

# Lead City University, Ibadan

Faculty of Environment, Management & Social Sciences

Department of Accounting & Finance

2017/2018 Academic Session (Second Semester )

## **COURSE PARTICULARS**

**COURSE CODE: ACC 411**

**COURSE TITLE: ADVANCE FINANCIAL ACCOUNTING II**

**NO OF UNITS: 3 UNITS**

**STATUS: COMPULSORY**

### **LECTURER DETAILS:**

**NAME: A.O.TAIWO**

**QUALIFICATIONS: B.SC, M.SC, FCA**

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**AREA OF SPECIALIZATION: ACCOUNTING AND FINANCE**

**NAME: J.A.ADEJUWON**

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**AREA OF SPECIALIZATION: ACCOUNTING AND FINANCE**

**COURSE DESCRIPTION:** Advance Financial Accounting is a compulsory course for Accounting student at 400 Level, carrying 3 units. It is an Advance course of studies from the Advance Financial accounting in First Semester and basic knowledge of Intermediate Financial

Accounting Learnt at the 300 Level. It's a course that exposed the student to the Advance knowledge of Financial Accounting as it involves core Financial Accounting on Company accounts- Theoretical framework for Group Accounts, Consolidated financial statement, Treatment of Minority interest, Foreign Subsidiaries and Bankruptcies and Liquidation. The course is a 3 hours weekly teaching course. The course is to lay a solid foundation for the student further studies as professional Accountants. The course will expose the student to the knowledge of Various Accounting standards with the application to various business; as well as to exposed the students to Group Accounting and consolidations as well as Accounting for Bankruptcy and Liquidation and treatment of foreign subsidiary.

### **COURSE OBJECTIVES:**

The course is designed to provide for the student a simple but comprehensive approach to the concepts objectives and techniques for the preparation of consolidated financial statement in accordance with IAS 10. As well as preparing account of foreign subsidiaries with Accounting for Bankruptcies and Liquidation.

- To provide the students a simple but comprehensive approach to the preparation of Group Accounting consolidation and foreign subsidiaries account.
- To equip the student with the necessary tools to carry out and recognize the need to interpret financial statements in order to generate reports for management decision role and planning.
- To provide the students with the basic concepts, objectives and techniques for the International Accounting Standards with applications to various aspect of companies accounts.
- To acquaint the student with both the basic theoretical, practical and technical tools towards becoming a professional Accountants.

### **ASSESSMENT:**

EXAMINATION:	60 MARKS
ATTENDANCE:	10 MARKS
TEST & ASSIGNMENT:	<u>30</u> MARKS
TOTAL	<u>100</u> MARKS

### **Lecture Plan:**

<b>WEEKS</b>	<b>TOPICS</b>
1	Review of Advanced Financial Accounting I.
2	Theoretical Framework of Group Accounts

- 3 Preparation of consolidated Balance Sheet
- 4 Preparation of consolidated Profit or Loss account
- 5 Treatment of non controlling interests
- 6 Piece meal acquisition
- 7 IAS 27: Separate Financial Statements
- 8 IFRS 10: Consolidated Financial Statements
- 9 Foreign Subsidiary
- 10 Business combination and reorganisation
- 11 Company reconstruction and re –organisation.
- 12 Accounting for Bankruptcies and Liquidation
- 13 Information technology in Accounting.
- 14 Revision and test.
- 15 Revision continue and examination..

**READING LISTS:**

Aborode, Remi A practical approach to Advanced Financial Accounting, 3<sup>rd</sup> edition.

Spicer's & Pegler's – Book-Keeping And Accounts- 12<sup>th</sup> edition, Butterworth's /HFL.

Siyambola Tunji .T. – Advanced Financial Accounting (IFRS COMPLIANT), 1<sup>ST</sup> edition

**Lead City University, Ibadan**  
**Faculty of Environment, Management & Social Sciences**  
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**2<sup>nd</sup> Semester, 2017/2018 Session**  
**Advanced Financial Accounting II: ACC 411**  
**Lecturers: Mr A O TAIWO and Mr A ADEJUWON**

**Section B**

Tutorial Questions:

Answer any 4 question each carry 15 marks.

