

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
**FINANCIAL ACCOUNTING**

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

**PILOT QUESTIONS AND SOLUTIONS – SET 2**

**SECTION A: MULTIPLE CHOICE QUESTIONS      20 marks (compulsory)**

**ATTEMPT ALL QUESTIONS IN THIS SECTION**

**Write ONLY the alphabet (A, B, C or D ) that corresponds to the correct option in each of the following questions/statements:**

1. What is the primary use of a journal in accounting?
  - A. To issue cheques to suppliers
  - B. To summarise financial statements
  - C. To record transactions in chronological order before posting to ledger accounts
  - D. To reconcile bank statements
  
2. When a previously written-off bad debt is recovered, how should it be accounted for?
  - A. Debit Debtors, Credit Sales
  - B. Debit Cash, Credit Debtors
  - C. Debit Bad Debts Recovered, Credit Debtors
  - D. Debit Cash, Credit Bad Debts Recovered
  
3. Why is coding of property, plant, and equipment (PPE) important in accounting?
  - A. It ensures assets are hidden from external auditors
  - B. It allows assets to be depreciated randomly
  - C. It helps in uniquely identifying and tracking each asset
  - D. It reduces the value of the asset on the balance sheet
  
4. Ade and Bola are in partnership. Ade brought in ~~₦~~2,000,000 as capital, while Bola contributed ~~₦~~1,500,000. Bola also introduced equipment worth ~~₦~~500,000. What is Bola's capital account balance?
  - A. ~~₦~~1,000,000
  - B. ~~₦~~1,500,000
  - C. ~~₦~~2,000,000
  - D. ~~₦~~2,500,000

5. A company bought equipment for ₦1,000,000 on January 1, 2022, with an expected useful life of 10 years and no residual value. On January 1, 2024, the company revised the useful life to a total of 5 years from the original purchase date. What is the new annual depreciation charge from 2024?
- A. ₦100,000
  - B. ₦200,000
  - C. ₦233,333
  - D. ₦266,667
6. Which of the following pairs a type of accounting package with its correct use?
- A. Payroll software – used for recording fixed assets
  - B. Inventory software – used for calculating employee salaries
  - C. Accounts receivable module – used to manage customer invoicing and collections
  - D. General ledger software – used for point-of-sale operations only
7. Why is the regulation of accounting practice necessary?
- A. To ensure that accountants are paid higher salaries
  - B. To allow each business to adopt unique reporting methods
  - C. To eliminate the need for audits
  - D. To promote consistency, transparency, and comparability in financial reporting
8. On March 5, 2025, a business purchased office equipment for ₦150,000 by bank transfer. What is the correct double entry for this transaction?
- A. Dr Equipment ₦150,000; Cr Bank ₦150,000
  - B. Dr Bank ₦150,000; Cr Equipment ₦150,000
  - C. Dr Equipment ₦150,000; Cr Capital ₦150,000
  - D. Dr Purchases ₦150,000; Cr Bank ₦150,000
9. A payment of ₦25,000 for office rent was mistakenly debited to the Office Equipment account. What is the correct journal entry to correct this error?
- A. Dr Office Equipment ₦25,000; Cr Rent Expense ₦25,000
  - B. Dr Rent Expense ₦25,000; Cr Office Equipment ₦25,000
  - C. Dr Rent Expense ₦25,000; Cr Cash ₦25,000
  - D. Dr Office Equipment ₦25,000; Cr Cash ₦25,000
10. Which of the following is NOT a function of an asset register?
- A. Keeping records of asset location and condition
  - B. Tracking depreciation and useful life of assets
  - C. Recording maintenance and disposal history
  - D. Putting the assets in good working condition

