



**THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF NIGERIA**

PATHFINDER

NOVEMBER 2014 SKILLS EXAMINATION

**Question Papers
Suggested Solutions
Plus
Examiners' Reports**

◆————◆
SKILLS EXAMINATION – NOVEMBER 2014

FOREWORD

This issue of the **PATHFINDER** is published principally, in response to a growing demand for an aid to:

- (i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN);
- (ii) Unsuccessful candidates in the identification of those areas in which they lost marks and need to improve their knowledge and presentation;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subjects contained herein; and
- (iv) The profession; in improving pre-examinations and screening processes, and thus the professional performance of candidates.

The answers provided in this publication do not exhaust all possible alternative approaches to solving these questions. Efforts had been made to use the methods, which will save much of the scarce examination time. Also, in order to facilitate teaching, questions may be edited so that some principles or their application may be more clearly demonstrated.

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SKILLS EXAMINATION – NOVEMBER 2014

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION - NOVEMBER 2014

FINANCIAL REPORTING

Time Allowed: 3 hours

SECTION A:

COMPULSORY QUESTION

(30 Marks)

QUESTION 1

The Trial Balance of Excellent Plc. as at 30 June 2014 is as follows:

	₦'000	₦'000
Salaries & wages	80,000	
Plant and machinery maintenance cost	44,800	
Irrecoverable debt	14,700	
Plant and machinery at cost	75,500	
Provision for receivables		21,220
Provision for depreciation:		
- Plant and machinery		41,150
- Furniture		37,000
Delivery van at cost	49,000	
Provision for depreciation:		
- Delivery Van		12,000
Delivery van expenses	11,970	
Purchases/Revenue	195,000	940,000
10% Loan Notes		100,000
Bank balance	20,900	
Furniture at cost	64,000	
Sundry expenses	39,500	
Trade receivables/payables	48,000	30,000
Goodwill	45,000	
Inventories: 30/6/2013	16,000	
Dividend paid to ordinary shareholders	15,000	
Retained earnings		30,000
Ordinary shares of ₦1 each		100,000
Revaluation surplus (Furniture)		8,000
Freehold land	<u>600,000</u>	<u>-</u>
	<u>1,319,370</u>	<u>1,319,370</u>

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The following notes are relevant:

i. Inventories as at 30/6/2013:

	Units '000	Unit Price (₦)	Cost ₦'000
Commodity 1	300	20	6,000
Commodity 2	350	15	5,250
Commodity 3	475	10	<u>4,750</u>
			<u>16,000</u>

The net realisable values of these commodities per unit are as follows:

	Commodity 1	Commodity 2	Commodity 3
Net Realisable Value per unit	₦15	₦20	₦8

Any increase or decrease in the value of opening inventories is to be adjusted to cost of sales.

- ii. Inventories on 30 June 2014 amounted to ~~₦~~9,000,000
- iii. Prepaid salaries and wages were ~~₦~~10,000,000
- iv. Included in the plant and machinery maintenance cost was depreciation of ~~₦~~14,800,000.
- v. The allowances for receivables are no longer required. The outstanding 10% loan notes interest was paid on 30 June 2014 and this has not been accounted for. The fair value of goods is ~~₦~~40,000,000 at the end of the year.
- vi. The value in use of delivery van for the year 30 June 2014 is ~~₦~~31,000,000. The prevailing market interest rate is 21% per annum and the Discounting Factor for this year is 0.8264.
- vii. The fair value of delivery van at an arm's length transaction as at 30 June 2014 was ~~₦~~28,000,000 and the cost to sell was ~~₦~~2,000,000. All non-current assets were depreciated at 10% per annum on reducing balance basis.
- viii. Current tax provision for the year is ~~₦~~165,000,000.

Required:

- a. Identify any **FOUR** of the cost items that are **EXCLUDED** in the valuation of inventories under IAS 2. (4 Marks)
- b. Calculate the following:
 - (i) Value of opening inventories to be included in the Statement of Profit or Loss and Other Comprehensive Income. (2 Marks)
 - (ii) The present value in the use of delivery van (1 Mark)
 - (iii) The fair value and recoverable amount of delivery van (2 Marks)
 - (iv) The carrying amount and impairment if any on delivery van (2 Marks)
- c. Prepare the Statement of Profit or Loss and Other Comprehensive Income (OCI) and Statement of Changes in Equity for the year ended 30 June 2014. (11 Marks)
- d. Prepare the Statement of Financial Position as at 30 June 2014. (8 Marks)
Show all relevant workings (Total 30 Marks)

SECTION B: ATTEMPT TWO QUESTIONS FROM THIS SECTION (40 MARKS)

QUESTION 2

- a. A non-accountant friend of yours attended a seminar for non-accounting executives on interpretation of financial statements.

Though, he enjoyed the seminar especially the aspect on the uses of accounting ratios, he strongly believes that they have their limitations.
State and explain the limitations of ratios for the purpose of interpreting financial statements. (5 Marks)
- b. You are provided with the following set of amended published Financial Statements of HAMMED Plc for the year ended 31 December 2013:
Consolidated Statement of Profit or Loss and Other Comprehensive Income

	2013 N'000	2012 N'000
Revenue	257,520	254,444
Cost of sales	(126,796)	(127,458)
Gross Profit	130,724	126,986
Net operating expenses	(97,910)	(95,728)
	32,814	31,258
Net finance income	1,948	1,316
Net profit before tax	34,762	32,574
Income tax expense	(10,256)	(9,170)
Profit for the period	<u>24,506</u>	<u>23,404</u>
Dividend per share paid	58.50k	52.50k
Total dividend paid (N'000)	11,256	10,216
Dividend per share proposed	44k	39k
Total dividend proposed (N'000)	8,564	7,590
Basic earnings per share	130.12k	125.22k

Consolidated Statement of Financial Position

	2013 N'000	2012 N'000
Non-current assets:		
Property, plant & equipment (PPE)	69,864	74,630
Motor Vehicles	<u>11,554</u>	<u>11,200</u>
	<u>81,418</u>	<u>85,830</u>
Current assets:		
Inventories	16,548	18,344
Trade and other receivables	59,092	41,982
Cash at bank	62,824	69,916
Assets classified as held for sale	<u>1,874</u>	<u>-</u>
	<u>140,338</u>	<u>130,242</u>
Total assets:	<u>221,756</u>	<u>216,072</u>
Current liabilities	48,090	49,432
Non-current liabilities	43,778	45,276

Capital and Reserves Attributable to equity shareholders:

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Called-up share capital	9,730	9,730
Share premium account	1,810	1,810
Own shares held	(8,596)	(6,200)
Share option reserve	2,832	1,652
Retained earnings	<u>124,112</u>	<u>114,372</u>
	<u>129,888</u>	<u>121,364</u>
	<u>221,756</u>	<u>216,072</u>

Additional information

- The issued share capital of the company consists of 50k ordinary shares.
- The market price of the ordinary shares was ₦17 at 31 December 2012 and ₦19.16 at 31 December 2013.
- There were no preference shares and no loan notes.
- The cost of purchases plus production cost was ₦124,966,000 in 2012 and ₦125,000,000 in 2013.
- Other opening and closing balances:

	Closing 2013 ₦'000	Closing 2012 ₦'000	Opening 2012 ₦'000
PPE accumulated depreciation	37,046	129,540	122,288
Inventories	16,548	18,344	20,836
Trade receivables	40,486	37,160	35,678
Trade payables	9,604	12,882	11,412
Other taxes and social security	3,822	3,640	3,818
Accruals	30,740	27,810	27,680
Equity	129,888	121,364	106,274

Required:

- Calculate performance (efficiency) and investment ratios for each of the two years as far as the available information permits. (10 Marks)
 - Comment on the company's financial performance for the year ended 31 December 2013 based on the ratios. (5 Marks)
- (Total 20 Marks)**

QUESTION 3

USMAN Plc.
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2013

	N'000	N'000
Revenue		1,600,000
Interest income		10,000
Gain on sale of plant		<u>8,000</u>
		1,618,000
Expenses:		
Cost of sales	960,000	
Wages and salaries expenses	240,000	
Depreciation on plant and equipment	50,000	
Interest expense	8,000	
Other expenses	<u>152,000</u>	<u>(1,410,000)</u>
Profit before tax		208,000
Income tax expense		<u>(60,000)</u>
Profit for the year		148,000
Other comprehensive income:		
Gain on available for sale Investment	4,000	
Income tax	<u>(1,200)</u>	<u>2,800</u>
Total comprehensive income for the year		<u><u>150,800</u></u>

USMAN Plc.
Comparative Statements of Financial Position as at:

	31 Dec. 2013 N'000	31 Dec. 2012 N'000	Increase/ (Decrease) N'000
Cash at bank	113,100	120,000	(6,900)
Accounts receivable	158,000	140,000	18,000
Inventory	140,000	130,000	10,000
Prepayments	19,000	16,000	3,000
Interest receivable	200	300	(100)
Plant and equipment	330,000	300,000	30,000
Investment (Available for sale)	28,000	24,000	4,000
Intangible assets	<u>30,000</u>	<u>-</u>	<u>30,000</u>
	<u>818,300</u>	<u>730,300</u>	<u>88,000</u>
Accounts payable	90,000	84,000	6,000
Wages and salaries payable	10,000	8,000	2,000

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Boeing 747 aircraft. This agreement should not involve sale and lease back transactions.

