estimated future cash flows, was estimated at ₦20,000,000.

Required:

i. Calculate the carrying amount of the machine as at 31 December 2024, before impairment. (3 marks)
ii. Determine the amount of impairment loss, if any, and state how it should be accounted for in the financial statements. (5 marks)
iii. Briefly explain two potential implications of not recognizing an impairment loss in the financial statements. (2 marks)

(10 marks
Total **20 Marks**

Question 3:

a) The following balances are extracted from the books of Zebra Enterprises as at December 31, 2024:

Item	**Amount (₦)**
Property, plant and equipment	18,000,000
Inventory	3,500,000
Trade receivables	2,000,000
Cash and bank	1,000,000
Trade payables	2,800,000
Bank loan (due in 3 years)	4,000,000
Share capital	10,000,000

Item	**Amount (₦)**
Retained earnings	7,700,000

Required:

(i) Prepare the statement of financial position as at 31 December 2024. (11 marks)

(ii) Identify and classify each item as either a current asset, non-current asset, liability, or equity, and provide a brief explanation for each classification. (4 marks)

(iii) Comment briefly on the financial position of the business, based on the figures. (3 marks)

b) Modern technologies are affecting the way business financial transactions are being processed.

Required:
Briefly explain two ways in which blockchain technology (distributed ledger) can enhance financial accounting processes. (2 marks)

Total 20 Marks

Question 4

a) Emeka Enterprises prepared a trial balance which did not balance. The debit side totalled ₦950,000 and the credit side totalled ₦900,000. Emeka suspects some ledger postings were omitted.

Required:

(i) Identify three possible reasons why a trial balance may not balance (3 marks)

(ii) Recommend steps Emeka should take to locate and correct the errors in the ledger accounts

(5 marks).

b) AlphaTech Ltd is developing a new product. The project began on January 1, 2024, and the following expenditures were incurred during the year ended December 31, 2024:

Description	Amount (₦)
Research staff salaries (January – March)	3,200,000
Development staff salaries (April – December)	6,800,000
Market research and feasibility studies	1,100,000
Testing and prototype materials (April – July)	2,600,000
Administrative overheads	900,000
Purchase of specialised development equipment*	4,000,000
Depreciation of equipment (useful life: 5 years)	?
Patent registration costs	750,000

***Note:** The equipment was purchased in April 2024 and is used solely for the development project. It has a useful life of 5 years and no residual value.

Management confirmed that the project met all six criteria for capitalisation under IAS 38 on April 1, 2024.

Required:

i. Distinguish between research and development phases under IAS 38 and explain the conditions under which development costs may be capitalised. (4 marks)

ii. Calculate the amount of expenditure to be capitalised as an intangible asset for the year ended December 31, 2024. (6 marks)

iii. State how the cost of the development equipment should be treated in the financial statements. (2 marks)

Total 20 Marks

Question 5

a) The accountant of Osas Ventures Ltd is preparing the company's bank reconciliation statement as at March 31, 2025. The cash book balance (bank column) shows a debit balance of ₦485,200, but the bank statement shows a different balance.

On investigation, the following discrepancies were discovered:

i. A cheque of ₦150,000 issued to a supplier on March 28, had not yet been presented to the bank.

ii. A deposit of ₦92,500 made on March 30, was not yet credited by the bank.

iii. Bank charges of ₦5,200 had not been recorded in the cash book.

iv. A direct debit of ₦38,000 for insurance was recorded only in the bank statement.

v. A cheque for ₦64,000 received from a customer and entered in the cash book was dishonoured, but this had not yet been adjusted in the cash book.

vi. A standing order of ₦75,000 for loan repayment was debited by the bank on March 29 but not recorded in the cash book.

vii. The bank erroneously debited Osas Ventures Ltd.'s account with a ₦25,000 transaction belonging to another customer.

viii. A credit transfer of ₦60,000 from a customer was received directly into the bank account but was not recorded in the cash book.