1 State the condition under which the accounts of a subsidiary company may not be consolidated with those of its holding company and the disclosure requirements under various standards and Laws.

2 The balance sheet of A Ltd, B Ltd and C Ltd as at 31<sup>st</sup> March, 2016 are as under:

	A Ltd N,000	B Ltd N,000	C Ltd N,000
Credits:			
Share Capital: issued and fully paid,			
Ordinary shares of N1 each	200,000	80,000	60,000
8% Preference shares of N1 each	-	100,000	-
Share Premium account	-	-	50,000
Reserves	100,000	50,000	(25,000)
Inter company accounts	15,000	8,500	5,500
Taxation	25,000	15,000	-
Creditors	79,200	41,000	16,000
Dividend Proposed	25,000	8,000	5,000

Bank overdraft	<u>35,000</u>	<u>-</u>	<u>-</u>
	<b><u>479,200</u></b>	<b><u>302,500</u></b>	<b><u>111,500</u></b>
Debits:			
Plants at cost	176,200	109,500	56,100
Less Depreciation	<u>53,200</u>	<u>51,100</u>	<u>18,280</u>
	123,000	58,400	37,820
Freehold premises at cost	70,800	81,000	-
Shares in subsidiary companies at cost:			
B Ltd – Ordinary	94,500		
Preference	50,400		
C Ltd	18,000	22,000	-
Inter company accounts	17,000	22,100	5,680
Stocks at cost	58,000	67,500	38,000
Debtors	47,500	43,500	27,000
Cash at bank	<u>-</u>	<u>8,000</u>	<u>3,000</u>
	<b><u>479,200</u></b>	<b><u>302,500</u></b>	<b><u>111,500</u></b>

The following is ascertained:

- (A) (a) On April 2015, B Ltd purchased 20m shares in C Ltd for N22m;  
(b) On 1 October 2015 A Ltd purchased 54m ordinary shares in B Ltd for N94.5m and 48m preference shares for N50.4m.  
(c) Also on 1 October 2015, A Ltd purchased 19.5m ordinary shares in C Ltd from outside shareholders for N18m

(B) The only movement in the reserves during the year to 31 March 2016 was in the profit or loss account which showed:

	A Ltd	B Ltd	C Ltd
	N'000	N'000	N'000
Pre tax profit/(loss)	65,000	52,000	(29,000)

Companies Income tax @ 50%	18,000	12,000	-
Div. payable for the year	20,000	15,400	

B Ltd paid the first half of the preference dividends and its interim ordinary dividend on 30 Sept. 2015.

(a) The preference dividend for the six months ended on 31<sup>st</sup> March 2016 were declared and payable by B Ltd on that date. Cheques were sent to the outside shareholders and A Ltd was appropriately credited. When preparing the draft account, the accountant of A Ltd was not aware of the position.

(b) No book entries were made by A Ltd in respect of the final dividend proposed by B Ltd.

(c) A group election is in force so that dividends may be paid without having to account for withholding tax.

(D) The proposed dividend of C Ltd had been provided in the accounts for the year ended 31<sup>st</sup> March 2015, but in view of the deteriorating trading position had not been paid. It was decided to write back this provision to the opening reserves.

(E) A machine, which originally cost N5m was transferred from B Ltd to A Ltd at the written down value of N3m. The transaction has only been recorded in the books of B Ltd.

(F) On 31<sup>st</sup> March 2016, C Ltd sent a cheque for N800,000 to B Ltd which was not received until 3<sup>rd</sup> April 2016.

(G) On 20 March 2016, A Ltd sold goods worth N10m to B Ltd, earning its usual profit of 25% calculated on cost price, 50% of these goods were in stock on 31 March 2016.

(H) Goodwill arising on consolidation is to eliminate on acquisition against reserves.

You are required to prepare the consolidated balance sheet of A Ltd and its subsidiary companies as at 31<sup>st</sup> March 2016, presenting all working schedules.

3. With respect to IAS 21: The Effects of Changes in Foreign Exchange Rates, you are required to

- (a) Differentiate between Functional Currency and Presentation Currency
- (b) Discuss the Translation of Foreign Operations
- (c) Highlight the consolidation of foreign entities and translation of financial statements to a presentation currency.
- (d) Differentiate between the translation of monetary and non monetary items.