The contract terms include the following:

- Lease period - 5 years
- Quarterly lease rental payments - ~~₦~~150 million.
- Cost of buying Boeing 747 Aircraft - ~~₦~~500 million.
- Economic useful life - 20 years
- Scrap value after 20 years - nil
- KLM Limited maintains the aeroplane

Required:

- i. Recommend the type of lease arrangement that Island Plc should enter into giving reasons for your choice. (2 Marks)
 - ii. Illustrate, in tabular form, the basic differences between the type of lease recommended in b(i) above and any other type of lease arrangements under IAS 17. (5 Marks)
- c. Based on the information supplied in the question, calculate the following:
- i. Total lease rental over the lease period. (1 Mark)
 - ii. Finance charge. (2 Marks)
- (Total 20 Marks)**

SECTION C: ATTEMPT TWO QUESTIONS FROM THIS SECTION (30 MARKS)

QUESTION 5

In accordance with IAS 23, Borrowing Costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset while other borrowing costs are recognised as an expense.

Required:

- a. State the conditions wherein capitalisation of borrowing costs:
 - i. Commence

ii. Should not be suspended

iii. Should cease

(6 Marks)

- b. VITAMAX Plc. is constructing a factory that will take about 18 months to complete. The company commenced construction on 2 January 2013. The following payments were made during the year:

₦'000

31 January	40,000
31 March	90,000
30 June	20,000
31 October	40,000
30 November	50,000

The first payment on 31 January was funded from the company's pool of debts. However, the company succeeded in raising Medium-Term Loan Notes for an amount of ₦160,000,000 on 31 March 2013 at a simple interest rate of 9 percent per year, calculated and payable monthly in arrears. These funds were specifically used for the construction. Excess funds were temporarily invested at 6 percent monthly in arrears and payable in cash. The pool of debts were again used for a ₦40,000,000 payment on 30 November 2013 which could not be funded from the Medium-Term Loan Notes.

The construction project was temporarily halted for three weeks in May 2013 when substantial technical and administrative work was carried out.

The following amounts of debts were outstanding at the reporting date of 31 December 2013:

₦'000

Medium-Term Loan Notes	160,000
Bank overdraft	240,000
10% 7-year Notes 1 October 2018 with simple interest payable annually at 31 December	1,800,000

For the bank overdraft, the weighted average amount outstanding during the year was ₦150,000,000 and the total interest charged by the bank amounted to ₦6,760,000 for the year.

Required:

Calculate the total amount of interest to be capitalised. (9 Marks)

Note: All workings should be to the nearest thousand naira.

(Total 15 Marks)

QUESTION 6

Skelewu Nigeria Limited owns the following Property, Plant and Equipment as at 31 December 2011.

	Cost	Accumulated Depreciation	Carrying Amount
	₦'000	₦'000	₦'000
Plant & Machinery	45,000	9,000	36,000
Land	25,000	-	25,000
Office Buildings	75,000	15,000	60,000

Additional pieces of information are:

- (i) Plant and Machinery are depreciated on a straight-line basis over 5 years. The plant & machinery was acquired on 1 January 2011.
- (ii) Land is not depreciated
- (iii) Buildings are depreciated on a straight-line basis over 25 years.
- (iv) Depreciation on office building is not deductible for tax purposes but for the plant and machinery; tax deductible is granted over a period of 3 years in the ratio 50:30:20 percent of cost consecutively.
- (v) The accounting profit before tax amounted to ₦15,000,000 for the 2012 financial year and ₦20,000,000 for year 2013. These figures include non-taxable revenue of ₦4,000,000 in year 2012 and ₦5,000,000 in year 2013.
- (vi) Skelewu Nig. Ltd had a tax loss on 31 December 2011 of ₦12,500,000. The tax rate for year 2011 was 35% and 30% for each of years 2012 and 2013.

Required:

- a. In accordance with IAS 12 on Income Taxes, differentiate between Current Tax and Deferred Tax. (2 Marks)
- b. Prepare the Deferred Tax Account for the year ended 31 December 2013. (10 Marks)

- c. Advise the Directors of Skelewu Nigeria Limited on the reasons why it is necessary to recognise or make provision for Deferred Tax in the company's Financial Statements. (3 Marks)
- (Total 15 Marks)**

QUESTION 7

- a. IAS 16 covers all aspects of accounting for Property, Plant and Equipment (PPE) including its measurement and qualification for recognition as an asset. The standard also described the elements of cost, stating that some costs are directly attributable costs of PPE while some other costs failed to qualify as costs of an item of PPE.

Required:

In the context of IAS 16, identify the elements of cost of an item of Property, Plant and Equipment, giving **SIX** examples of directly attributable costs. (5 Marks)

- b. The following details are extracted from the non-current assets register of Kwali Nigeria Plc at the year ended 30 September 2013:

	₦'000
Freehold property at cost	586,700
Leasehold property at valuation 30 Sept. 2012	229,500
Construction in progress	355,800
Plant and equipment at cost	198,600
Plant and equipment (Leased) at cost	85,200
Accumulated depreciation 30 Sept. 2012:	
Freehold property	264,015
Plant and equipment	86,888
Plant and equipment (Leased)	21,300

Additional information:

- (i) During the year ended 30 September 2013, the company incurred the sum of ₦106,000,000 on the construction work in progress and this resulted in the completion of a warehouse costing ₦325,000,000. The warehouse was put to use on 1 June, 2013. The freehold property is depreciated at a flat rate of 15% per annum on a straight-line basis.

- (ii) The leasehold property was acquired on 1 October 2011 on 15 years lease at a cost of ₦300,000,000. The company's policy is to revalue the property at market value at each year end. At 30 September 2013, the property was valued at ₦204,600,000.
- (iii) Plant acquired is depreciated at 25% per annum using the reducing balance method while the leased plant is also depreciated at 25% using the straight-line method.
- (iv) One item of plant acquired for ₦48,000,000 on 1 October 2010 was disposed on 30 September, 2013 for ₦36,000,000 while a new plant with a higher capacity was acquired as a replacement for ₦65,000,000 on the same date.
- (v) All the additional pieces of information above are yet to be adjusted for in the books of Kwali Nigeria Plc.

Required:

Prepare a statement of changes in Property, Plant and Equipment for inclusion in the Financial Statements for the year ended 30 September 2013. (10 Marks)

(Total 15 Marks)

SOLUTION 1

(a) **Excluded costs in IAS 2 on inventories include the following:**

- Abnormal amount of wasted materials, labour or other production cost.
- Storage costs, unless those costs that are necessary in the production process before a further production stage.
- Administrative overheads that do not contribute to bringing inventories to their present location or condition.
- Selling costs.
- Interest cost/charges that may arise when inventory is bought on terms that allow for settlements at a later date.



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MAY 2015 SKILLS LEVEL EXAMINATIONS

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SKILLS LEVEL EXAMINATIONS i MAY 2015

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATIONS - MAY 2015

FINANCIAL REPORTING

Time Allowed: 3 hours

ATTEMPT FIVE QUESTIONS IN ALL

SECTION A: COMPULSORY QUESTION (30 Marks)
QUESTION 1

UNITARISATION PLC

Unitarisation Plc is a successful Nigerian Company which recently amended its objects clause in the Memorandum of Association to include “programmes and activities that will promote National unity and encourage anti-terrorism compliance” as part of its social responsibilities. The company, therefore, acquired 60% of the equity share capital of Famous Plc a widely known and successful advertising company to propagate this mission.

The summarised draft financial statements of the two companies are as follows:

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 October, 2014.

	Unitarisation Plc. N'm	Famous Plc. N'm
Revenue	51,000	25,200
Cost of sales	(37,800)	(19,200)
Gross profit	13,200	6,000
Distribution costs	(1,200)	(1,200)
Administrative expenses	(3,600)	(1,920)
Finance costs	(180)	(240)
Profit before tax	8,220	2,640
Income tax Expense	(2,820)	(840)
Profit for the year	<u>5,400</u>	<u>1,800</u>

Statement of Financial Position as at 31 October, 2014

	Unitarisation Plc. ₦'m	Famous Plc. ₦'m
Assets:		
Non-current assets:		
Property, plant & equipment	24,360	7,560
Current assets	<u>9,600</u>	<u>3,960</u>
Total assets	<u>33,960</u>	<u>11,520</u>
Equity & Liabilities:		
Equity shares of ₦1 each	6,000	2,400
Retained earnings	<u>21,240</u>	<u>3,900</u>
	<u>27,240</u>	<u>6,300</u>
Non-current liabilities:		
12% loan notes	1,800	2,400
Current liabilities	<u>4,920</u>	<u>2,820</u>
Total equity & liabilities	<u>33,960</u>	<u>11,520</u>

Relevant additional information are presented below:

- (i) The shares of Famous Plc. was acquired on 1 May, 2014 and the issue of shares was not recorded by Unitarisation Plc.
- (ii) There is cash in transit of ₦120,000,000 due from Unitarisation Plc. to Famous Plc. arising from intra-group trading.
- (iii) The non-controlling interests are valued at full fair value by the parent company. The fair value of the non-controlling interests in Famous Plc. at the date of acquisition was ₦3,540,000,000. There is no goodwill impairment at the end of the accounting year.
- (iv) The fair value of Famous Plc. assets were equal to the carrying amounts at the acquisition date except for one equipment with a fair-value of ₦1,200,000,000 over its carrying amount which has a five-year remaining life. Straight line depreciation is adopted. Famous Plc. has not effected the adjustment in the records.
- (v) The 60% of share capital of Famous Plc. acquired was settled through share exchange of two shares in Unitarisation Plc. for three shares in Famous Plc. The market value of Unitarisation Plc. at the date of acquisition was ₦6 per share.
- (vi) In the post-acquisition period, Unitarisation Plc. bought goods from Famous Plc. amounting to ₦4,800,000,000. Famous Plc. had made a mark-up on cost of 40% on the transaction. As at the year end, Unitarisation Plc. had sold part of these goods worth ₦3,120,000,000.

