



## Financial accounting

1. This paper consists of **twenty** compulsory multiple-choice questions and **six** long-form questions of which you must answer **four** questions in total.
  - Section A (20 marks) consists of **twenty compulsory** multiple-choice questions
  - Section B (80 marks) consists of six 20-mark questions.  
You must **answer four questions only**.
2. Ensure your candidate details are on the front of your answer booklet.
3. Answer each question in black ballpoint pen only.
4. Answer section A multiple choice questions by marking an X in the appropriate box on the answer grid provided.
5. Answers to each section B question must begin on a new page and must be clearly numbered. Use both sides of the paper in your answer booklet.
6. The examiner will take account of the way in which answers are presented.

### IMPORTANT

Question papers contain confidential information and must NOT be removed from the examination hall.

DO NOT OPEN THE QUESTION PAPER UNTIL INSTRUCTED

Enter your candidate number in this box

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**Section A: 20 marks (compulsory)**

- A1** A receives goods from B on credit terms and A subsequently pays by cheque. A then discovers that the goods are faulty and cancels the cheque before it is cashed by B.  
How should A record the cancellation of the cheque in his books?
- |          |                 |                         |                 |
|----------|-----------------|-------------------------|-----------------|
| <b>A</b> | Debit payables  | Credit returns outwards |                 |
| <b>B</b> | Credit bank     | Debit payables          |                 |
| <b>C</b> | Debit bank      | Credit payables         |                 |
| <b>D</b> | Credit payables | Debit returns outwards  | <b>(1 mark)</b> |
- A2** The profit of a business may be calculated by using which one of the following formulae?
- |          |   |                 |
|----------|---|-----------------|
| <b>A</b> | Opening capital – drawings + capital introduced – closing capital |                 |
| <b>B</b> | Closing capital + drawings – capital introduced – opening capital |                 |
| <b>C</b> | Opening capital + drawings – capital introduced – closing capital |                 |
| <b>D</b> | Closing capital – drawings + capital introduced – opening capital | <b>(1 mark)</b> |
- A3** The revenue of a company was ₦2 million and its receivables were 5% of turnover. The company wishes to have an allowance for doubtful debts of 4% of receivables, which would make the allowance 33% higher than the current allowance.  
What figure would appear in the statement of profit or loss in respect of doubtful debts?
- |          |               |                 |
|----------|---------------|-----------------|
| <b>A</b> | Debit ₦1,000  |                 |
| <b>B</b> | Credit ₦1,000 |                 |
| <b>C</b> | Debit ₦1,333  |                 |
| <b>D</b> | Credit ₦1,333 | <b>(1 mark)</b> |
- A4** Which one of the following should be accounted for as capital expenditure?
- |          |  |                 |
|----------|--|-----------------|
| <b>A</b> | The cost of painting a building.                   |                 |
| <b>B</b> | The replacement of windows in a building.          |                 |
| <b>C</b> | The purchase of a car by a garage for re-sale.     |                 |
| <b>D</b> | Legal fees incurred on the purchase of a building. | <b>(1 mark)</b> |

- A5** On 1 May 20X9, A Ltd pays a rent bill of ₦1,800 for the period to 30 April 20Y0. What are the charges to the statement of profit or loss and the entry in the statement of financial position for the year ended 30 November 20X9?
- A** ₦1,050 charge to statement of profit or loss and prepayment of ₦750 in the statement of financial position
  - B** ₦1,050 charge to statement of profit or loss and accrual of ₦750 in the statement of financial position
  - C** ₦1,800 charge to statement of profit or loss and no entry in the statement of financial position
  - D** ₦750 charge to statement of profit or loss and prepayment of ₦1,050 in the statement of financial position **(1 mark)**
- A6** S Ltd exchanged inventory for a delivery vehicle with T Ltd. The inventory had cost S Ltd ₦10,000 and the normal selling price was ₦12,000; the delivery vehicle had cost T Ltd ₦9,000 and the normal selling price was ₦13,000. How should S Ltd value the vehicle in its statement of financial position?
- A** ₦9,000
  - B** ₦10,000
  - C** ₦12,000
  - D** ₦13,000 **(1 mark)**
- A7** Z's bank statement shows a balance of ₦825 overdrawn. The bank statement includes bank charges of ₦50, which have not been entered in the cash book. There are unpresented cheques totalling ₦475 and deposits not yet credited of ₦800. The bank statement incorrectly shows a direct debit payment of ₦160, which belongs to another customer. The figure for the bank balance in the statement of financial position should be
- A** ₦590 overdrawn
  - B** ₦540 overdrawn
  - C** ₦790 overdrawn
  - D** ₦840 overdrawn **(1 mark)**
- A8** There is ₦100 in the cash till at the year end at F Ltd, but the accountant has discovered that some cash has been stolen. At the beginning of the year there was ₦50 in the cash till and receivables were ₦2,000. Total sales in the year were ₦230,000. Receivables at the end of the year were ₦3,000. Cheques banked from credit sales were ₦160,000 and cash sales of ₦50,000 have been banked. How much cash was stolen during the year?
- A** ₦18,950
  - B** ₦19,000
  - C** ₦19,050
  - D** ₦20,950 **(1 mark)**