Required:

i) Update the cash book (bank column only) to reflect all necessary adjustments. (4 marks).

ii) Prepare the bank reconciliation statement as at 31 March 2025, starting with the updated cash book balance. (6 marks)

b) **A**lpha Solutions Ltd is a medium-sized enterprise that recently transitioned from a manual bookkeeping system to a cloud-based accounting software. As part of the finance team's responsibilities, they are required to process and manage business transactions daily, including entering and editing accounting information accurately.

Required:

i) Explain three (3) advantages of using computer-based accounting tools to process business transactions. (4 marks)

ii) Identify and briefly explain the steps involved in entering a typical business transaction (e.g., sales invoice) into an accounting software. (4 marks)

ii) Discuss two (2) possible risks associated with editing previously recorded transactions in an accounting system and suggest appropriate internal controls to mitigate them. (3 marks)

Total 20 Marks

Question 6

a) The Greenfield Sports Club provided the following information for the year ended December 31, 2024:
Receipts and payments account for the year ended December 31, 2024

Receipts	₦	Payments	₦
Balance b/d	2,040,000	Salaries	700,000
Subscriptions received	1,800,000	Rent	320,000
Entrance fees	250,000	Bar purchases	900,000
Bar takings	1,400,000	Repairs	150,000
Donations	300,000	Annual dinner expenses	480,000
Proceeds from annual dinner	600,000	Electricity	110,000
Interest on fixed deposit	100,000	Purchase of equipment	400,000
		Balance c/d	3,430,000
	6,490,000		6,490,000

Additional Information:

i. Subscriptions in arrears as at December 31, 2023: ₦120,000
ii. Subscriptions in arrears as at 31 December 2024: ₦160,000
iii. Subscriptions received in advance as at December 31, 2023: ₦60,000
iv. Subscriptions received in advance as at December 31, 2024: ₦40,000
v. Bar inventory:

   at December 31, 2023: ₦200,000
   at December 31, 2024: ₦300,000

vi. Equipment is to be depreciated at 10% per annum on cost.
vii. The club had equipment worth ₦1,200,000 at January 1, 2024.
viii. The accumulated fund as at January 1, 2024 was ₦3,500,000.

Required:

i) Prepare the bar trading account for the year ended December 31, 2024. (4 marks)

ii) Prepare the income and expenditure account for the year ended December 31, 2024. (9 marks)

iii) Prepare the statement of financial position as at December 31, 2024. (5 marks)

b) Briefly distinguish between a provision and a contingent liability under IAS 37, stating the condition under which each is recognised or disclosed in the financial statements. (2 marks)

Total 20 Marks

SUGGESTED SOLUTIONS

SECTION A: MCQ – SOLUTIONS

1. C
2. B
3. D
4. B
5. C
6. D
7. C
8. D
9. C
10. B
11. A
12. E
13. A
14. C
15. D
16. B
17. A
18. B
19. D
20. B

Workings

Q3: Allowance for bad debts for 2024 financial year:

	₦'000	
Accounts receivable as at 31 December 2024	129,500	
Less bad debts written off as at date	9,500	
	120,000	
	₦'000	
Allowance for bad debts b/fwd	10,000	
Allowance for bad debts as at 31/12/2024		
(5% × 120,000)	6,000	
Reduction in allowance for bad debts	4,000	- D

Q5: C's share = 1/5
A and B: remaining share = 4/5
A's share of the 4/5 = 2/3 × 4/5 = 8/15
B's share of the 4/5 = 1/3 × 4/5 = 4/15
C's share of 1/5 equivalent to 3/15
Therefore, the partner's new share = 8:4:3 - C

Q 6: Calculation of income tax charged to profit or loss for the year:

	₦
Current tax	850,000
Under estimated tax for the previous year	14,200
Income tax for the year	864,200 - D

		₦
Q10:	Adjusted cash book balance	220,000
	Less Dishonoured cheque	(100,000)
	Bank charges	(10,500)
		109,500 – B

		₦
Q11:	Adjusted cash book balance	109,500
	Less uncredited cheque	(70,000)
		39,500 - A

Q18: Closing capital = Opening capital + additional capital + profit – drawings
Therefore, Profit = Closing capital + drawings – (opening capital + additional capital)