- (vii) Famous Plc's trade receivables at 31 October, 2014 include ₦360,000,000 due from Unitarisation Plc. However, the amount did not agree with the corresponding balance in Unitarisation Plc's trade payable ledger.
- (viii) Assume that profits or losses accrue evenly over the period except otherwise stated.

Required:

- a. Prepare Unitarisation Plc. Consolidated Profit or Loss and Other Comprehensive Income for the year ended 31 October, 2014. (10 Marks)
- b. Unitarisation Plc. Consolidated Statement of Financial Position as at 31 October, 2014. (10 Marks)
- c. Consolidated Statement of Changes in Equity for the year ended 31 October, 2014. (6 Marks)
- d. In accordance with IFRS 3 on Business Combinations, what is Gain On Bargain Purchase? (4 Marks)
- (Total 30 Marks)

SECTION B: ATTEMPT TWO OUT OF THREE QUESTIONS IN THIS SECTION (40 Marks)

QUESTION 2

- a. When a parent Company elects not to prepare consolidated financial statements and instead prepares separate financial statements; what are the disclosure requirements stipulated in IAS 27 on Separate Financial Statements? (6 Marks)
- b. Kerewanta Plc. acquired 60% of the equity shares of Orijinmi Plc. by means of share exchange of three shares in Kerewanta Plc. for four shares in Orijinmi Plc. The market value of the shares of Kerewanta Plc. at the date of acquisition which is 1 April, 2013 was ₦10 per share.

Kerewanta Plc. would make a deferred cash payment of 70k per acquired share on 1 April, 2014. Kerewanta Plc. cost of capital is 12% per annum. None of the consideration has been recorded in the books of Kerewanta Plc. The following information was extracted from the financial statements of the two companies as at 31 March, 2014.

	Kerewanta Plc.	Orijinmi Plc.
	₦'m	₦'m
Equity shares of ₦1 each	60,000	20,000
Share premium	15,000	NIL
Retained earnings 1 April, 2013	20,500	11,600
Retained earnings for the year ended 31 March, 2014	9,800	6,700
Property, plant and equipment	50,400	22,900

The following is the additional relevant information:

- (i) An equipment had a fair value of ₦360,000,000 above its carrying amount. At the date of acquisition of Orijinmi Plc. the asset had a remaining life of four years. It is the group's policy to depreciate such asset using the straight line method.
- (ii) Orijinmi Plc. had deferred tax liability of ₦10,000,000 as at 31 March, 2014 which had not been recorded. The company's goodwill is not impaired.
- (iii) Non-controlling interests are to be valued at fair value at the date of acquisition of Orijinmi Plc. The fair value of the shares of Orijinmi Plc. held by non-controlling interests at the date of acquisition is ₦6 per share.

Required:

Calculate the following as at 31 March, 2014:

- i. Equity
- ii. Non-controlling interests
- iii. Consolidated goodwill
- iv. Property, plant and equipment

(14 Marks)
(Total 20 Marks)

QUESTION 3

Galadanci Plc. is a telecommunications company operating in Nigeria. The management of the company presented the following summarised financial statements for the years ended 31 December, 2013 and 2014.

Statements of Profit or Loss and Other Comprehensive Income for the year ended:

	2014 N ¥ billion	2013 N ¥ billion
Revenue	2,430	1,638
Cost of sales	(1,701)	(983)
Gross profit	729	655
Administrative costs	(311)	(180)
Distribution costs	(207)	(117)
Finance costs	(36)	(6)
Profit before taxation	175	352
Income tax expense	(54)	(102)
Profit for the year	<u>121</u>	<u>250</u>

Statements of financial position as at 31 December:

	2014		2013	
	N ¥ billion	N ¥ billion	N ¥ billion	N ¥ billion
Assets:				
Non-current assets:				
Property, plant & equipment		612		369
Intangible assets		270		180
Investment in shares of Papanga Plc. at cost		207		Nil
		1,089		549
Current assets:				
Inventory	120		100	
Trade receivables	150		70	
Other receivables	Nil	270	110	280
Total assets		<u>1,359</u>		<u>829</u>
Equity & liabilities:				
Equity shares of N ¥ 1 each		390		225
Retained earnings		340		270
		<u>730</u>		<u>495</u>

Non-current liabilities:				
10% secured loan notes	80		80	
12% secured loan notes	<u>260</u>	340	<u>Nil</u>	80
Current liabilities:				
Bank short term loan	49		10	
Trade payables	190		140	
Income tax payable	<u>50</u>	<u>289</u>	<u>104</u>	<u>254</u>
Total equity & liabilities		<u>1,359</u>		<u>829</u>

The following additional information is relevant for the year ended 31 December, 2014:

- (i) Galadanci Plc. acquired 60% interests in the equity shares of Papanga Plc. which is into commercial rice production in order to diversify its business portfolio and take advantage of the favourable incentives in agriculture recently announced by the Federal Government of Nigeria.
- (ii) Galadanci Plc. increased its mobile telephone subscriber based and average revenue per user.
- (iii) No dividends were received from Papanga Plc. and the value of its shares had not increased during the year ended 31 December, 2014.

Required:

- a. Calculate the following ratios and use them to analyse Galadanci Plc's operating performance during the year ended 31 December, 2014 and comment on any relevant qualitative factors that may impact on the company's performance.
 - i. Gross profit percentage
 - ii. Return on capital employed (where capital employed = Total Asset less current liabilities)
 - iii. Net profit (PBIT) percentage
 - iv. Asset turnover
 - v. Gearing ratio
 - vi. Debt/Equity ratio

(16 Marks)
- b. Prepare Galadanci Plc's Cash Flows from operating activities using the indirect method in accordance with 1AS 7 on Statement of Cash Flows.

(4 Marks)

(Total 20 Marks)

QUESTION 4

- a. The following information is extracted from the financial statements of Kubua Plc. for the year ended 30 September, 2014.

	₦'000
Ordinary Share Capital (fully paid at 1.25 kobo each)	20,000
Operating profit before tax	4,000

Other relevant information:

- (i) The companies income tax rate is 30%
- (ii) The average fair value of one ordinary share during the year was ₦5.00.
- (iii) During the year, the company issued share options of 2.5million ordinary shares to existing shareholders at an exercise price of ₦4.00.

Required:

Calculate the basic and diluted Earnings Per Share for the year ended 30 September, 2014. Show all workings (5 Marks)

- b. Extract from the Statements of Profit or Loss and Other Comprehensive Income of Bajulaye Plc. for the years ended:

	30/09/2014	30/09/2013
	₦'000	₦'000
Revenue	<u>5,000</u>	<u>2,800</u>
Profit Before Interest and Taxes (PBIT)	<u>2,500</u>	<u>1,200</u>

Extract from the Statements of Financial Position as at

	30/9/2014	30/9/2013
Issued Share Capital:	₦'000	₦'000
Ordinary Shares at 50k each	3,000	3,000
12% Redeemable Preference Shares	<u>1,500</u>	<u>1,500</u>
Total Equity	<u>4,500</u>	<u>4,500</u>

Other relevant information:

- On 1 January, 2013 the entity issued convertible loan notes of ₦2,000,000 with effective interest rate of 10% per annum.
- The loan notes are convertible at nominal values of ₦100 each into the following number of ordinary shares:

30 September, 2018	130 shares
30 September, 2019	125 shares
30 September, 2020	114 shares
30 September, 2021	105 shares

- Companies Income tax rate is 30%.

Required:

- Calculate the basic and diluted Earnings Per Share for the year ended 30 September, 2014. (8 Marks)
 - Write a short memo to the Board of Directors of Bajulaiye Plc. explaining FOUR advantages and THREE limitations of Earnings Per Share as a performance indicator to users of financial statements. (7 Marks)
- (Total 20 Marks)

SECTION C: ATTEMPT TWO QUESTIONS IN THIS SECTION (30 Marks)

QUESTION 5

IAS 38 - Intangible Assets, specifies the criteria that must be met before an intangible asset can be recognised by an entity in its Financial Statements. Intangible assets are identifiable non-monetary assets without physical substance and include goodwill, brands, copyright and research and development expenditure. They could be purchased and/or internally generated.