**A9** A car was purchased for ₦12,000 on 1 April 20X6 and has been depreciated at 20% each year straight line, assuming no residual value. The company policy is to charge a full year's depreciation in the year of purchase and no depreciation in the year of sale. The car was traded in for a replacement vehicle on 1 August 20X9 for an agreed figure of ₦5,000.

What was the profit or loss on the disposal of the vehicle for the year ended 31 December 20X9?

- A Loss ₦2,200
- B Loss ₦1,400
- C Loss ₦200
- D Profit ₦200

**(1 mark)**

**A10** A company includes in inventory, goods received before the year end, but for which invoices are not received until after the year end. This is in accordance with

- A the historical cost convention
- B the accruals concept
- C the consistency concept
- D the materiality concept

**(1 mark)**

**A11** Which one of the following sentences does **not** explain the distinction between financial accounts and management accounts?

- A Financial accounts are primarily for external users and management accounts are primarily for internal users.
- B Financial accounts are normally produced annually and management accounts are normally produced monthly.
- C Financial accounts are more accurate than management accounts.
- D Financial accounts are audited by an external auditor and management accounts do not normally have an external audit.

**(1 mark)**

**A12** The movement on the plant and machinery account for X Ltd is shown below:

	₦
Cost b/fwd	10,000
Additions	2,000
Disposals	<u>(3,000)</u>
Cost c/fwd	9,000
Depreciation b/fwd	2,000
Charge for the year	1,000
Disposals	<u>(1,500)</u>
Depreciation c/fwd	1,500
Carrying amount b/fwd	<u>8,000</u>
Carrying amount c/fwd	<u>7,500</u>

The profit on the sale of the machine was ₦500. What figures would appear in the statement of cash flows of X Ltd?

- A** Movement on plant account ₦500 and profit on disposal of ₦500.
- B** Movement on plant account ₦500 and proceeds on sale of plant ₦2,000.
- C** Purchase of plant ₦2,000 and profit on disposal of ₦500.
- D** Purchase of plant ₦2,000 and proceeds on sale of plant ₦2,000. **(1 mark)**

**A13** When reconciling the payables' ledger control account with the list of payables' ledger balances of M, the following errors were found:

- the purchase day book had been overstated by ₦500 and
- the personal ledger of a supplier had been understated by ₦400.

What adjustment must be made to correct these errors?

	<i>Control account</i>	<i>List of creditor balances</i>	
<b>A</b>	Cr ₦500	decrease by ₦400	
<b>B</b>	Dr ₦500	increase by ₦400	
<b>C</b>	Dr ₦400	increase by ₦500	
<b>D</b>	Cr ₦400	decrease by ₦500	<b>(1 mark)</b>

**A14**

Extracts from the financial statements of CFS Ltd are set out below:

**Statement of profit or loss for the year ended 31 December 20X9**

	N'000	N'000
Revenue		300
Cost of sales		150
Gross profit		150
Profit on sale of non-current assets		75
		225
Expenses	15	
Depreciation	30	
		45
Net profit		180

**Balances at 31 December**

	20X8	20X9
	N'000	N'000
Inventory, receivables, current liabilities (net)	40	50

What figure would appear for cash in the statement of cash flows of CFS Ltd for the year ended 31 December 20X9 in respect of net cash flow from operating activities?