11. A trader's gross profit margin is 20% on sales. If the cost of sales is ₦800,000, what is the sales revenue?
- A. ₦800,000
  - B. ₦900,000
  - C. ₦1,000,000
  - D. ₦1,200,000
12. In 2023, a company discovered that rent expense of ₦120,000 for 2022 had been omitted. If the tax rate is 25%, what is the net impact on retained earnings as at January 1, 2023?
- A. ₦30,000 increase
  - B. ₦90,000 decrease
  - C. ₦90,000 increase
  - D. ₦120,000 decrease
13. Which of the following is a key benefit of using blockchain technology in financial accounting?
- A. It allows unlimited editing of accounting records without audit trail
  - B. It centralises data storage in one government database
  - C. It provides transparent, tamper-proof transaction records shared across multiple parties
  - D. It eliminates the need for professional accountants
14. Which of the following is an ethical consideration for preparers of financial statements?
- A. Maximising profits at all costs
  - B. Concealing liabilities to protect the company's image
  - C. Ensuring honesty, objectivity, and professional competence
  - D. Following only internal management instructions
15. The T-account for Cash has the following entries:  
Debit side: ₦80,000 and ₦45,000  
Credit side: ₦60,000  
What is the closing balance, and on which side will it appear?
- A. ₦60,000 debit balance
  - B. ₦65,000 credit balance
  - C. ₦65,000 debit balance
  - D. ₦125,000 credit balance
16. A business had an **opening allowance** for doubtful debts of ₦8,000. At year-end, it was decided to adjust the allowance to 5% of total debtors. If total debtors amounted to ₦220,000, what is the **adjustment to be made**?
- A. Increase by ₦11,000
  - B. Reduce by ₦11,000
  - C. No change required

- D. Increase by ₦3,000
17. Equipment was purchased for ₦3,500,000. Additional costs incurred were: delivery ₦120,000, installation ₦80,000, and testing ₦50,000. What is the initial cost to be recorded?
- A. ₦3,750,000  
B. ₦3,700,000  
C. ₦3,620,000  
D. ₦3,530,000
18. A social club provided the following information for the year ended:
- Subscriptions income: ₦500,000  
Donations: ₦100,000  
Rent and electricity: ₦120,000  
Wages: ₦180,000  
Repairs and maintenance: ₦50,000  
What is the surplus for the year?
- A. ₦100,000  
B. ₦150,000  
C. ₦200,000  
D. ₦250,000
19. Delta Ltd had the following equity balances at the beginning and end of 2024:
- Share capital: ₦1,000,000 (no change)  
Retained earnings at Jan 1, 2024: ₦500,000  
Profit for the year: ₦300,000  
Dividends paid: ₦100,000  
What is the closing balance of retained earnings at 31 December 2024?
- A. ₦900,000  
B. ₦800,000  
C. ₦700,000  
D. ₦600,000
20. Which of the following best describes the requirements of IAS 2 for the valuation and recognition of inventories?
- A. Inventories must always be valued at cost plus a 10% markup to ensure profitability  
B. Inventories are measured at the lower of cost and net realisable value  
C. Inventories should be recognised only when payment is received from customers  
D. Inventories must be recorded at selling price regardless of cost

**SECTION B: OPEN ENDED QUESTIONS****(80 MARKS)****INSTRUCTION: YOU ARE REQUIRED TO ANSWER FOUR OUT OF SIX QUESTIONS IN THIS SECTION****Question 1:**

Accounting concepts and conventions are fundamental guidelines that shape how financial transactions are recorded and reported in line with International Financial Reporting Standards (IFRS) Conceptual Framework on the fundamental assumptions underlying the preparation of financial statements.

**Required:**

- a. Differentiate between concepts and conventions. (2 marks)
- b. Explain the following accounting concepts and conventions:
  - (i) Going concern;
  - (ii) Accruals; and
  - (iii) Fair presentation (6 marks)
- c. (i) Explain the concept of "control account" (2 marks)
  - (ii) The following transactions relate to Glory Traders Ltd for the month of June 2025:
    - Balance of Receivables Control Account on June 1: ~~N~~220,000
    - Balance of Payables Control Account on June 1: ~~N~~180,000
    - Credit sales during the month: ~~N~~460,000
    - Credit purchases during the month: ~~N~~320,000
    - Returns inwards from customers: ~~N~~25,000
    - Returns outwards to suppliers: ~~N~~10,000
    - Cheques received from customers: ~~N~~380,000
    - cheques paid to suppliers: ~~N~~290,000
    - Discounts allowed to customers: ~~N~~12,000
    - Discounts received from suppliers: ~~N~~8,000
    - Bad debts written off: ~~N~~6,000
    - Contras totalling ~~N~~20,000 were correctly posted in the individual ledger accounts, but no entries were made in the control accounts.

**Required:**

Prepare the following control accounts for June 2025:

- Receivables Control Account (5 marks)
- Payables Control Account (5 marks)

**Total 20 marks****Question 2:**

Technologies has become the norm in processing financial transactions globally.