Required:

- Identify any TWO characteristics of goodwill which distinguish it from other intangible assets? (2 Marks)
- Explain THREE differences between purchased goodwill and non-purchased goodwill. (3 Marks)
- Identify any THREE conditions that must be met under IAS 38 for development expenditure to be recognised as an intangible asset. (3 Marks)
- State any FOUR factors to be considered when determining the useful life of an intangible asset. (4 Marks)
- Calculate the goodwill on consolidation from the information below:

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	₦'000
Parent's cost of investment in subsidiary	299,700
Net asset at acquisition date (parent)	986,600
Net asset at acquisition date (subsidiary)	345,800
Fair value of non-controlling interest at acquisition date	169,500
Net asset at reporting date (subsidiary)	316,400
Impairment of goodwill	62,200

Parent has 80% interests in subsidiary (3 Marks)
(Total 15 Marks)

QUESTION 6

- a. IAS 28 - Investments in Associates and Joint Ventures permits, the application of equity method when accounting for investments in associates and joint ventures.

Required:

Explain briefly the Equity Method and state the circumstances under which an entity can discontinue the use of equity method under IAS 28. (5 Marks)

- b. Agbantara Plc. acquired equity shares from Odinma Plc. and Dangari Limited. The following are the Statements of Profit or Loss and Other Comprehensive Income for the year ended 31 December, 2014 for the three companies:

	Agbantara Plc. ₦'m	Odinma Plc. ₦'m	Dangari Ltd ₦'m
Revenue	4,500	1,350	630
Cost of sales	(2,430)	(720)	(270)
Gross profit	2,070	630	360
Admin expenses	(1,350)	(180)	(135)
Finance income	135	90	-
Finance costs	(180)	-	(90)
Profit before tax	675	540	135
Income tax expenses	(225)	(135)	(45)
Profit for the year	450	405	90

Other comprehensive income:			
Gains on property revaluation, net of tax	<u>180</u>	<u>90</u>	<u>45</u>
Total comprehensive income for the year	<u>630</u>	<u>495</u>	<u>135</u>

The following information is also relevant:

- (i) Agbantara Plc. acquired 72 million ordinary shares in Odinma Plc. out of its 120,000,000 ordinary shares of ₦1 each par value for ₦160,000,000. The shares were acquired four years ago when it had ₦15,000,000 credit balance on its retained earnings. During the year, Odinma Plc. sold goods costing ₦38,000,000 to Agbantara Plc. for ₦45,000,000. These goods were yet to be sold as at 31 December, 2014.
- (ii) Agbantara Plc. acquired 35,000,000 ordinary shares in Dangari Limited out of 100,000,000 ordinary shares. The shares were acquired three years ago when the company had a credit balance on its retained earnings of ₦10,000,000.
- (iii) Agbantara Plc's group policy is to measure non-controlling interests (NCI) at fair value. NCI at acquisition date in Odinma Plc. at fair value was ₦48,000,000. Impairment test carried out on the goodwill relating to Odinma Plc. and investment in Dangari Limited at year end resulted in ₦10,000,000 and ₦15,000,000 losses respectively.

You are required to:

Prepare Agbantara Plc. Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December, 2014.

(10 Marks)

(Total 15 Marks)

QUESTION 7

- a. There is usually a lead time between the end of an entity's accounting year and when the financial statements are approved and signed off by the directors. In between this period, there are two types of events according to IAS 10-Events After The Reporting Period, which may require consideration when preparing financial statements.

You are required to:

Identify and explain these events and state how they are treated in the financial statements. (4 Marks)

- b. Company A is indebted to company B to the tune of ₦50,000,000. The financial year-end of company B is 30 June, 2014. On 30 July 2014, company B received a letter from a liquidator advising it that company A has gone into insolvency. The letter revealed that company A ceased operations a month ago and that company B is only likely to receive a liquidation dividend of 20k for every naira owed by company A. It is the normal practice of company B's board to approve the audited financial statements three months after the financial year end.

Required:

- i. Explain how the above transactions should be treated in the financial statements of company B in accordance with IAS 10-Events After The Reporting Period. (2 Marks)
 - ii. Prepare journal entries that are required to adjust company B's financial statements to account for the above event. (2 Marks)
 - iii. State what would have been the treatment in the financial statements assuming it was fire that destroyed company B's factory building on 30 July, 2014. (3 Marks)
- c. The directors of XYZ Plc declared that a dividend of ₦1 per ordinary share be paid to shareholders on the company's register as at 15 April, 2014. The financial statements were approved by the company's board on 30 May, 2014. The shareholders, at the company's annual general meeting held on 15 June, 2014, approved the payment of the dividend to eligible shareholders on 1 July, 2014.

Required:

Explain how the dividend proposed by the Directors should be treated in the financial statements of XYZ Plc in accordance with IAS 10. (4 Marks)

(Total 15 Marks)

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SKILLS LEVEL EXAMINATION - NOVEMBER 2015

FINANCIAL REPORTING

Time Allowed: 3 hours

ANSWER FIVE QUESTIONS IN ALL

SECTION A:

COMPULSORY

(30 Marks)

QUESTION 1

Statement of financial position as at December 31, 2014

	Hapu Plc ₦000	Sege Plc ₦000
Assets		
Non-current assets		
Property, plant and equipment	32,000	25,000
Investments	<u>33,500</u>	<u>—</u>
	65,500	25,000
Current assets		
Cash at bank and in hand	9,500	2,000
Trade receivables	20,000	8,000
Inventory	<u>30,000</u>	<u>18,000</u>
	<u>125,000</u>	<u>53,000</u>
Equity and liabilities		
Share capital	40,000	10,000
Share premium	6,500	—
Retained earnings	<u>55,000</u>	<u>37,000</u>
	101,500	47,000
Current liabilities	<u>23,500</u>	<u>6,000</u>
	<u>125,000</u>	<u>53,000</u>

Statement of profit or loss for the year ended December 31, 2014

	Hapu Plc ₦000	Sege Plc ₦000
Revenue	125,000	117,000
Cost of sales	<u>(65,000)</u>	<u>(64,000)</u>
Gross profit	60,000	53,000
Distribution costs	<u>(21,000)</u>	<u>(14,000)</u>
Administrative expenses	<u>(14,000)</u>	<u>(8,000)</u>
Profit before taxation	25,000	31,000
Income tax expense	<u>(10,000)</u>	<u>(9,000)</u>
Profit for the year	<u>15,000</u>	<u>22,000</u>

Statement of changes in equity (extract) for the year ended December 31, 2014

	Hapu Plc	Sege Plc
	₦000	₦000
Retained earnings brought forward	40,000	15,000
Retained profit for the year	15,000	22,000
Retained earnings carried forward	<u>55,000</u>	<u>37,000</u>

You are given the following additional information.

- (i) Hapu Plc owns 80% of Sege's shares. These were purchased in 2011 for ₦20.5million cash, when the balance on Sege's retained earnings stood at ₦7million.
- (ii) Included in the inventory of Sege Plc at December 31, 2014 were goods purchased from Hapu for ₦3.9million. Hapu aims to earn a profit of 30% on cost. Total sales from Hapu Plc to Sege Plc were ₦6million.
- (iii) Hapu Plc and Sege Plc each proposed a dividend before the year end of ₦2million and ₦2.5million respectively. No accounting entries have yet been made for these.
- (iv) Hapu Plc has carried out annual impairment tests on goodwill in accordance with IFRS 3 and IAS 36. There was no impairment of goodwill.

Required

Prepare the consolidated statement of profit or loss for the year ended December 31, 2014.

Prepare the consolidated statement of financial position at that date.

(30 marks)

SECTION B: ANSWER ANY TWO OUT OF THREE QUESTIONS FROM THIS SECTION**(40 MARKS)****QUESTION 2**

The following trial balance has been extracted from the books of Well-Being Plc as at March 31, 2014.

	₦'000	₦'000
Land at cost	360	
Building at cost	750	
Equipment at cost	588	
Vehicles at cost	852	
Goodwill	900	
Accumulated depreciation:		
At April 1, 2013:		
Buildings		270
Equipment		228
Vehicles		396
Inventory at April 1, 2013	321	
Trade receivables and payables	549	351
Allowance for receivables		24
Bank balances		171
Current taxation		18
Ordinary shares of ₦1 each		600
Retained earnings at April 1, 2013		1,509
Revenue		4,296
Purchases	1,464	
Directors' fees	450	
Wages and salaries	828	
General distribution costs	303	
General administrative expenses	558	
Dividend paid	60	
Rent received		90
Disposal of vehicle		30
	<u>7,983</u>	<u>7,983</u>

The following information is also available:

1. The company's non-depreciable land was valued at ~~₦900,000~~ on March 31, 2014 and this valuation is to be incorporated into the accounts for the year ended March 31, 2014.
2. The company's depreciation policy is as follows:
Building, 4% p.a. straight line
Equipment, 40% p.a. reducing balance
Vehicles, 25% p.a. straight line

In all cases, a full year's depreciation is charged in the year of disposal. None of the assets had been fully depreciated by March 31, 2013.