4. Section 336 of CAMA 1990 requires that the directors of a holding company shall as well as preparing individual accounts of the company for that year, prepare group financial statements, being accounts or statements which deal with the state of affairs and profit or loss of the company and its subsidiaries for consideration at the annual general meeting.

Required:

- (a) What are the circumstances under which exemptions are granted from the above provision as stipulated by IAS 27 and IFRS 10 in contrast with that of the Act?

(b) What supplementary information must be provided in place of consolidated accounts under the Act?

5. (a) In line with IFRS 10, differentiate between 'control of an investee' and 'De facto control' giving examples of each.

(b) The statement of financial position of Eduserve Ltd and its subsidiary, College Press Ltd as at 31<sup>st</sup> December, 2014 is as follows:

	Eduserve Ltd N'000,000	College Press Ltd N,000,000
Ordinary Shares @ N1	300	160
Reserves	130	140
Current liabilities	<u>240</u>	<u>50</u>
	<b>670</b>	<b>350</b>
Fixed Assets		
Investment in College Press Ltd (104 shares)	280	-
Current Assets	<u>190</u>	<u>70</u>
	<b>670</b>	<b>350</b>

Eduserve Ltd made the first purchase of 48 shares in College Press Ltd for N100m at the time the credit balance on the reserves of College Press Ltd was N160m. The second purchase of 56 shares for N180m was made when the reserves had a credit balance of N90m.

You are required to prepare a consolidated Balance Sheet for Eduserve Ltd under the following assumptions:

- That control was intended at the onset
- That control was not intended.

6. (a) What are the objects of Bankruptcy Laws?

- (b) What are the consequence of adjudication?

(c) Dawodu commenced business on 1<sup>st</sup> January 2005 with a capital of N336,000. His profits for the years 2005 to 2009 were N40,000, N32,000, N18,000, N14,000 and N4,000 respectively. His drawings averaged N22,000 per annum. On 31<sup>st</sup> December, 2009, a receiving order was made against him when his affair were as follows:

	N
Unsecured creditors	200,000
Mortgage on Freehold properties	40,000
Creditors partly secured (security: life policy estimated to realize N40,000)	120,000

Creditors for salaries and wages	4,800
Bill receivable discounted and expected to realize	32,000
Plant and machinery (cost N80,000) estimated to realize	20,000
Freehold factory (cost N400,000) estimated to realize	200,000
Book Debts: Good	60,000
Doubtful (N20,000), to realize	6,000
Bad	50,000
Fixtures and fittings (cost N8,000) estimated to realize	3,500
Stock (cost N80,000) estimated to realize	55,500
Cash in hand	800

From the above, you are required to prepare a statement of affairs and a deficiency account in a statutory form.

- 7 Adeeyo Ltd decided on 31<sup>st</sup> December 2017 to place the company into voluntary liquidation as a members' voluntary winding up. The following was the trial balance as on that date:

	Dr	Cr
	N	N
Ordinary shares of N1 each		100,000
5% cum preference shares @ N1 fully paid		50,000
Calls in advance		1,000
Calls in arrears	5,000	
Plant and machinery (net)	97,000	
Leasehold premises	80,000	
Investments	8,300	
Stocks and WIP	45,500	
Debtors	34,000	
Creditors		67,000



Pref. Dividend, half year to June, 2017	1,250	
Profit or loss account		10,800
Trading loss for 2017	17,500	
Overdraft		20,000
Cash in hand	250	
8% Debentures, secured on leasehold properties		40,000
<b>Total</b>	<b>288,800</b>	<b>288,800</b>

Additional information:

- a. The realizable values of the assets are estimated to be:

N

Plant and machinery (net)	81,500
Leasehold premises	64,000
Investments	5,300
Stocks and WIP	39,000
Debtors	18,000

- b. The calls in arrears are estimated to produce 3,000
- c. The estimated cost and expenses of litigation are: Legal, N3,525; Liquidator's fee of N2,500 plus 2% of the amount distributed to members.
- d. The creditors include preferential creditors for rates, taxes, salaries and rent of N5,200
- e. The preference share capital, plus arrears of dividend to date of winding up, is stated by the company's regulations to rank pari - pasu in the event of liquidation with the ordinary capital.
- f. The debenture interest has been paid to date

You are required to prepare the statement of affairs and the deficiency account.