**Required:**

- a. Explain digitisation in financial accounting (2 marks)
- b. Explain the uses of the following in relation to financial accounting:

- i. Virtual accounting
- ii. Data structure
- iii. Artificial intelligence (AI)

(6 marks)

- c. Ade, Bello and Chima that operates as ABC partnership, sharing profits and losses in the ratio of 5:4:3. Decided to dissolve the partnership with effect from 31st December 2024. In the course of the dissolution, Chima was adjudicated bankrupt and could only pay 60k in Naira.

The statement of financial position of the firm at that date was as shown below:

#### ABC Partnership

Statement of financial position as at December 31, 2024

<u>Non current assets:</u>	<u>₦</u>	<u>₦</u>
Land and buildings	500,000	
Plant and machinery	<u>450,000</u>	950,000
<u>Current Assets</u>		
Inventory	280,000	
Receivables	125,000	
Cash at Bank	<u>28,000</u>	<u>433,000</u>
Total assets		<u>1,383,000</u>

#### Equity and liabilities:

Capital accounts:		
Ade	620,000	
Bello	340,000	
Chima	<u>(45,000)</u>	915,000
Current account:		
Ade	139,000	
Bello	118,500	
Chima	<u>(4,500)</u>	253,000
Current liabilities		
Payables	145,000	
Loan – Bello	<u>70,000</u>	<u>215,000</u>
Total equity and liabilities		<u>1,383,000</u>

The assets were sold at the following values:

	<u>₦</u>
Land and Building	580,000
Plant and Machinery	320,000
Inventory	160,000

Debtors paid in full while the Creditors gave a discount of 10%. Dissolution expenses amount to ₦20,000.

**Required:**

Prepare the partnership accounts on dissolution and the relevant ledger entries. (12 marks)  
(Total 20 marks)

**Question 3:**

- a. Businesses can utilise a variety of methods to pay suppliers and receive payments from customers.

**Required:**

State **SIX (6)** different methods by which a business can make payments to suppliers or receive payments from customers. (6 marks)

- b. Define daybooks and state the main purpose they serve (2 marks)  
c. Explain the purposes of assets register (2 marks)  
d. The following balances were extracted from the books of Unity Traders as at December 31, 2024:

Accounts	Amount (N)
Sales	420,000
Purchases	270,000
Inventory ( January 1, 2024)	50,000
Rent	18,000
Salaries	42,000
Trade receivables	30,000
Trade payables	27,000
Bank	15,000
Capital	150,000
Drawings	12,000
Fixtures	160,000

**Additional Information:**

- a. Fixtures purchased on credit during the year invoiced at ~~N~~60,000.  
b. Rent prepaid at year-end amounted to ~~N~~2,000.  
c. Depreciation on fixtures for the year is ~~N~~6,000 (not yet recorded).

**Required:**

Prepare the extended trial balance as at 31 December 2024. (10 marks)

**Total 20 marks****Question 4:**

The directors of KLG limited after taking decision to increase the equity of the company, issued 2,000,000 ordinary shares of ~~N~~1 each at ~~N~~1.50 per share payable as follows:

- a. On application - 40k  
b. On allotment - 60k (including premium)  
c. On first call - 30k  
d. On second call - 20k

Applications were received for 2,500,000 shares and the directors decided to deal with the situation as follows:

- i. rejected 100,000 applications;
- ii. full allotment was given to 300,000 applicants; and
- iii. the rest shares were allotted on pro-rata basis using the excess funds to off-set the amount due on allotment.

The company received all fees due on allotment. On first call, five shareholders holding 100,000 shares failed to pay up. The shares were forfeited after the second call, when the shareholders did not respond to the series of reminders from the company.

The 100,000 shares were immediately re-issued for 60k each.

**Required:**

- (a) Prepare the journal entries to record the above transactions. (12 marks)
  - (b) State the circumstances where share premium may be used. (4 marks)
  - (c) Explain the ethical considerations for preparers of financial statements (4 marks)
- (Total 20 marks)**

**Question 5:**

- (a) State the difference between property, plant and equipment (PPE) and intangible assets. (2 marks)
  - (b) Explain the term “inventory” as defined by International Accounting Standards (IAS 2) – Inventory (6 marks)
  - (c) Identify the costs which should be included and the costs to be excluded when measuring the value of inventories. (6 marks)
  - (d) Explain the recognition criteria for provisions, contingent liabilities and contingent assets (6 marks)
- (Total 20 marks)**