3. On February 1, 2014, a vehicle used entirely for administrative purposes was sold for ₦30,000. The sale proceeds were banked and credited to a disposal account, but no other entries were made in relation to this disposal. The vehicle had cost ₦132,000 in August 31, 2010. This was the only disposal of a non-current asset made during the year ended March 31, 2014.
4. Depreciation is apportioned as follows:

	Distribution cost	Administrative expenses
Buildings	50%	50%
Equipment	25%	75%
Vehicles	70%	30%

5. The company's inventory at March 31, 2014 is valued at ₦357,000.
6. Trade receivables include a debt of ₦24,000 which is to be written off. The allowance for receivables is to be adjusted to 4% of the receivables which remain after the debt has been written off.
7. Current tax for the year ended March 31, 2013 was over-estimated by ₦18,000. The current tax liability for the year ended March 31, 2014 is estimated to be ₦90,000.
8. One-quarter of wages and salaries, was paid to the distribution staff and the remaining three-quarters were paid to the administrative staff.
9. General administrative expenses include bank overdraft interest of ₦27,000.

Required:

Prepare a statement of profit or loss and other comprehensive income for the year ended March 31, 2014.

(20 Marks)

QUESTION 3

The summarized final accounts of Omosigho Ltd, manufacturer of Aluminum roofing sheets and its accessories for two years ended December 31, 2013 and 2014 were as follows:

<u>Operating results</u>	2014	2013
	2014	2013
	₦'000	₦'000
Revenue	3,364,720	2,750,355
Profit before Interest and taxation	117,060	104,410
Interest payable	12,500	12,500
Taxation	52,530	43,735
Dividend	<u>18,750</u>	<u>17,500</u>
 <u>Statement of financial position:</u>		
Non-current Assets	81,110	34,705
Current Assets:		
Inventories & W.I.P	311,470	260,980
Receivables & prepayments	274,295	250,260
Cash and bank balances	<u>36,170</u>	<u>72,825</u>
	621,935	584,065
Current Liabilities:		
Payables and accruals	<u>268,545</u>	<u>241,770</u>
Net current Assets	<u>353,390</u>	<u>342,295</u>
	<u>434,500</u>	<u>377,000</u>
Financed by:		
62,500,000 ordinary shares of ₦1 each	62,500	62,500
Retained earnings	<u>179,370</u>	<u>148,935</u>
Shareholders' funds	241,870	211,435
10% Loan notes(2020-2032)	125,000	125,000
Deferred taxation	<u>67,630</u>	<u>40,565</u>
	<u>434,500</u>	<u>377,000</u>

The shares of the company were quoted at ₦1.20 at December 31, 2013 and December 31, 2014.

Required

- a. Calculate **TWO** accounting ratios each that will be of interest to the following stakeholders:
- i. Creditors
 - ii. Management
 - iii. Shareholders
- (15 Marks)
- b. Comment briefly on the changes between the ratios arrived at in 2013 and 2014.
- (5 Marks)
(Total 20 Marks)

QUESTION 4

The purpose of IAS 36: Impairment of Assets is to provide entities with guidance to determine whether an asset is impaired and how the impairment should be recognised.

Required:

- a. In assessing whether there is an indication that an asset may be impaired, what factors should an entity consider?
(5 Marks)
- b. The following information relates to individual plant and equipment used by Phonex Nigeria Limited for its telecommunication operations as at December 31, 2014.

	Plant and Equipment	Carrying Amount	Fair Value less cost to sell	Value in use
		₦'000	₦'000	₦'000
1.	Mast	297,500	302,500	285,000
2.	Generators	592,500	517,500	512,500
3.	Computer equipment	287,500	292,500	307,500
4.	Credit card machines	207,500	187,500	197,500
5.	Motor vehicles	77,500	65,000	-

Additional information

- i. The Mast and the Generator are carried at revalued amount and the cumulative revaluation surplus in other comprehensive income for the equipment are ₦30,000,000 and ₦15,000,000 respectively both equipment are field equipment.

- ii. The motor vehicles are buses used for transporting employees in the morning and evening and it is not possible to determine the value in use of the buses separately because the buses do not generate cash inflow from continuing use that are independent of the cash flows from other assets.

Required:

Draft a memo addressed to your boss indicating whether each of the plant and equipment is impaired or not and also explaining how the impairment loss should be treated in the books of Phonex Nigeria Limited as at December 31, 2014.

(15 Marks)

(Total 20 Marks)

SECTION C: ANSWER ANY TWO OUT OF THREE QUESTIONS FROM THIS SECTION (30 MARKS)

QUESTION 5

The trial balance of UDO Plc and its subsidiary, ALOMA Plc as at December 31, 2014 are given below:

	UDO Plc		ALOMA Plc	
	DR	CR	DR	CR
	₦M	₦M	₦M	₦M
Property, Plant & Equipment	260		6,000	
Loan to ALOMA Plc	4,600		-	
Other investments	1,200		-	
Current assets	1,600		278	
₦1 equity shares		400		200
Share premium		1,000		170
Retained earnings		5,800		662
Revaluation surplus		60		-
Loan from UDO Plc		-		4,600
Sundry payables		400		646
	<u>7,660</u>	<u>7,660</u>	<u>6,278</u>	<u>6,278</u>

UDO Plc on January 1, 2014 acquired 75% of the equity of ALOMA Plc for ₦1,300,000,000, when the retained earnings was ₦600million and share premium ₦170million. Neither this transaction nor the loan notes for the same amount obtained to finance the purchase were recorded in the trial balance above.

There had been no impairment in the value of the goodwill, nor a change in share capital since acquisition.

It is the group policy to value the non-controlling interest at the date of acquisition at fair value. The fair value of the non-controlling interest in ALOMA Plc at the date of acquisition was estimated to be ₦160,000,000.

Required:

Prepare the consolidated statement of financial position of UDO Group Plc as at December 31, 2014. (15 Marks)

QUESTION 6

Global Plc is an entity quoted on the Nigerian Stock Exchange.

You are provided with the following set of summarised published financial statements of the company for the year ended September 30, 2014.

Statement of profit or loss and other comprehensive income for the year ended September 30, 2014.

	2014
	₦'000
Revenue	500,000
Cost of sales	<u>(300,000)</u>
Gross profit	200,000
Administrative expenses	(29,000)
Finance cost	<u>(1,000)</u>
Profit before taxation	170,000
Income tax expense	<u>(40,000)</u>
Profit for the period	<u><u>130,000</u></u>

Statement of financial position as at September 30, 2014 together with their comparative figures:

	2014	2013
	₦'000	₦'000
Assets:		
Non-current assets:		
Property, plant and equipment	200,000	220,000
Goodwill	-	10,000
Inventories	100,000	80,000
Trade receivables	75,000	60,000
Bank balances	<u>20,000</u>	<u>5,000</u>
	<u>395,000</u>	<u>375,000</u>
Equity and liabilities:		
Ordinary shares @ ₦1.25k each	10,000	8,000
Retained earnings	<u>250,000</u>	<u>197,000</u>
	<u>260,000</u>	<u>205,000</u>
Non-current liabilities:		
10% loan notes	10,000	-
Current liabilities:		
Trade payables	60,000	90,000
Other payables	20,000	40,000
Taxation	20,000	30,000
Bank overdrafts	<u>25,000</u>	<u>10,000</u>
	<u>135,000</u>	<u>170,000</u>
Total equity and liabilities	<u>395,000</u>	<u>375,000</u>

The following information is relevant:

- During the financial year, the company paid dividend of ~~₦~~87,000,000 to equity holders and this had been accounted for during the year. The current market price of the company is ₦10 per share.
- The company is planning to take a long term loan of ~~₦~~400,000,000 from consortium of banks. The company's financial statements and loan applications have already been submitted to the bank.

Required:

- Prepare the company's statement of cash flows submitted to the bank in accordance with the provisions of IAS 7.
(10 Marks)
- Comment briefly on the cash flow management strategies of Global Plc.

(5 Marks)

(Total 15 Marks)

QUESTION 7

- a. The objectives of IAS 40- Investment Property is to prescribe the accounting treatment and disclosure requirements for investment property. The main issue in accounting for investment properties is to distinguish these properties separately from owner-occupier properties.

Required:

Explain how treatment of an investment property carried at fair value model differs from an owner-occupier property carried under revaluation model.

(5 Marks)

- b. KOLA NITDA Nigeria Plc is a company engaged in the manufacturing of hand sanitizer to prevent Ebola disease. The following information relates to property owned by the company.

	₦'000
Land – Plot 404 Apapa Industrial Area	32,000
Building therein (acquired June 30, 2013)	84,000
Improvement to the building to extend rented floor capacity	16,000
Repairs and maintenance to investment property for the year	2,000
Rental received for the year	6,400

Approximately six percent of the property floor space is used as the administrative head office of the company. The property can be sold only as a complete unit. The remainder of the building is leased out under operating leases. The company provides lessees with security services.

The company values investment property using the fair value model on December 31, 2014 which is the company's year end. Tewogbade & Co. (an independent valuer) valued the property at ₦144,000,000 on that date.