- A N125
- B N145
- C N215
- D N235

**(1 mark)****A15**

The difference between a statement of profit or loss and an income and expenditure account is that

- A An income and expenditure account is an international term for a statement of profit or loss.
- B A statement of profit or loss is prepared for a business and an income and expenditure account is prepared for a not-for-profit making organisation.
- C A statement of profit or loss is prepared on an accruals basis and an income and expenditure account is prepared on a cash flow basis.
- D statement of profit or loss is prepared for a manufacturing business and an income and expenditure account is prepared for a non-manufacturing business.

**(1 mark)**

- A16** In a receivables' report, which one of the following would you **not** expect to see?
- A** Total receivables balances outstanding for current and previous months
  - B** Receivables balances excluding VAT
  - C** Credit limit
  - D** Sales to date **(1 mark)**
- A17** Which of the following statements gives the best definition of the objective of accounting?
- A** To provide useful information to users
  - B** To record, categorise and summarise financial transactions
  - C** To calculate the taxation due to the government
  - D** To calculate the amount of dividend to pay to shareholders **(1 mark)**
- A18** A company has been notified that a debtor has been declared bankrupt. The company had previously provided for this doubtful debt. Which of the following is the correct double entry?
- | <b>DR</b>                               | <b>CR</b>   |
|---|---|
| <b>A</b> Bad and doubtful debts account | The receivables   |
| <b>B</b> The receivables                | Bad and doubtful debts account  |
| <b>C</b> Provision for doubtful debts   | The receivables   |
| <b>D</b> The receivables                | Provision for doubtful debts <span style="float: right;"><b>(1 mark)</b></span> |
- A19** Which of the following is *not* the purpose of a sales ledger control account?
- A** A sales ledger control account provides a check on the arithmetic accuracy of the personal ledger.
  - B** A sales ledger control account helps to locate errors in the trial balance.
  - C** A sales ledger control account ensures that there are no errors in the personal ledger.
  - D** Control accounts deter fraud. **(1 mark)**
- A20** The carrying amount of a company's non-current assets was ₦200,000 at 1 August 20X8. During the year ended 31 July 20X9, the company sold non-current assets for ₦25,000 on which it made a loss of ₦5,000. The depreciation charge for the year was ₦20,000. What was the carrying amount of non-current assets at 31 July 20X9?
- A** ₦150,000
  - B** ₦155,000
  - C** ₦160,000
  - D** ₦180,000 **(1 mark)**



## Section B: 80 marks – answer four out of six questions

### Question B1

At the close of business on 31 July 20X9 the following balances were extracted from the books of Balewa, a limited liability company:

	₦
Receivables ledger control account	47,600
Payables ledger control account	37,400

During the month of August the following transactions occurred.

	₦
(i) Cash received from customers	31,800
(ii) Cash paid to suppliers	32,500
(iii) Sales on credit	48,200
(iv) Purchases on credit	36,500
(v) Sales returns	1,900
(vi) Purchase returns	700
(vii) Discounts received from suppliers	400
(viii) Settlement discount claimed by customer who was not expected to do so	300
(ix) Bad debts written off	2,700
(x) Customer and supplier accounts settled by contra, i.e. setting off one against another	2,100

#### Required

- Prepare the receivables ledger control account and payables ledger control account for the month of August 20X9 and hence determine the balances at 31 August 20X9. **(10 marks)**
- For each of the items marked (i) to (x) above, occurring during the month of August, identify clearly the book of prime entry from which the transaction originated. **(6 marks)**
- At 1 September 20X8, the start of Balewa's financial year, the balance on the allowance for doubtful debts account was ₦6,300. At 31 August 20X9, the company's management decided that the revised balance should be 10% of the year end accounts receivable.