**Question 6:**

- (a) Define the following:
  - i) Operating cash flows as it relates to the Statement of cash flows. (2 marks)
  - ii) Capital expenditure (IAS 16) (2 marks)
- (b) Explain two (2) fraud opportunities that may arise from employees working remotely, particularly in relation to financial accounting systems. (4 marks)
- (c) Joseph runs a small retail business and does not keep proper accounting records. However, the following information is available:

Details	Jan 1, 2024 (₦)	Dec 31, 2024 (₦)
Cash in hand	3,000	7,000
Bank balance	10,000	15,000
Inventory	25,000	35,000
Trade receivables	20,000	28,000
Trade payables	18,000	22,000
Fixtures (at cost)	40,000	40,000



Details	Jan 1, 2024 (N)	Dec 31, 2024 (N)
Accumulated depreciation on fixtures	8,000	12,000
Drawings during the year	-	10,000 (cash drawn)

**Required:**

Calculate the profit or loss made by Joseph for the year ended 31 December 2024 using the statement of affairs method. (6 marks)

- (d) On January 1, 2025, *Divine Tutors* had an opening balance of unearned tuition fees of ~~N~~20,000 brought forward from the previous financial year. On the same date, the business received ~~N~~60,000 as tuition fees for a 6-month evening program starting immediately. The financial year ends on March 31, 2025.

**Required:**

Using the two accounts method, prepare the following ledger accounts for the period ended 31 March 2025:

- (i) Tuition fees income account
- (ii) Unearned income (prepaid income) account (6 marks)

**(Total 20 marks)**

## SUGGESTED SOLUTIONS

### SECTION A: MCQ – SOLUTIONS

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

#### Workings

Q4:  $\text{N}1,500,000 + \text{N}500,000 = \text{N}2,000,000$

Q5: Depreciation for 2022–2023:  $\text{N}1,000,000 \div 10 \times 2 = \text{N}200,000$  used up  
Remaining value =  $\text{N}800,000$  to be depreciated over 3 more years (2024–2026)  
 $\text{N}800,000 \div 3 = \text{N}266,667$

Q11: Sales = Cost of Sales  $\div$  (1 – Gross Profit Margin) =  $\text{N}800,000 \div 0.80 = \text{N}1,000,000$

Q12: Expense understated by  $\text{N}120,000$ ; tax effect =  $\text{N}120,000 \times 25\% = \text{N}30,000$   
Net decrease in retained earnings =  $\text{N}120,000 - \text{N}30,000 = \text{N}90,000$

Q16: New allowance = 5% of  $\text{N}220,000 = \text{N}11,000$ ; Increase =  $\text{N}11,000 - \text{N}8,000 = \text{N}3,000$

Q17: Initial cost = Purchase + Delivery + Installation + Testing =  $\text{N}3,500,000 + \text{N}120,000 + \text{N}80,000 + \text{N}50,000 = \text{N}3,750,000$

Q18: Total Income =  $\text{N}500,000 + \text{N}100,000 = \text{N}600,000$   
Total Expenses =  $\text{N}120,000 + \text{N}180,000 + \text{N}50,000 = \text{N}350,000$   
Surplus =  $\text{N}600,000 - \text{N}350,000 = \text{N}250,000$

Q19:  $\text{N}500,000 + \text{N}300,000 - \text{N}100,000 = \text{N}700,000$

## SECTION B: ESSAY QUESTIONS

### Question 1:

- a. Concepts are underlying assumptions and principles that form the basis of accounting. It could be referred to as the “why” of accounting, while conventions are established practices and procedures generally accepted in the field of accounting, which could be referred to as the “how” of accounting.
- b.
- i. Going concern assumes the business will continue operating in the foreseeable future. It refers to the assumption that a company will continue operating typically, at least 12 months.
- This assumption is fundamental to how financial statements are prepared. If a company is not considered a going concern, different accounting concept and disclosures are required e.g. break-up basis of accounting.
- ii, Accruals means that the effects of transactions and other events are recognised as they occur and not as cash or its equivalent is received or paid.
- This is the basis for recognising transactions and other events in the financial statements. It dictates the period in which transactions should be incorporated in the financial statements.
- iii. Fair presentation in accounting (or true and fair view) means that financial statements accurately and honestly reflect a company's financial position, performance and cash flows.
- It ensures that the financial information presented is not misleading and provides a fair representation of the entity's activities. This is achieved by adhering to accounting standards and, when necessary, providing additional disclosures to ensure clarity and transparency.
- c.(i) A control account is a summary account in the general ledger that consolidates and controls the detailed transactions recorded in a subsidiary ledger. It serves as a check on the accuracy of the entries in the subsidiary ledger and helps streamline the general ledger by avoiding clutter from numerous detailed entries.