Required:

- i. Advise the Directors of KOLA NITDA Nigeria Plc on how the property should be treated in the financial statements of the company as at December 31, 2014 in order to ensure strict compliance with provisions of IAS 40.
- (5 Marks)
- ii. Calculate the value of investment property that should be disclosed in the statement of financial position as at December 31, 2014 and the amount that should be charged to the statement of profit or loss and other comprehensive income for the period then ended.
- (5 Marks)

(Total 15 Marks)

QUESTION 3

Kalu, a competent consultant and accountant, works in Bosun and Company Limited. The company realised that almost all of its newly employed entry level staff are deficient in business and professional ethics. Consequently, the Human Resources Manager recommended to the CEO that a training programme on business and professional ethics should be organised. Kalu is nominated as a resource person to speak at the training programme.

Required:

- a. How should Kalu explain the nature and importance of business ethics and professional ethics? (6 Marks)
 - b. Advise Kalu on how he should analyse Kohlberg's theory of moral development in an attempt to explain to the trainee participants how people generally develop a sense of morality both in personal and professional life. (10 Marks)
 - c. Discuss any **TWO** of the criticisms of Kohlberg's theory. (4 Marks)
- (Total 20 Marks)**

QUESTION 4

INSURANCE FIRM AT A CROSS ROAD

Toyin Trust Insurance Company is one of the duly registered insurance companies in Nigeria. Ten years after it started operations in 1990, the company had become a household name in the market. Its strengths included timely payment of claims and introduction of quality products that captured changing customers' needs.

At inception, the company was owned one hundred per cent by foreigners. Consequently, five out of the seven directors were expatriates who were insurance practitioners with many years of experience in the global insurance industry. Similarly, most of the customers were either expatriates or foreign owned companies operating in Nigeria.

By year 2000, fundamental changes had occurred with respect to the ownership structure of the company. More than ninety per cent of the equity had been transferred to Nigerian investors. In 2009, the Board of Toyin Trust Insurance Company was dissolved. Chief Gbadamosi, a retired civil servant was appointed as the new Managing Director/CEO. He immediately embarked on a re-organisation of the company. New branches were established and many of the senior level managers were transferred out of the Head Office to manage the new branches. This prompted most of them to resign their appointments.

New staff were employed but they were mostly nominees of the new investors in the company. With in-experienced personnel manning sensitive positions in the company, the quality of services declined, premium collection also dropped by as much as 40%, as key customers moved their businesses to competitors.

Required:

- a. Analyse the strengths of Toyin Trust Insurance Plc before 2000. (5 Marks)
 - b. Analyse the strengths and weaknesses of Toyin Trust Insurance Plc after 2000. (5 Marks)
 - c. Suggest essential strategies to sustain the company – Toyin Trust Insurance Plc. (10 Marks)
- (Total 20 Marks)**

SECTION C: ANSWER ANY TWO OUT OF THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

The owner of ABC Company learnt from a conference he attended and also read in a professional magazine that weak corporate governance accounted for some recent corporate failures in Nigeria. In particular, it was alleged that many members of the board of companies do not have a clear knowledge of the responsibilities and duties of the board.

Required:

The Managing Director will soon address the board and he has requested you to prepare a paper detailing the responsibilities and duties of the board.

(15 Marks)

QUESTION 6

Explain briefly how the following key issues in corporate governance establish how well or badly a company is governed?

- a. The role and responsibilities of the board of directors
- b. The composition and balance of the board of directors
- c. Financial reporting, narrative reporting and auditing
- d. Directors' remuneration
- e. Risk management and internal control

(Total 15 Marks)

QUESTION 7

Ade John is a graduate of XYZ University. For his final project work in the Department of Electronics and Electrical Engineering, he designed a cell-phone that is rugged, cheap, handy and not sophisticated.

During his national service year, he kept toying with the idea of manufacturing the cell-phone. To ascertain that there is a market for the phone, he carried out a series of market surveys among rural farmers, artisans, market women, etc. Each time, he was convinced that a market actually exists for his design.

He also made contact with some manufacturers of cell-phone components. He entered into an agreement with CKT Japan to import cell-phone accessories to enable him assemble them in Nigeria. DAB phone is the first of its kind in the Nigerian market and production and assembly commenced in a small room in his uncle's house at Ikare.

The first batch of phones manufactured by DAB Company was supplied to cell-phone vendors in cities on 'sale or return' basis. To encourage distributors to accept the phones, a 15% margin was allowed. In addition, independent sales persons (hawkers) were given between 10 -12% margin to sell the product. In spite of the low price of DAB phones, demand was disappointing at the end of the first year. Nevertheless, Ade John is still optimistic about the commercial viability of the phone if only he could develop an effective strategy to market the DAB phones.

Required:

- a. Identify and explain TWO reasons for the slow growth of sales of DAB phones.
(4 Marks)
 - b. With the aid of an S-shaped growth curve, evaluate market development of DAB phones.
(6 Marks)
 - c. Recommend the strategies that Ade John can use to improve sales.
(5 Marks)
- (Total 15 Marks)**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA



PATHFINDER

MAY 2016 SKILLS EXAMINATION

Question Papers
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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2016

FINANCIAL REPORTING

Time Allowed: 3hours

ANSWER FIVE OUT OF SEVEN QUESTIONS IN ALL

SECTIONA:

COMPULSORY

(30 MARKS)

QUESTION 1

GBENGANIG Plc. Trial balance as at December 31, 2015 is shown below:

	₦	₦
Revenue		2,290,125
Administrative expenses	237,150	
Selling and distribution expenses	175,200	
Legal and professional expenses	81,150	
Allowance for receivables - 31/12/15		8,625
Inventories –finished goods - 31/12/14	276,750	
Work-in-progress - 31/12/14	49,125	
Inventories – raw materials at cost-31/12/14	162,600	
Purchases – raw materials	1,125,900	
Carriage inwards - raw materials	15,750	
Manufacturing wages	375,000	
Manufacturing overheads	187,500	
Authorised and issued 900,000 ordinary shares of N0.50 each fully paid		450,000
150,000 8.4% cumulative preference shares of N1 each fully paid		150,000
Revaluation surplus		65,000
Share premium		150,000
General reserve		85,000
Retained earnings-31/12/14		425,250
Patents and trademarks	323,250	

Freehold property at cost	375,000	
Leasehold property at cost	112,500	
Amortization of leasehold · property - 31/12/14		22,500
Plant and equipment at cost	225, 000	
Accumulated depreciation – plant and equipment- 31/12/14		102,750
Furniture and fittings at cost	75,000	
Accumulated depreciation – furniture and fittings - 31/12/14		23,625
Motor vehicles at cost	112,500	
Accumulated depreciation – motor vehicles 31/12/14		37,500
10% loan notes		150,000
Trade payables		146,250
Trade receivables	266,445	
Bank overdraft		76,875
Cash	<u>7,680</u>	<u> </u>
	<u>4,183,500</u>	<u>4,183,500</u>

(i) A gain of N20,000 made on the revaluation of old freehold property during the year is yet to be accounted for.

(ii) Inventories at December 31, 2015 were:

	N
Raw materials	168,900
Finished goods	413,025
Work-in-progress	56.700

(iii) Legal and professional expenses include:
Solicitor's fees for purchase of new freehold land during the year N7,500.

(iv) Provision is to be made for the full year's interest on the loan notes.

(v) The leasehold land and buildings – are held on 50years lease, with 40 years unexpired life left as at the end of December 31, 2014.

(vi) Depreciation for the year is to be charged as follows:
 - Plant and equipment 8% on cost – charged to production
 - Furniture and fittings 10% on cost – charged to administration
 - Motor vehicles 20% on carrying amount – charged -25% to administration and 75% to selling and distribution.

(vii) Income tax on the profit for the year is estimated at N68,900 and is due for payment on February 28, 2016.

(viii) Dividend of N2.25k per ordinary share capital is recommended for payment by the directors. No dividend was paid in the previous financial year.

Required:

- a. Prepare the statement of profit or loss and other comprehensive income for the year ended December 31, 2015.
- b. A statement of financial position as at December 31, 2015 in accordance with International Financial Reporting Standards.

(Total 30 Marks)

SECTION B: ANSWER ANY TWO OUT OF THREE QUESTIONS IN THIS SECTION (40 MARKS)

QUESTION 2

- a. A Parent Company acquired 60% equity interest in a subsidiary company for N440million. The market value of the net assets of the subsidiary on acquisition date was N400million. The parent company estimates that the full 100% interest in the subsidiary company would have cost N640million.

Required:

- a. Calculate the goodwill at acquisition date where non-controlling interest is measured:
 - i. As a proportionate share of the net assets of the subsidiary company.
 - ii. At fair value (the full good will method). (5 Marks)
- b. The statement of financial position of PAPA Pie and MAMA Pie as at December 31, 2015 were as follows:-

	PAPA PLC	MAMA PLC
	N'000	N'000
Property Plant & Equipment	9,000	5,000
Investment in MAMA Pie.	5,000	
Other Assets	<u>2,000</u>	<u>1,500</u>
	<u>16,000</u>	<u>6,500</u>
Share Capital	500	500
Retained Earnings	14,500	5,000
Other liabilities	<u>1,000</u>	<u>1,000</u>
	<u>16,000</u>	<u>6,500</u>

PAPA Plc acquired 80% equity interest in MAMA Plc two (2) years ago.