	₦	₦	
Closing capital as at December 31, 2024		95,000	
Cash withdrawn during 2024		350,000	
		445,000	
Opening capital as at January 1, 2024	330,000		
Additional capital introduced during 2024	150,000	480,000	
Net loss for the period		(35,000)	- B

SECTION B

Question 1:

a) Financial statements provide essential data about an entity's financial position, performance, and changes in financial status. Different user groups rely on this information to make informed decisions. Below is a list outlining the importance of financial information for three key user groups:

(i) Shareholders

Typical information required:

- Profitability (net profit, earnings per share)
- Financial position (assets, liabilities, equity)
- Dividends (declared and paid)
- Growth trends and financial performance over time

These are significant because:

- Return on investment: Shareholders are owners and are primarily interested in how profitable the business is and whether it will provide a good return on their investment.
- Decision-making: Helps shareholders decide whether to buy more shares, hold, or sell.
- Monitoring management performance: Financial statements help assess how effectively management is using the shareholders' funds.
- Dividend expectations: Based on profits and retained earnings.

(ii) Creditors (e.g., suppliers, lenders)

Typical information required:

- Liquidity position (Cash, receivables, current liabilities)
- Solvency and gearing ratios
- Payment history and current level of debt
- Profitability and cash flow

These are significant because:

- Ability to pay debts: Creditors want assurance that the company can meet its short-term and long-term obligations.
- Credit terms: Helps in setting or reviewing credit limits and payment terms.
- Risk assessment: Assists in evaluating the risk of default.
- Loan decision: Lenders use financial information to determine whether to grant, extend, or restructure loans.

(iii) Government agencies

Typical information required

- Revenue, profits, and expenses
- Taxable income and tax payments
- Employment data and compliance information
- Industry and sector performance

These are significant because:

- Tax assessment: Governments use financial statements to assess the correct amount of tax payable by businesses.
- Regulatory oversight: Ensures compliance with legal and financial reporting standards.
- National statistics: Information may be used to compile economic data and statistics.
- Policy decisions: Economic performance data influences policymaking and economic planning.

Conclusion

Each of these users (shareholders, creditors, and government agencies) has different interests, but all rely on accurate, relevant, and timely financial information for decision-making. This underscores the importance of quality financial reporting in promoting transparency, accountability, and sound economic decisions.

b)

(i) Compute the input VAT and output VAT

To extract VAT when the amount is inclusive, use the formula:

VAT= $\frac{7.5}{107.5}$× Total amount given:

- Purchase (inclusive of VAT): ₦1,290,000
- Sale (inclusive of VAT): ₦1,720,000
- VAT rate: 7.5%

Compute the input VAT and output VAT

Input VAT (on purchase):

Input VAT= $\frac{7.5}{107.5}$ x1,290,000=₦90,000

Output VAT (on sale):

Output VAT= $\frac{7.5}{107.5}$×1,720,000=₦120,000

(ii) Determine the VAT payable to the tax authorities

VAT payable = Output VAT − Input VAT = ₦120,000−₦90,000 = ₦30,000

(iii) Journal entries

For the purchase (inclusive of VAT)

Account	Dr (₦)	Cr (₦)
Material Supplies	1,200,000	
VAT (Input)	90,000	
Payables		1,290,000

Narration: Being materials purchased inclusive of 7.5% VAT.

For the Sale (inclusive of VAT)

Account	Dr (₦)	Cr (₦)
Receivables/cash	1,720,000	
Sales revenue		1,600,000
VAT (output		120,000

Narration: Being sales made inclusive of 7.5% VAT.