ii

Receivables Control Account			
	₦		₦
Balance b/d	220,000	Returns inwards	25,000
Credit sales	460,000	Bank (cheques received)	380,000
		Discounts allowed	12,000
		Bad debts written off	6,000
		Contras	20,000
		Balance c/d	<u>237,000</u>
	<u>680,000</u>		<u>680,000</u>
Balance b/d	237,000		

  

Payables Control Account			
	₦		₦
Returns outwards	10,000	Balance b/d	180,000
Bank (cheques paid)	290,000	Credit purchases	320,000
Discounts received	8,000		
Contras	20,000		
Balance c/d	<u>172,000</u>		
	<u>500,000</u>		<u>500,000</u>
		Balance b/d	172,000

## Question 2:

- a. Digitisation in financial accounting  
 Digitalisation in financial accounting refers to the use of digital technology to automate, improve, and transform accounting processes for financial reporting.  
 It refers to the process of converting traditional paper-based financial information and processes into a digital format, enabling the use of technology for data management, analysis, and reporting.
- b.
  - i. **Virtual accounting** refers to the process of performing accounting functions remotely using cloud-based software, digital tools, and internet connectivity. The use of virtual accounting principles has significantly transformed how financial accounting is conducted. Its application in accounting include:
    - Real-time financial reporting;
    - Cloud-based record keeping;
    - Integration with other business functions;
    - Remote auditing and compliance;
    - Automation of routine tasks; and
    - Enhanced internal control

ii. Data structure

Data structures are fundamental in financial accounting, enabling efficient storage, organisation, and manipulation of financial data. They facilitate various accounting processes, from managing transactions to generating financial reports.

Its uses in financial accounting:

- Helps store and manage financial data (like journal entries, ledgers, and trial balances) in an organised format;
- Supports efficient data retrieval and processing, which is crucial for generating reports;
- Used in accounting software to structure data into tables, trees, or linked lists for better performance and accuracy; and
- Ensures data integrity and supports auditing and financial analysis.

iii. Artificial intelligence (AI):

AI refers to computer systems that mimic human intelligence to perform tasks such as analysis, decision-making, and learning from data. It is the simulation of human intellect in machines that are programmed to think and learn like humans. This includes capabilities like reasoning, problem solving, and learning, allowing AI systems to perform tasks typically requiring human cognitive functions.

Its uses in financial accounting include:

- Automates routine tasks like invoice processing, bank reconciliation, and data entry;
- Enhances forecasting and budgeting through predictive analytics;
- Detects anomalies and fraud by analysing unusual patterns in financial data; and
- Supports chatbots and virtual assistants for answering accounting queries

		Realisation a/c	
₦	₦	₦	
Land and Building	500,000	Bank:	580,000
Plant and Machinery	450,000	Land and Building	320,000
Inventory	280,000	Inventory	160,000
Receivables	125,000	Receivables	125,000
Bank (Dissolution expenses)	20,000	Payables (Discount received)	14,500
		Partner's capital a/c:	
		Ade	73,125
		Bello	58,500
		Chima	43,875
	<u>1,375,000</u>		<u>175,500</u>
			<u>1,375,000</u>

Partner's capital account								
	Ade	Bello	Chima		Ade	Bello	Chima	
	₦	₦	₦		₦	₦	₦	
Balance b/d	-	-	45,000	Balance b/d	620,000	340,000	-	
Current a/c	-	-	4,500	Current a/c	139,000	118,500	-	
Realisation a/c	73,125	58,500	43,875	Bank (deficiency part pay)	-	-	56,025	
Chima's deficiency	24,122	13,228	-	Deficiency balance	-	-	37,350	
Bank	661,753	386,772	-					
	759,000	458,500	93,375		759,000	458,500	93,375	

Partners current a/c								
	Ade	Bello	Chima		Ade	Bello	Chima	
	₦	₦	₦		₦	₦	₦	
Balance b/d	-	-	4,500	Balance b/d	139,000	118,500	-	
Partner's capital a/c	139,000	118,500	-	Partner's capital a/c	-	-	4,500	
	139,000	118,500	4,500		139,000	118,500	4,500	

Payable's a/c			
	₦		₦
Realisation a/c	14,500	Balance b/d	145,000
Bank	130,500		
	145,000		145,000