At the date of acquisition MAMA's retained earnings stood at N3million and the fair value of its net assets was N5million. This was ~~N1.5~~ million above the carrying amount of the net assets at this date. The fair value adjustment related to an asset that had a remaining useful economic life of 10 years as at the date of acquisition.

The goodwill arising on consolidation has not suffered any impairment.

Required:

Prepare consolidated statement of financial position of PAPA Pie Group as at December 31, 2015, on the assumption that non-controlling interest is valued at fair value (the full goodwill method). (15 Marks)

N.B: Show all workings. (Total 20 Marks)

QUESTION 3

On October 1, 2015 Panda purchased 75% of the equity shares in Sanda. The acquisition was through a share exchange of two shares in Panda for every three shares in Sanda.

The stock market price of Panda's shares at October1, 2015 was ~~N~~6 per share.

The summarized statements of comprehensive income of the two companies for the year ended March 31, 2016 are:

	Panda N'000	Sanda N'000
Revenue	675,000	360,000
Cost of sales	<u>(390,000)</u>	<u>(165,000)</u>
Gross profit	285,000	195,000
Distribution costs	(35,400)	(18,000)
Administrative expenses	(40,500)	(34,500)
Finance costs	<u>(2,250)</u>	<u>(1,800)</u>
Profit before tax	206,850	140,700
Income tax expense	<u>(72,000)</u>	<u>(41,700)</u>
Profit for the year	<u>134,850</u>	<u>99,900</u>

	Panda N'000	Sanda N'000
Other comprehensive income		
Gain on revaluation of land(note(i))	3,750	1,500
Loss on fair value of equity financial asset	<u>(1,050)</u>	<u>(600)</u>
Investment	<u>2,700</u>	<u>900</u>
Total comprehensive income	<u>137,550</u>	<u>99,900</u>

The following information is relevant:

- (i) The equity of the companies at October 1, 2015 (i.e. just before the share exchange took place) is available:

		Panda	Sanda
		₦'000	₦'000
Equity shares of NI	Each	375,000	240,000
Share premium		150,000	Nil
Revaluation reserve	(land)	12,600	Nil
Retained earnings		135,000	220,500

- (ii) Immediately after the acquisition of Sanda on October 1, 2015, Panda transferred an item of plant with a carrying amount of N4million to Sanda at an agreed value of N7.5million. At this date the plant had a remaining life of two and half years. Panda had included the profit on this transfer as a reduction in its depreciation costs. All depreciation is charged to cost of sales.
- (iii) After the acquisition Sanda sold goods to Panda for N60million. These goods had cost Sand a N45million. N18million of the goods sold remained in Panda's closing inventory.
- (iv) Panda's policy is to value the non-controlling interest of Sanda at the date of acquisition at its fair value which the directors determined to be N150million.
- (v) The goodwill of Sanda has not suffered any impairment.
- (vi) All items in the above statements of comprehensive income are deemed to accrue evenly over the year unless otherwise indicated.

Required:

- a. Show your computation of the amount paid by Panda and the goodwill arising on the acquisition of Sanda on October 1, 2015. (6 Marks)
- b. Prepare the consolidated statement of comprehensive income of Panda for the year ended March 31, 2016. (14 Marks)

(Total 20 Marks)

QUESTION 4

Quintet Plc sells provisions through its stores located in various retail shopping centres in the major cities in Nigeria. It has of recent been experiencing declining profitability and the board is wondering if this development is peculiar to the company or related to the sector as a whole. It is also not clear as regards the company's solvency. As such it has engaged a consulting firm that specializes in analyzing corporate reports producing average ratios across many businesses to rate performance. Below are the ratios that have been provided by the consulting firm for Quintet Plc.'s business sector based on the year end of June 30, 2015.

Debt to equity	38%
Gross profit margin	35%
Operating profit margin	12%
Return on year –end capital employed (ROCE)	16.8%
Net asset turnover	1.4 times
Current ratio	1.25:1
Average inventory turnover	3 times
Trade payables' payment period	64 days

The financial statements of Quintet Plc for the year ended September 30, 2015 are:

Income statement

	N'000	N'000
Revenue		224,000
Opening inventory	33,200	
Purchases	<u>175,600</u>	
	208,800	
Closing inventory	<u>(40,800)</u>	<u>(168,000)</u>
Gross profit		56,000
Operating costs		(39,200)
Finance costs		<u>(3,200)</u>
Profit before tax		13,600
Income tax expense		<u>(4,000)</u>
Profit for the year		<u>9,000</u>

Statement of financial position

	₦'000	₦'000
Assets		
Non-current assets		
Property and shop fittings	102,400	
Deferred development expenditure	20,000	122,400
Current assets		
Inventory	40,800	
Bank	<u>4,000</u>	<u>44,800</u>
Total assets		<u>167,200</u>
Equity and liabilities		
Equity		
Equity shares of ₦1 each		60,000
Property revaluation reserve		12,000
Retained earnings		<u>34,400</u>
		106,400
Non-current liabilities		
10% loan notes		32,000
Current liabilities		
Trade payables	21,600	
Current tax payable	<u>7,200</u>	<u>28,800</u>
Total equity and liabilities		<u>167,200</u>

Note:

- (i) Net asset is defined by the consulting firm as total assets less current liabilities.
- (ii) The deferred development expenditure relates to one off payment for a franchise as a sole distributor of a particular product under negotiation but not yet concluded as at September 30, 2015 although payment has already been made.

Required:

- a. Compute the equivalent ratios for Quintet Plc that have been provided by the consulting firm for the business sector. (9 Marks)
- b. Write a report to the board which assesses the profitability and solvency performance of Quintet Plc in comparison to its business sector averages. For clarity solvency is a measure of liquidity and gearing. (11 Marks)

N.B: Ignore Income Tax (Total 20 Marks)

QUESTION 5

- a. As one of the accountants of Oluwaseun Plc, a company which has migrated to IFRS, you are aware that IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors contains guidance on the use of accounting policies and accounting estimates.

Required:

Explain the basis on which the management of an entity such as Oluwaseun Plc must select its accounting policies and distinguish, with an example, between changes in accounting policies and changes in accounting estimates.

(6 Marks)

- b. The directors of Oluwaseun Pie. Are disappointed by the draft profit for the year ended September 30, 2015. One of your staff, who is an assistant accountant, has suggested one area where he believes the reported profit may be improved, if it is acceptable to the company's management.

Included in the financial statement of Oluwaseun Plc is an item of plant which had cost ₦80million to purchase and installed three years ago on October 1, 2012. It is the policy of Oluwaseun Plc to depreciate this plant on a straight-line basis over a five-year period, assuming anil residual value. The depreciation of the plant has progressed as envisaged, but at the start of the current year (October 1, 2014) the production manager estimated that the plant was likely to last eight years in total from the date of its purchase as against the original five year period upon which current depreciation is based.

The assistant accountant has calculated that, based on an eight-year life (with no residual value) the accumulated depreciation of the plant at September 30, 2015 would be N30million (N80million/8 years x 3). In the financial statements for the year ended September 30, 2014, the accumulated depreciation was 32million (N80million/5 year x 2). Therefore, by adopting an eight-year life, Oluwaseun can avoid making a depreciation charge in the current year and instead N2million (N32million-N30million) from the accumulated depreciation account will be credited to the income statement in the current year to improve the reported profit.

Required:

- i. Comment on the acceptability of the assistant accountant's suggestions. (6 Marks)
 - ii. Illustrate how the suggestions will affect the financial statements of Oluwaseun Plc based on the correct application of the relevant IFRS. (9 Marks)
- (Total 15 Marks)**

QUESTION 6

The statement of financial position extract of Apapta Limited is given as follows:

	2015	2016
	N'000	N'000
Inventories	3,950	3,250
Receivables	2,151	2,675
Investments (Marketable Securities)	430	375
Cash	<u>565</u>	<u>—</u>
	7,460	6,300
Payables amounts due within one year	<u>(3,865)</u>	<u>(3,755)</u>
	<u>3,595</u>	<u>2,545</u>
Payables are analysed as follows: Trade payables	2,600	2,215
Company Income Tax	695	820
Dividend payable	570	540
Bank overdraft	<u>—</u>	<u>180</u>
	<u>3,685</u>	<u>3,755</u>

Its profit or loss account extract is as follows:

Sales	17,795	16,715
Cost of sales	<u>(12,100)</u>	<u>(11,200)</u>
Gross profit	<u>5,695</u>	<u>5,515</u>
Cost of sales is analysed as follows:		
Opening inventory	3,250	3,150
Add: Purchase	12,800	11,300
Less: Closing inventory	<u>(3,950)</u>	<u>(3,250)</u>
	<u>12,100</u>	<u>11,200</u>

In 2014 and 2015, credit sales were 83% of total sales.

Required:

- a. Calculate the working capital cycle for 2015 and 2014. (9 Marks)
- b. Compute the ratios listed below and comment on the company's liquidity over the two years.
 - i. Cash ratio
 - ii. Current ratio
 - iii. Quick ratio

(6 Marks)

(Total 15 Marks)

Question 7

- a. After initial recognition in the Financial Statements, Financial Assets are measured, either at fair value or amortised cost according to the provisions of IAS 39-financial Instruments; Recognition & Measurement.