Question 2

a)

Date	Particulars		Dr ₦	Cr ₦
1 July	cash account	Dr	600,000	
	Capital account			600,000
	Being cash introduced to start the business			
3 July	Bank account	Dr	500,000	
	cash account			500,000
	Being cash paid into bank account			
5 July	Purchases account	Dr	250,000	
	Bank account			250,000
	Being goods bought by cheque			
6 July	Office furniture account	Dr	120,000	
	Bank account			120,000
	Being office furniture purchased by cheque			
8 July	Trade receivables account		Dr 400,000	
	Sales account			400,000
	Being goods sold on credit			
10 July	Bank account	Dr	200,000	
	Trade receivables account			
	200,000			
	Being cash receipt from customer through the bank			
12 July	Rent expense account	Dr	30,000	
	Bank account			30,000
	Being rent paid by cheque			
15 July	Electricity expense account	Dr	10,000	
	Cash account			10,000
	Being electricity expenses paid in cash			
18 July	Drawings account	Dr	20,000	
	Cash account			20,000
	Being cash drawings for personal use			
20 July	Bank account	Dr	500,000	
	Loan payable account			500,000
	Being loan received through bank account			

bi) Carrying amount of the machine before impairment

- Cost of the machine: ₦40,000,000
- Useful life: 10 years
- Annual depreciation: ₦40,000,000 ÷ 10 = ₦4,000,000
- Depreciation for 3 years: 3 × ₦4,000,000 = ₦12,000,000
- Carrying amount as at Dec 31, 2024: ₦40,000,000 – ₦12,000,000 = ₦28,000,000

ii) Impairment loss and accounting treatment

- Recoverable amount: Higher of
  - Fair value less costs to sell = ₦18,000,000
  - Value in use = ₦20,000,000

  So, recoverable amount = ₦20,000,000
- Carrying amount = ₦28,000,000
- Impairment loss = ₦28,000,000 – ₦20,000,000 = ₦8,000,000

Accounting treatment:

- Debit: Impairment loss (P/L) – ₦8,000,000
- Credit: Accumulated Impairment loss (Asset) – ₦8,000,000

The carrying amount of the machine is reduced to ₦20,000,000 in the statement of financial position.

iii) Implications of not recognizing impairment

- Overstated Assets: The statement of financial position will reflect an inflated asset value, misleading users about the company's true financial position.
- Misstated Profit: Profit will be overstated as the impairment loss would not be recognized, violating the principle of prudence and potentially leading to regulatory and audit concerns.

Question 3

a(i)

Zebra Enterprises
Statement of Financial Position of
As at 31 December 2024

Assets	
Non-current assets	₦
Property, plant and equipment	18,000,000
Current assets	
Inventory	3,500,000
Trade receivables	2,000,000
Cash and bank	1,000,000
Total current assets	6,500,000
Total assets	24,500,000
Equity and liabilities	
Equity	
Share capital	10,000,000
Retained earnings	7,700,000
Total equity	17,700,000

Non-current liabilities	
Bank loan (due in 3 years)	4,000,000
Current liabilities	
Trade payables	2,800,000
Total Liabilities	6,800,000
Total equity and liabilities	24,500,000

(ii) Classification of each item

Item	Classification	Explanation
Property, plant and equipment	Non-current asset	Long-term assets used in operations, not expected to be converted to cash within a year.
Inventory	Current asset	Expected to be sold or used within one year.
Trade receivables	Current asset	Expected to be collected in the normal operating cycle (within a year).
Cash and bank	Current asset	Cash equivalents, available for immediate use.
Trade payables	Current liability	Obligations expected to be settled within one year.
Bank loan (3 years)	Non-current liability	Obligation due beyond 12 months.
Share capital	Equity	Owner's investment in the business.
Retained earnings	Equity	Accumulated profits retained in the business.

(iii) Comment on the financial position

- Strong equity position: Equity totals ₦17.7 million, representing about 72% of total assets, suggesting
- strong internal financing.
- Solvency: The business is solvent, with total assets (₦24.5 million) exceeding total liabilities (₦6.8 million).
- Liquidity: Current assets (₦6.5 million) exceed current liabilities (₦2.8 million), giving a current ratio of approximately 2.32:1, indicating a healthy short-term liquidity position.
- Gearing: The company has a moderate level of debt. The debt-to-equity ratio is 6.8/17.7% = 38%, suggesting low financial risk.