Bank a/c			
	₦		₦
Balance	28,000	Loan – Bello	70,000
Realisation a/c :		Realisation a/c (Dissolution expenses)	20,000
Land and Building	580,000	Payables	130,500
Plant and Machinery	320,000	Partners capital a/c:	
Inventory	160,000	Ade	661,753
Receivables	125,000	Bello	386,772
Partner's capital a/c	56,025		
	1,269,025		1,269,025

Workings:

Chima's total deficiency amount:	₦
Capital a/c	45,000
Current a/c	4,500

Share of realisation loss	<u>43,875</u> 93,375
Amount paid by Chima = $60/100 \times 93,375 =$	<u>(56,025)</u>
Deficiency balance	<u>37,350</u>

Deficiency balance borne by Ade and Bello:

Ade:	$\frac{620,000}{960,000} \times 37,350$	= ₦24,122
Bello:	$\frac{340,000}{960,000} \times 37,350$	= ₦13,228

### Question 3:

- a. The various methods by which a business can make payments to suppliers or receive payments from customers are:
- Cash;
  - Cheques;
  - Card payments;
  - Digital wallets;
  - Bank transfers;
  - Online payment platforms;
  - Mobile transfers;
  - Point of sale (POS) ;
  - Standing order;
  - Debit card;
  - Credit card; and
  - Direct debit.

- b. Daybooks, also known as books of original entry, are bookkeeping records used to document all financial transactions immediately they occur.

The use of these daybooks allows the business owner to keep a detailed, chronological record of his transactions, which can help in managing the business.

Transactions first pass through the books before they are transferred to the ledger. Daybooks are important for companies with large volume of transactions.

- c. An asset register is a detailed list of a company's non-current assets (fixed assets). The purpose of an asset register is to enable businesses to know the status, procurement date, location, amount, depreciation, and current value of each asset. It is to provide complete transparent data of all assets, thus preventing assets from being lost or stolen.

- d. Unity Traders

Trial Balance as at December 31, 2024

Accounts	Given Balance		Adjusting columns		Final Balances	
	Dr (₦)	Cr (₦)	Dr (₦)	Cr (₦)	Dr (₦)	Cr (₦)
Sales		420,000				420,000
Purchases	270,000				270,000	
Inventory (1 January 2024)	50,000				50,000	
Rent	18,000			2,000	16,000	
Salaries	42,000				42,000	
Trade receivables	30,000			4,000	26,000	
Trade payables		27,000				27,000
Bank	15,000		4,000		19,000	
Capital		150,000				150,000
Drawings	12,000				12,000	
Fixtures	160,000		60,000		220,000	
Other payables				60,000		60,000
Prepayment			2,000		2,000	
Depreciation			6,000		6,000	
Accumulated depreciation				6,000		6,000
Total	597,000	597,000	72,000	72,000	663,000	663,000

#### Question 4:

KLG Limited

(a)	Journal entries		
	Particulars	Dr ₦'000	Cr ₦'000
	Bank a/c	1,000	
	Application and Allotment a/c		1,000
	Being application money received for 2,500,000 shares @ 40k per share		
	Bank a/c	40	
	Application and Allotment a/c		40
	Being 100,000 shares application money refunded		
	Application and Allotment a/c	2,000	
	Ordinary share capital a/c		1,000
	Share premium a/c		1,000
	Being application and allotment of shares issued including share premium		
	Bank a/c (Working notes)	1,040	
	Application and Allotment a/c		1,040
	Being allotment money received including share premium amount		
	First call a/c	600	
	Ordinary share capital a/c		600



Being provision made for first call on 2,000,000 shares @ 30k per share

Bank a/c	570	
Call in arrears a/c	30	
First call a/c		600
Being 1,900,000 shares 1st call money received and 100,000 shares calls money outstanding		

Second call a/c	400	
Ordinary share capital a/c		400
Being provision made for 2nd call on 2,000,000 shares @ 20k per share		

Bank a/c	380	
Call in arrears a/c	20	
Second call a/c		400
Being 1,900,000 shares 2nd call money received and 100,000 shares call money outstanding		

Ordinary share capital a/c	100	
Forfeited shares a/c		100
Being nominal value of the 100,000 shares forfeited		

Forfeited shares a/c	100	
Ordinary shares capital a/c		100
Being 100,000 shares forfeited re-issued		