Prepare the allowance for doubtful debts and bad debt expense accounts showing the necessary entries in respect of the financial year to 31 August 20X9. **(4 marks)**

**(Total: 20 marks)**

## Question B2

Attah and Boro are in partnership sharing profits and losses in the ratio 60:40 after charging annual salaries of ₦12,000 and ₦15,000 respectively. Both partners are allowed interest of 4% per annum on opening capital accounts. They regularly make up their accounts to 30 June each year.

On 1 December 20X8 they admitted Dimka to the partnership and agreed to share profits from that date in the ratio 5:4:3. Dimka had been the office manager and for the year commencing 1 July 20X8 was on a salary of ₦9,000 per annum. On his admission to the partnership he received a rise of ₦3,000 per annum. Salaries to Attah and Boro remain unchanged. Each partner is to be allowed interest of 5% per annum on capital account balances at 1 December 20X8.

Dimka introduced his car into the partnership at an agreed value of ₦4,000, and paid ₦10,000 into the partnership bank account. The partners agreed that goodwill will be valued at ₦24,000.

The only entry made in respect of Dimka's admission to the partnership is in respect of the ₦10,000 cash paid in. No goodwill account is to remain in the records, and appropriate adjustments to deal with goodwill are to be made in the capital accounts. Dimka's salary has been posted to wages and salaries account for the whole of the year.

The partnership trial balance as at 30 June 20X9 was as follows:

	<i>Dr</i>	<i>Cr</i>
	<b>₦</b>	<b>₦</b>
Revenue		412,000
Inventory at 1 July 20X8	41,000	
Purchases	258,000	
Cars	32,000	
– cost		
– depreciation at 1 July 20X8		19,000
Equipment	103,000	
– cost		
– depreciation at 1 July 20X8		56,000
Sundry operating expenses	27,800	
Wages and salaries	56,000	
Bad debts	4,300	
Trade receivables	36,800	
Trade payables		32,600
Bank balance		5,200
Cash in hand		500
Capital accounts		
Attah		25,000
Boro		20,000
Dimka		10,000
Current accounts		
Attah		10,000
Boro		7,000
Drawings		
Attah	12,000	
Boro	15,000	
	<u>591,600</u>	<u>591,600</u>

The following further information is to be taken into account:

- (1) Closing inventory at 30 June 20X9 was ~~₦~~49,500.
- (2) Business is seasonal. One third of the year's sales were made in the five months to 1 December and two thirds in the remaining seven months.
- (3) For the purpose of apportioning the results for the year, gross profit, and selling and distribution expenses are to be apportioned according to sales. All other expenses are to be apportioned according to time except an amount of ₦1,000 included in sundry operating expenses which was spent in February 20X9 on Dimka's car.
- (4) Provision is to be made for the following:
  - (a) Depreciation at 40% reducing balance on cost of all equipment held at the year end.
  - (b) Depreciation at 25% straight line on cost of all cars held at the year end.
  - (c) A sales manager's bonus calculated at 2% of sales for the year.

**Required:**

- (a) Prepare a statement of profit or loss and appropriation account for the year ended 30 June 20X9. Your answer must show clearly the apportionment of profit and expenses for the 5 months to 30 November 20X8 and the 7 months to 30 June 20X9. **(16 marks)**
  - (b) Prepare the partners' capital accounts for the year in columnar form. **(4 marks)**
- (Total: 20 marks)**

**Question B3**

The statement of financial position of Achebe for the year ended 31 December together with comparative figures for the previous year is shown below:

	<b>20X8</b>		<b>20X9</b>
	<b>₦</b>	<b>₦</b>	<b>₦</b>
<b>Assets</b>			
Non-current assets (carrying amount)			
Plant and equipment	2,086		2,103
Fixtures and fittings	1,381		1,296
	<u>3,467</u>		<u>3,399</u>
Current assets			
Inventory	1,292		1,952
Trade receivables	1,763		2,06
Cash	197		512
	<u>3,252</u>		<u>4,550</u>
Total assets	<u>6,719</u>		<u>7,949</u>
<b>Equity and liabilities</b>			
Capital and reserves			
Share capital	4,200		4,500
Share premium	800		900
Accumulated profits	431		1,180
	<u>5,431</u>		<u>6,580</u>
Current liabilities			
Proposed dividends	132		154
Taxation	257		312
Trade payables	899		903
	<u>1,288</u>		<u>1,369</u>
Total equity and liabilities	<u>6,719</u>		<u>7,949</u>