Conclusion: Zebra Enterprises is financially sound, with a strong equity base, manageable liabilities, and adequate liquidity to meet short-term obligations.

b (i) Enhanced transparency and traceability:
Blockchain provides a tamper-proof and time-stamped record of all transactions, allowing for real-time tracking and verification. This increases transparency and makes it easier to audit and trace the origin and flow of financial data.

ii) Improved data security and integrity:
Blockchain uses cryptographic techniques to secure data, making unauthorised alterations nearly

impossible. This ensures the accuracy and reliability of financial records, reducing the risk of fraud and errors.

Question 4

a(i) Three possible reasons why a trial balance may not balance are:

- Errors of omission
  A transaction may have been recorded in only one account instead of both the debit and credit sides, causing an imbalance in the trial balance totals.
- Errors of partial posting
  A transaction might have been correctly posted to one account (say, the debit side) but omitted or incorrectly posted on the credit side (or vice versa).
- Mathematical errors
  Errors may occur during the calculation of account balances, incorrect addition when extracting the trial balance, or carrying forward wrong totals from individual ledger accounts.

a(ii) Steps Emeka should take to locate and correct the errors are:

1. Recheck the trial balance additions
   Verify the arithmetic totals of both the debit and credit columns to ensure that no errors occurred during the addition.
2. Compare the trial balance with the ledger balances
   Carefully cross-check each ledger account balance with the amount shown in the trial balance to identify discrepancies.
3. Check for missing or incomplete entries
   Review the individual ledger accounts to ensure that every transaction has been properly posted to both the debit and credit sides.
4. Look for suspense account usage
   If a suspense account was opened temporarily to force the trial balance to agree, revisit all recent transactions to correct any mis-postings and clear the suspense account.
5. Verify double entries
   For each transaction, confirm that there is a corresponding debit and credit entry, and that they are posted in the correct amounts and accounts.

b(i) Distinction between research and development phases and capitalisation conditions

- Research phase: Activities aimed at gaining new knowledge without a specific future application. Examples include laboratory research, literature review, or feasibility studies.
  Under IAS 38, costs incurred during the research phase must be expensed as incurred because there is no certainty of future economic benefit.
- Development phase: Involves application of research findings towards a plan or design for a new or improved product or process before commercial production or use.
  IAS 38 allows capitalisation of development costs only when all the following six conditions are met:
  - technical feasibility of completing the asset;
  - intention to complete and use or sell it;
  - ability to use or sell the asset;

- probable future economic benefits (e.g., market exists);
- availability of resources to complete and use/sell the asset;
- ability to measure expenditure reliably.

(bii) Expenditure to be capitalised as intangible asset
Only expenditures incurred from April 1, 2024 (when criteria for capitalisation were met) and directly related to the development phase can be capitalised.

Allowable capitalised items:

	₦
• development staff salaries (April – Dec)	6,800,000
• Testing and prototype materials (Apr – Jul)	2,600,000
• Depreciation of development equipment (Apr – Dec):	
▪ ₦4,000,000 ÷ 5 years = ₦800,000 per year	
▪ 9 months (Apr–Dec): ₦800,000 × 9/12	600,000
• Patent registration costs	750,000
Total capitalised costs	10,750,000

b(iii) Treatment of development equipment

- The equipment is a tangible non-current asset and should be capitalised as property, plant and equipment (PPE) under IAS 16 at its cost of ₦4,000,000.
- Since the asset is used exclusively for development, only depreciation related to the development phase can be included in the capitalised development expenditure under IAS 38.
- It should be depreciated over 5 years, and the depreciation (₦600,000 for 2024) is included in capitalised development costs.

Question 5

(a) Osas Ventures Ltd

Cash Book (Bank Column)

	₦		₦
Balance b/d	485,200	Bank charges	5,200
Direct transfer into the bank	60,000	Insurance	38,000
		Dishonoured cheque	64,000
		Loan repayment	75,000
		Balance c/d	363,000
	545,200		545,200
Balance b/d	363,000		

Bank reconciliation Statement

	₦	₦
Balance as per the cash book (bank column)		363,000

Add: unpresented cheque	150,000	
Bank error	25,000	175,000
		538,000
Less uncredited deposit		92,500
Balance as per bank statement		445,500

(bi) Three (3) advantages of using computer-based accounting tools are:

- Improved accuracy: Automated calculations reduce the risk of human error in posting transactions and generating financial reports.
- Faster processing: Transactions can be processed in real time, allowing for quicker generation of financial statements and better decision-making.
- Ease of access and storage: Cloud-based systems allow authorised users to access accounting records from any location, improving flexibility and collaboration.
- Enhanced reporting capabilities: Accounting software can generate a variety of reports (e.g., profit and loss, balance sheet, cash flow) instantly, aiding timely financial analysis.