Bank a/c	60	
Forfeited shares a/c		60
Being money received on the forfeited shares re-issued at 60k per share		

Forfeited shares a/c	10	
Share premium a/c		10
Being premium of 10k per share on the forfeited shares re-issued		

Workings:

Allotment monies received:

	Shares
	'000
No of shares applied for	2,500
No of shares rejected	<u>100</u>
	2,400
No of shares issued for subscription	<u>2,000</u>
Excess applications	<u>400</u>

	N'000
Excess application monies received (400,000 shares x 40k)	<u>160</u>
	N'000
Allotment monies due (60k x 2,000,000 shares)	1,200
Less excess application monies received	<u>160</u>
∴ Allotment monies received	<u>1,040</u>

- (b) Share premium is a situation where the shares of a company are issued at a price, higher than the nominal price. Simply, share premium is the excess of the issued price of a share over the nominal price. The total excess amount arising on the share issued is credited to a share premium account.

The balance of share premium account can be used as follows:

- i. Paying up un-issued shares to be issued as fully paid bonus shares;
  - ii. Writing off preliminary expenses of a newly incorporated company;
  - iii. Writing off the expenses of, or the commission paid on any issue of shares by the company;
  - iv. Providing for the premium payable on redemption of any redeemable share of the company;
  - and
  - v. To provide for premium payable on redemption of redeemable preferences share/debentures.
- (c) Preparers of financial statements, typically professional accountants, are bound by ethical principles to ensure that financial reports are truthful, fair, and reliable. These ethical considerations help maintain public trust, promote transparency, and uphold the integrity of the accounting profession. These ethical considerations include:
- **Professional competence and due care** - Accountants must maintain professional knowledge and skill at a level required to ensure that financial statements comply with relevant laws and standards. They must act diligently and in accordance with applicable technical and professional standards.
  - **Objectivity** - Financial statement preparers must avoid situations that can impair their impartiality. They should not allow personal interests or external pressures (e.g., from management) to influence financial reporting. They must be neutral without being sentimental.
  - **Professional behaviour** - They must avoid any action that could bring the accounting profession into disrepute, including misleading financial reporting or falsification of records. The preparers must behave ethically and professionally in their conducts, words and actions.
  - **Integrity** - Doing the right thing when no one sees you. Preparers must be honest and straightforward in all professional and business relationships.
  - **Confidentiality** - Preparers must be able to hold information with a high level of trust without divulging to third party.

### Question 5:

- (a) Property, plant and equipment (PPE) are assets that contain physical existence and are held with an expectation to create economic benefits for the business for more than one year or one operating cycle (whichever is longer).

In contrast, intangible assets are invisible in nature, which include goodwill and intellectual property. They are non-physical assets that have value due to their rights or benefits. These assets are shown in the non-current assets section of the statement of financial position because they provide value to a company over time, generally more than a year.

- (b) Definition of inventory according to IAS 2  
The nature of inventories varies with the type of business.

Inventories are;

- i. Assets held for sale in the ordinary course of business. For a retailer, these are items that the business sells – its stock in trade. For a manufacturer, assets held for sale are usually referred to as “finished goods”.
  - ii. Assets in the process of production for sale (“work-in-progress” for a manufacturer).
  - iii. Assets in the form of materials or supplies to be used in the production process (“raw materials” in the case of a manufacturer).
- (c) The following costs are to be included when measuring the value of inventories:
- i. Purchase costs: This includes the purchase price, import duties, other non-recoverable taxes, transportation costs, handling costs and other costs directly attributable to the purchase;
  - ii. Conversion costs: They include costs directly related to units of production, fixed and variable production overheads relating to production and other costs incurred in bringing the inventories to their present location and condition; and
  - iii. Production overheads: This relates to the costs of indirect labour, depreciation costs of non-current assets used in production and costs of carriage inwards, if not included in the purchase costs of materials.
- The following are costs that should be excluded when measuring the value of inventories:
- i. Recoverable sales tax;
  - ii. Settlement discounts which is the cost after deduction of trade discount;
  - iii. Administrative costs; and
  - iv. Selling and distribution costs.

- (d) **Provisions:**  
Provisions are liabilities of uncertain timing or amount. It differs from other liabilities because there is uncertainty about the timing or amount of the future cash flows required to settle the liability.