- 8 (a) As a means of solving capital problems of a company, distinguish between Re-capitalisation and capital reduction.

(b) Itemise the steps involved in formulating a scheme of capital reconstruction.

(c) Itemise the accounting issues relating to capital reduction scheme.

9 On June 2014, a fire damaged the building of Alf Trade Limited, resulting in a disruption of the company's business for three months. The company is insured under a loss of profit policy for N380,000 with six months period of indemnity. The company's accounts for the financial year ended 30<sup>th</sup> April 2014 showed the following:

Turnover	N700,000
Net Profit	N150,000

The standing charges covered by the insurance policy is N400,000. This figure was debited in the accounts for the year. Turnover for the twelve months to 30<sup>th</sup> June, 2014 was N600,000. During the period of disruption, turnover was N100,000, whereas the corresponding three months in the previous year was N200,000. A sum of N40,000 was pending to mitigate against the loss, but there was no saving in fixed charges as a result of the fire. The policy indemnified the company against the loss of gross profit due to:

- (a) the reduction of turnover
- (b) increase in cost of working

You are required to:

- (i) compute the claim that will be submitted to the insurance company.
- (ii) compare the claim in (a) above with the claim that would have been made had there been no turnover during the three months disruption.

10 Jide and Fade have been in partnership as JF Farms, sharing profit and losses in the ratio of 3:2. The Balance Sheet as at December 31, 2016 was as follows:

<b>Liabilities:</b>		N'000
Capital accounts	Jide	25,000
	Fade	15,000
Current accounts	Jide	5,052
	Fade	4,503
Creditors		
	Feeds and medicine	117
	Seed	1,024
	Manure	63
Accrued Charges		
	Wages	12

Repairs to machinery	<u>89</u>
	<b><u>50,860</u></b>

**Assets:**

Freehold land and building	42,335
Machinery and Tools	1,963
Livestock	3,172
Growing Crops	1,631
Manure	214
Debtors:      Milk Marketing Board	96
Rates and advances	14
Cash at bank	<u>1,415</u>
	<b><u>50,860</u></b>

The summary of the cashbook for the year to 31<sup>st</sup> December, 2009 is as shown below:

**Debit Side**

Balance January 1 2009	1,415
Sales of milk	2,988
Sale of general produce	4,722
Way leaves	55
Sale of stock	1,315

**Credit Side**

Wages	1,373
Rates and insurance	68
Electricity	89
Tractor running expenses	517

Repair to equipment		21
Purchased seed		1,431
Feeds and medicine		741
Manure		2,419
Drawings:	Jide	260
	Fade	260
Show expenses		57
Taxation	Jide	374
	Fade	235

Further information regarding the farm were given below:

- (i) Jide occupies the farm house and Fade the cottage, of which estimated rent chargeable to the partners is N60,000 and N38,000 respectively
- (ii) Each partner uses farm produce, milk and electricity valued at N7,500 per week and a further N8 per week is given to the farm hands as their wages.
- (iii) The valuations, creditors, accrued expenses, debtors and payment in advance at December,31 were as follows:

	N'000
Freehold land and building	50,390
Machinery and dead stock	4,097
Livestock	3,106
Growing stock	1,522
Residual Manure	425
Debtors and prepayments	
Milk Marketing Board	109
Rates	16
Creditors: Manure	58
Seed	1,219
Wages	15
Repairs to machinery	93

You are required to prepare: The operating profit or loss account for the year ended 31<sup>st</sup> Dec., 2009.

The Balance Sheet as at that date

The Partners' Current Account.