(ii) Steps involved in entering a typical business transaction (e.g., sales invoice)

- Log in to the accounting software:
  The user logs in using secure credentials to access the accounting system.
- Navigate to the sales/invoicing module:
  The user selects the appropriate module for creating a sales invoice.
- Enter transaction details:
  This includes customer name, date, invoice number, product/service description, quantity, unit price, applicable taxes, and total amount.
- Review and post the invoice:
  The user reviews the information for accuracy, then saves and posts the transaction, which automatically updates the relevant ledgers (e.g., Accounts Receivable and Sales Revenue).

iii) Two (2) risks of editing previously recorded transactions and internal controls for mitigating this are:

- Risk: Unauthorised alteration of records
  Editing past transactions can be exploited to manipulate financial data or conceal fraud.
  Control**:** Implement role-based access controls and require approval for edits after a specified time window.
- Risk: Loss of audit trail
  Editing can overwrite original entries, resulting in loss of historical data and auditability.
  Control: Enable audit trail features in the software to log all edits with user ID, date, time, and reason for change.

Question 6

Greenfield Sports Club

a(i) Bar trading account for the year ended December 31, 2024

	₦		₦
Opening inventory	200,000	Bar takings	1,400,000
Add purchases	900,000		
	1,100,000		
Less closing inventory	300,000		
Cost of sales	800,000		
Income and expenditure	600,000		
	1,400,000		1,400,000

a(ii) Income and expenditure account for the Year Ended December 31, 2024

	₦		₦
Salaries	700,000	Subscriptions (W1)	1,860,000
Rent	320,000	Entrance fees	250,000
Repairs	150,000	Donations	300,000
Electricity	110,000	Interest on fixed deposit	100,000
Depreciation on equipment (W2)	160,000	Surplus from Bar Trading A/c	600,000
Surplus for the year (balancing fig.)	1,790,000	Surplus from annual dinner (600 – 480)	120,000
Total	3,230,000	Total	3,230,000

a(iii) Statement of Financial Position as at December 31, 2024

Non-Current Assets	₦	
Equipment (1,600,000 – 160,000)	1,440,000	
Current Assets Bank balance	3,430,000	
Bar inventory	300,000	
Subscriptions in arrears	160,000	
Total Current Assets	3,890,000	
Total Assets	**5,330,000**	
Liabilities and Accumulated Fund		
Liabilities		
Subscriptions received in advance		40,000
Accumulated Fund		5,290,000
		5,330,000

Working 1: Subscriptions income

Subscription account

	₦		₦
Balance b/d	120,000	Balance b/d	160,000
Income and expenditure	1,860,000	Bank	1,800,000
Balance c/d	40,000	Balance c/d	60,000
	2,020,000		2,020,000
Balance b/d	60,000	Balance b/d	40,000

Working 2: Depreciation of Equipment

Opening equipment =	,200,000
Add: Purchase during year =	400,000
Total equipment =	1,600,000
Depreciation @ 10% =	₦160,000

Working 3: Accumulated fund

Opening balance	3,500,000
Add: Surplus for the year	1,790,000
Closing accumulated fund	5,290,000

b. Differences between provision and contingent liability

Provision

Provision is a present obligation of uncertain timing or amount arising from past events, which is recognised in the financial statements when:

- a present legal or constructive obligation exists;
- it is probable that an outflow of resources will be required to settle it; and
- The amount can be reliably estimated.

Contingent liability

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the entity's control, or a present obligation that is not recognised because it is not probable or cannot be reliably estimated. It is not recognised but disclosed in the notes to the financial statements unless the possibility of outflow is remote.