**Statement of comprehensive income (extracts) for the year ended 31 December 20X9**

	<b>₦</b>
Profit before taxation	1,381
Income tax expense	<u>(310)</u>
Net profit for the period	<u>1,071</u>

**Note 1 Accumulated profits**

	<b>₦</b>
Balance at 1 January	431
Net profit for period	1,071
Dividend for the year	<u>(322)</u>
Balance at 31 December	<u>1,180</u>

Further information:

- (1) Plant and equipment with a carrying amount of ₦184 was disposed of for ₦203, whilst a new item of plant was purchased for ₦312.
- (2) Fixtures and fittings with a carrying amount of ₦100 were disposed of for ₦95.
- (3) Depreciation recognised on fixtures and fittings amounted to ₦351,000.
- (4) Dividend for the year was declared during the year. Dividend payable in the statements of financial position at each year end relate to dividends declared in that year but not paid over to shareholders by the reporting date.

**Required**

Prepare a statement of cash flows for the year ended 31 August 20X9 in accordance with IAS 7 Statement of Cash Flows **(20 marks)**

### Question B4

Kalu operates a small garage (petrol station) from leased premises. All sales are for cash and no credit is given. Accounts are prepared **half-yearly**. The last statement of financial position for the business was prepared as on 31 March 20X9 and showed the following:

	₦	₦
Plant and equipment at cost		16,720
Depreciation		<u>(3,480)</u>
		13,240
Inventory at cost		
Motor vehicle for resale	12,600	
Vehicle parts	5,600	
Petrol (fuel)	<u>5,500</u>	
	23,700	
Cash in hand	<u>250</u>	
		23,950
		<u>37,190</u>
Capital		32,020
Trade payables	3,100	
Bank overdraft	<u>2,070</u>	
		5,170
		<u>37,190</u>

No proper records have been written up since 31 March 20X9. In preparing accounts for the **six months** to 30 September 20X9 the following information is to be taken into account:

- (1) The motor vehicle held at 31 March 20X9 has been sold, realising cash proceeds of ₦14,600 and a car received in part exchange with a trade-in value of ₦2,050. This car had still not been sold by 30 September 20X9. Kalu expects to sell it at auction where it will only realise one half of the trade-in value.
- (2) Only one new vehicle was supplied to a customer during the period. The vehicle was purchased for ₦14,200 cash and was sold at the list price of ₦16,700 less a discount of 10%.
- (3) Sales of vehicle parts generated ₦37,440. The gross profit on parts sales is 55%.
- (4) The volume and cost of petrol inventory at 30 September 20X9 were the same as at 31 March 20X9. The price charged for petrol gave a profit of six kobo per litre.

- (5) A review of bank statements and available suppliers' invoices provided the following information for the six months to 30 September 20X9:
- (i) Petrol purchases amounted to 210,000 litres at a cost of ₦1.74 per litre, for which cash was paid on delivery.
  - (ii) Purchases of vehicle parts (all on credit) amounted to ₦17,200.
  - (iii) Rent and rates paid for the period amounted to ₦13,100.
  - (iv) Sales assistants were paid total gross wages of ₦720 per month.
  - (v) Sundry expense payments amounted to ₦185 per month.
- (6) At 30 September 20X9 trade payables amounted to ₦3,730, the balance at the bank amounted to ₦9,043 and cash in hand was ₦300.
- (7) Plant and equipment, all of which has been bought within the last five years, is being depreciated at 12½% per annum on the opening carrying amount.
- (8) During the six months to 30 September 20X9 insurance premiums of ₦2,200 were paid in respect of the year to 31 March 20Y0.
- (9) Kalu draws cash for personal expenses.