#### **Recognition criteria for provision:**

A provision should be recognised when:

- i. a company has a present obligation (legal or constructive) as a result of a past event;

- ii. it is possible that an outflow of economic benefits will be required to settle the obligation; and
  - iii. a reliable estimate can be made of the amount of the obligation.
- If one of these conditions is not met then a provision cannot be recognised.

### **Contingent liabilities:**

“Contingent” means ‘dependent on something else happening’.

A contingent liability is one that does not exist at the reporting date but may do so in the future or it is a liability that exists at the reporting date but cannot be recognised because it fails, one of the IAS 37 recognition criteria.

### **Contingent assets:**

A contingent asset is a possible asset that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

### **Recognition criteria for contingent liabilities and contingent assets:**

Contingent liabilities and contingent assets **are not recognised** in the financial statements. In some circumstances, information about the existence of a contingent asset or a contingent liability should be **disclosed** in the notes to the financial statements.

- **Contingent liabilities** should be disclosed unless the possibility of any outflow in settlement is remote (the meaning of ‘remote’ is not defined in IAS 37).
- **Contingent assets** should be **disclosed only if** an inflow in settlement is **probable**. ‘Probable’ is defined by IAS 37 as ‘more likely than not’. (and if an inflow is certain, the item is an actual asset that should be **recognised** in the statement of financial position.)

### **Question 6:**

(a)

- i. Operating cash flows: These relates to how much cash a company generated (or consumed) from its operating activities during a period. It relates to the normal activities of the firm as well as those items which do not specifically relate to the other activity groups such as investing and financing. For example:

- Inflows:**
- (a) cash received from customers;
  - (b) dividend received where the reporting entity exercises significant control of the investee’s company. Where the condition is not met, the dividend is taken to investing activity.
- Outflows:**
- (a) cash paid to suppliers and employees
  - (b) Taxes paid
  - (c) cash paid for operating expenses

- ii. Capital expenditure refers to the cost incurred by an entity to acquire, construct, or improve non-current assets such as property, plant, and equipment (PPE). According to *IAS 16 – Property, Plant and Equipment*, capital expenditure includes costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating as intended by management. These expenditures are not charged to profit or loss immediately but are capitalised and depreciated over the asset's useful life.

(b) Fraud opportunities arising from working remotely include the following:

- i) Weakened internal controls – Remote work may reduce oversight and segregation of duties, increasing the risk of unauthorised transactions;
- ii) Access control weaknesses – Employees may access financial systems from unsecured networks or devices, making sensitive data vulnerable to manipulation;
- iii) Reduced supervision – The lack of physical presence can lead to reduced monitoring by supervisors, allowing fraud to go undetected; and
- iv) Difficulty in verifying documents – Remote operations can hinder the ability to physically verify supporting documents, increasing the risk of falsified records.

(c) Calculation of profit using the statement of affairs method

Items	Opening capital at Jan, 1 2024		Closing capital at Dec 31, 2024	
	₦	₦	₦	₦
Cash in hand		3,000		7,000
Bank balance		10,000		15,000
Inventory		25,000		35,000
Trade receivables		20,000		28,000
Fixtures at cost	40,000		40,000	
Accumulated depreciation	<u>8,000</u>		<u>12,000</u>	
Carrying amount		<u>32,000</u>		<u>28,000</u>
Total assets		90,000		113,000
Less trade payables		<u>18,000</u>		<u>22,000</u>
Capital		<u>72,000</u>		<u>91,000</u>
Difference				19,000
Add drawings				<u>10,000</u>
Profit for the year				<u>29,000</u>

(d)

Tuition fees income account			
	₦		₦
31 Mar 2025 Unearned income	30,000	1 Jan 2025 Unearned income	20,000
31 Mar 2025 Statement of Profit or Loss	<u>50,000</u>	1 Jan 2025 Bank	60,000
	<u>80,000</u>		<u>80,000</u>

ii)		Unearned income (prepaid income) account	
	<del>N</del>		<del>N</del>
1 Jan 2025 Tuition fees income	20,000	1 Jan 2025 Balance b/d	20,000
31 Mar 2025 Balance c/d	<u>30,000</u>	31 Mar 2025 Tuition fees income	<u>30,000</u>
	<u>50,000</u>		<u>50,000</u>
		1 Apr 2025 Balance b/d	30,000

### Workings

Tuition fees for 6 months amounting to ~~N~~60,000 works out as ~~N~~10,000 per month. Therefore, at March 31, 2025, ~~N~~30,000 of this was earned for three months and the balance ~~N~~30,000 was unearned for the remaining three months.