- 11 (a) What are the objectives of IAS 10 (Events after the reporting period)?  
 (b) In line with IAS 10, how do you account for adjusting events after the reporting period?  
 (c) What are the disclosure requirements for non-adjusting events after the reporting period?
- 12 The trial balance of the Foreign Branch of a US company at 31<sup>st</sup> December 2016 is as follows:

	<b>Crowns</b>	<b>Crowns</b>
Head Office Accounts		451,373
Remittances to Head Office	236,062	
Fixtures and Fittings	26,040	
Sundry Debtors	171,288	
Stock, 1 Jan. 2016	87,365	
Sundry Creditors		57,828
Purchases	186,989	
Sales		270,738
Cash Discount Allowed	4,183	
Cash Discount Received		5,429
Salaries	46,369	
Rent & Rates	20,826	
Bad Debts	2,403	
Cash in Hand	3,843	
<b>TOTAL</b>	<b>C785,368</b>	<b>C785,368</b>

**Notes:** Stock on 31<sup>st</sup> Dec. 2016 = C91,866

In the London books, the balance on the Foreign Branch Account as at 1<sup>st</sup> Jan. 2016 was \$5,218, and on 31<sup>st</sup> Dec. 2016 the balance on the Foreign Remittance Account was \$2,641. There was no cash in transit.

The rates of exchange of "Crowns" to one dollar were as follows:

1<sup>st</sup> Jan. 2016    86.5

31<sup>st</sup> Dec. 2016   91.5

At the date of purchase of the fixtures, the exchange rate was 124

The average rate for the year was 89

**Required:** (a) Prepare a converted trial balance for the branch and ascertain the net profit on the foreign branch

(b) How would the Head Office treat the gain/loss on exchange in the accounts?

(c) Write up the foreign branch accounts in the head office books.

Note that "Crowns" denotes a fictitious currency.

## ACC 411: ADVANCED FINANCIAL ACCOUNTING II

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1. Stating the reason why a company need not present consol. Accts. 5 mks
- Stating the Disclosure requirements 4 mks
  - Stating the Accounting treatments 6mks
- 15Marks
2. A Concise consolidated balance sheets 10 mks
- Clear workings 5 mks
- 15 Marks
3. a Differentiating between currency & presentation
- Currency 5 marks
  - b. A good definition of foreign operation 3 marks
  - c. Highlighting the consolidation of foreign entities and translating financial statement. 31/2marks
  - d. Differentiating between translation of monetary and non- monetary items 31/2 marks
- 15 marks
- 3.a. Stating the circumstances in which exemption are
- Granted in accordance with IAS 27 8 mks
  - b. Concise stating the supplementary information to be provided 7 mks
- 15 Marks
- 4.a. A brief explanation of IFRS 10 & differentiating between
- Control of investee and defacto control 8 mks
  - b.i. That control was intended at onset 3 ½ mks

ii. Control not intended	<u>3 ½ mks</u>
	<u>15 Marks</u>
5.a. Stating the objects of bankruptcy law	5 mks
b. Stating five consequence of adjudication	5 mks
c. Preparation of statement of affairs of a deficiency accounts	<u>5 mks</u>
	<u>15 Marks</u>
6. Preparation of the statement of affairs	5 mks
Preparation of deficient Accounts	5 mks
Workings	<u>5 mks</u>
	<u>15marks</u>
7.a. Distinguishing between capital reorganisation and Capital reduction	8 marks
b. Itemizing the steps involved in formulating a scheme of capital reconstruction	3 ½ marks
c. Itemizing the step involved in formulating a scheme of capital reconstruction	<u>31/2 marks</u>
	<u>15 marks</u>
8 i, Computation of Claim to be submitted	7 marks
li, Comparing the claim due	5 marks
A good workings attracts	<u>3 marks</u>
	<u>15 marks</u>
9. Preparation of the balance sheet	8 marks



Preparation of Partners Account	<u>7 marks</u>
	<u>15 marks</u>
10.a, Stating the objectives of IAS 10	5 marks
b. Showing how Accounting for adjusting events after reporting period	5 marks
c Stating the disclosure requirement	<u>5 marks</u>
	<u>15 marks</u>
12. a Preparing a converted Trial balance for the branch	6 marks
b. Treating of Gains/Loss on Exchange	4 marks
c. Preparing the Branch Account	<u>5 marks</u>
	<u>15 marks</u>