**Required:**

- (a) Write up the cash and bank account for the **six months** to September 20X9. A two-column approach is **not** required. **(9 marks)**
- (b) Prepare a statement of profit or loss for Kalu for the **six months** to 30 September 20X9 and a statement of financial position as on that date. **(11 marks)**
- (Total: 20 marks)**

### Question B5

The list of balances of Okadigbo, a limited liability company, at 30 September 20X9 was as follows:

	₦	₦
Accumulated profit, 1 October 20X8		13,831
Ordinary shares		20,000
Preferred shares		20,000
Bank overdraft		10,586
Factory – cost and depreciation	40,400	7,389
Office equipment – cost and depreciation	34,776	18,456
Delivery vehicles – cost and depreciation	19,721	4,681
Inventory at 30 September 20X8	31,332	
Receivables ledger control account	27,221	
Payables ledger control account		19,794
Factory wages and overheads	62,731	
Administration salaries	20,844	
Purchases	237,411	
Revenue		371,935
Distribution costs	16,423	
18 <sup>3</sup> / <sub>4</sub> % loan (repayable 20Y3)		5,250
<b>Trial balance difference</b>	1,063	
	<u>491,922</u>	<u>491,922</u>

The following further information should be allowed for:

- (1) Annual depreciation should be charged at 2.5% on the cost of the factory, at 15% of the written down value of the office equipment and at 25% of the written down value of the delivery vehicles.
- (2) Three errors have occurred in recording transactions in the sales day book in September 20X9:
  - Invoices with a value of ₦1,427 have been posted twice
  - A credit note for ₦147 has been treated as an invoice
  - Credit sales for September totalled ₦18,421, but have been posted to the revenue account as ₦18,241.
- (3) A contra between a receivables ledger and a payables ledger account for ₦43 has only been reflected in the receivables ledger control account.
- (4) A preferred dividend of ₦1,200 was paid on 28 September 20X9, and entered in the cash book, but not posted to the general ledger.
- (5) The directors propose an ordinary dividend of 25% of the profit after charging the preferred dividend.
- (6) Inventory at 30 September 20X9 amounted to ₦29,371.
- (7) Loan interest is to be accrued for the year ended 30 September 20X9.



**Required**

- (a) Prepare journal entries, including narrative, to correct the trial balance difference. You are **not** required to write up a suspense account. **(4 marks)**
- (b) Prepare the company's statement of profit or loss for the year ended 30 September 20X9 and a statement of financial position as at 30 September 20X9 in accordance with International Accounting Standard 1, insofar as the information allows. Notes to the accounts are **not** required. Ignore taxation. **(16 marks)**
- (Total: 20 marks)**

**Question B6**

Mr Essien retired from his employment abroad and returned to this country, where he purchased a small kiosk.

He took over the business on 1 July 20X7, acquiring the existing inventory at a valuation of ₦1,142,000. The rest of the purchase price was for the fixtures and fittings.

The following day he acquired a second-hand computer and accounts package at a price of ₦80,000. Unfortunately, Mr Essien made an error when printing his year-end accounts causing him to lose all data except for printed a summary listing of payments from the till before he had banked the takings. Other than this, the only records available were his bank statements and a number of vouchers.

A summary of his bank account for the year ended 30 June 20X8 shows the following.

	₦ 000		₦ 000
Cash introduced	5,000	Purchase of business	3,192
Bankings from shop	16,427	Purchase of accounts computer	80
Loan from mother (long-term) (interest at 5% pa)	1,000	Rent (15 months to 30 September 20X8)	500
		Rates (9 months to 31 March 20X8)	84
		Electricity	92
		Purchases for resale	14,700
		Private cheques	1,122
		Balance 30 June 20X8	2,657
	<u>22,427</u>		<u>22,427</u>

The computer print-out was as follows.

	₦ 000
Cash purchases for resale	1,606
Staff wages	742
Sundry shop expenses	156
Cash drawings	520
	<u>3,024</u>

On 30 June 20X8 inventory, measured at cost, amounted to ₦1,542,000, amounts due from customers ₦74,000, and cash in hand amounted to ₦54,000. Depreciation is to be recognised on fixtures and fittings at a rate of 10%.

Accounts outstanding on 30 June 20X8 were purchases of ₦470,000 and rates of ₦120,000 for the year ended 31 March 20X9.

**Required:**

Prepare Mr Essien's statement of profit or loss for the year ended 30 June 20X8 and a statement of financial position at that date. **(20 marks)**

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