Required:

Briefly explain how fair value and amortised costs of financial assets are determined and give one example each of the class of financial assets that can be measured using the methods. (6 Marks)

- b. Anifowose Plc issued a debt instrument at it fair value of N100million on January 1, 2013. The debt instrument is to mature in 2017. It has a principal amount of N125million and carries fixed interest rate of 4.72%

that is paid annually. The effective interest rate is 10% and on December 31, 2015 had a fair value of 105 for every ₦10 nominal value.

The company makes up its accounts to December 31, every year.

Required:

- i. Show your computation schedule for the amortised cost of the financial liability up to December 31, 2015 on the assumption that the financial liability is valued at amortised cost.
- ii. What is the value of the financial liability as a December 31, 2015, if the fair value option is adopted by Anifowose Plc? (9 Marks)
(Total 15Marks)



**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF NIGERIA**

PATHFINDER

**NOVEMBER 2016 DIET
SKILLS LEVEL EXAMINATIONS**

Question Papers

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FOREWARD

This issue of the **PATHFINDER** is published principally, in response to a growing demand for an aid to:

- (i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN);
- (ii) Unsuccessful candidates in the identification of those areas in which they lost marks and need to improve their knowledge and presentation;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subject contained herein; and
- (iv) The professional; in improving pre-examinations and screening processes, and thus the professional performance of candidates.

The answers provided in this publication do not exhaust all possible alternative approaches to solving these questions. Efforts had been made to use the methods, which will save much of the scarce examination time. Also, in order to facilitate teaching, questions may be edited so that some principles or their application may be more clearly demonstrated.

It is hoped that the suggested answers will prove to be of tremendous assistance to students and those who assist them in their preparations for the Institute's Examinations.

NOTES

Although these suggested solutions have been published under the Institute's name, they do not represent the views of the Council of the Institute. The suggested solutions are entirely the responsibility of their authors and the Institute will not enter into any correspondence on them.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2016

FINANCIAL REPORTING

Time Allowed: 3 hours

INSTRUCTION: YOU ARE REQUIRED TO ANSWER FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

- a. IFRS 3 on Business Combination permits a non-controlling interest at the date of acquisition to be valued by one of two methods.
- i. At its proportionate share of the subsidiary's identifiable Net Assets or
 - ii. At its Fair Value (usually determined by the directors of the parent Company).

Required:

Explain the difference that the accounting treatment of these alternative methods could have on the Consolidated Financial Statements, including where Consolidated Goodwill may be impaired. (5 Marks)

- b. Harmony Limited acquired 70% interest in the equity shares of Foremost Limited for ₦3,000,000 on January 1, 2015. The abridged Statement of Financial Position of both companies at the date of acquisition were as follows:

	HARMONY LIMITED N'000	FOREMOST LIMITED N'000
Identifiable Assets	32,800	8,000
Investment in Foremost Limited	<u>3,000</u>	<u>—</u>
	<u>35,800</u>	<u>8,000</u>
	N'000	N'000
Equity	24,000	4,800
Identifiable Liabilities	<u>11,800</u>	<u>3,200</u>
	<u>35,800</u>	<u>8,000</u>

The fair value of the identifiable assets of Foremost Limited amounts to ₦11,200,000 and the fair value of its liabilities is ₦3,200,000. The Non-Controlling Interest will be measured as a percentage of the Net Asset of the acquiree.

Required:

Calculate the Gain on Bargain Purchase arising from the acquisition.

(3 Marks)

- c. On January 1, 2016 Kehinde Plc acquired 45million of the Equity shares of Taiwo Plc in a share exchange in which Kehinde Plc issued two (2) new shares for every three (3) shares it acquired in Taiwo Plc. This gave Kehinde Plc a holding of 90%, additionally on 31 December, 2016, Kehinde Plc will pay shareholders of Taiwo Plc ₦1.76 per share acquired. Kehinde Plc cost of capital is 10% per annum.

At the date of acquisition, the shares in Kehinde Plc and Taiwo Plc had a market price of ₦6.50 and ₦2.50 respectively.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	KEHINDE PLC N'000	TAIWO PLC N'000
Revenue	323,000	190,000
Cost of Sales	<u>(256,000)</u>	<u>(130,000)</u>
Gross Profit	67,000	60,000
Distribution Cost	(8,000)	(9,000)
Administrative Expenses	(19,000)	(12,000)
Investment Income	2,500	-
Finance Cost	<u>(2,100)</u>	<u>-</u>
Profit before Tax	40,400	39,000
Income Tax Expenses	<u>(14,000)</u>	<u>(8,000)</u>
Profit for the year	<u><u>26,400</u></u>	<u><u>31,000</u></u>
 <u>Equity as at October 1, 2015</u>		
Share Capital(₦1 per share)	300,000	75,000
Retained Earnings	<u><u>270,000</u></u>	<u><u>175,000</u></u>

The following additional information is also relevant:

- (i) At the date of acquisition the Fair Value of Taiwo Plc's assets and liabilities were equal to their carrying amount with the exception of two items:
 - An item of plant had a fair value of ₦9million above the carrying amount. The remaining life of the plant at the date of acquisition was three (3) years. Depreciation is charged to cost of sales.
 - Taiwo Plc had a contingent liability which Kehinde Plc estimated to have a fair value of ₦2.25million. This has not changed as at September 30, 2016.
 - Taiwo Plc has not incorporated this fair value changes into its financial statements.
- (ii) It is Kehinde Plc's policy to value non-controlling interest at fair value at the date of acquisition. For this purpose, Taiwo Plc share price at the date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.
- (iii) Sales from Kehinde Plc to Taiwo Plc throughout the year ended September 30, 2016 had consistently been ₦4million per month. Kehinde Plc made a mark-up of 25% on these sales. Taiwo Plc had ₦7.5million of these goods in inventory as at September 30, 2016.
- (iv) Kehinde Plc's investment income is a dividend received from its investment in a 40% owned associates which it has held for several years. The underlying earnings of the associate for the year ended September 30, 2016 were ₦10million.
- (v) Although Taiwo Plc has been profitable since its acquisition by Kehinde Plc, the market for Taiwo Plc's product has been badly hit in recent months and Kehinde Plc has calculated that the goodwill has been impaired by ₦10million as at September 30, 2016.

Required:

- (i) Calculate the goodwill on acquisition of Taiwo Plc. (7 Marks)
 - (ii) Prepare the Consolidated Statement of Profit or Loss and Other Comprehensive Income for Kehinde Plc group for the year ended September 30, 2016. (15 Marks)
- (Total 30 Marks)**

**SECTION B: YOU ARE REQUIRED TO ANSWER ANY TWO OUT OF THREE
QUESTION IN THIS SECTION (40 MARKS)**

QUESTION 2

- a. Conceptual framework for reporting emphasises the importance that transactions should be recorded on the basis of their substance over their form. Explain the importance of substance over form and why financial statements should show the substance of the underlying transaction different from its legal form. 4 Marks)
- b. Evaluate the conceptual issues involved in product development costs and the definition of an asset that may be applied in determining whether development expenditure should be treated as an expense or an asset. (5 Marks)
- c. i. The conceptual framework states that there are two concepts of capital. Explain these two concepts. (4 Marks)
- ii. Perfect World Limited commenced business on January 1, 2015 with a single item of inventory which costs ₦120,000. During the year it sold the item for ₦180,000 in cash. Also, during the year, general inflation was 10% but the inflation specific to the item was 12%. Calculate the profit under each concept of capital maintenance and show the effect on the Equity of the Company. (7 Marks)
- (Total 20 Marks)**

QUESTION 3

Magifera Plc had been trading in merchandise for several years in Garden City. The information below relates to extracts from the Financial Statements for the past two (2) years.

Statement of Profit or Loss and Other Comprehensive Income for the year ended September 30:

	2016	2015
	₦' Million	₦' Million
Revenue	<u>100,000</u>	<u>160,000</u>
Gross Profit	45,000	70,000
Administrative Expenses	22,500	27,500

Finance Cost:		
10% Loan Note Interest	<u>1,250</u>	<u>1,250</u>
	<u>23,750</u>	<u>28,750</u>
Operating Profit Before Tax	21,250	41,250
Less: Taxation Expense	<u>8,000</u>	<u>16,000</u>
Operating Profit for the year	<u>13,250</u>	<u>25,250</u>
Dividends Paid to Equity holders	6,050	8,550

Extract of Statement of Financial Position as at September 30

	2016	2015
	₦'Million	₦'Million
<u>Assets:</u>		
Non - Current Assets at Cost	50,000	70,000
Less: Accumulated Depreciation	<u>10,000</u>	<u>12,500</u>
Carrying Amount	<u>40,000</u>	<u>57,500</u>
<u>Current Assets:</u>		
Inventory	32,500	7,500
Trade Receivables	20,000	5,000
Bank Balance	<u>4,000</u>	<u>37,500</u>
	<u>56,500</u>	<u>50,000</u>
Total Assets	<u>96,500</u>	<u>107,500</u>
<u>Equity and Liabilities:</u>		
Ordinary Share Capital @ 50k each	23,000	23,000
Retained Earnings	17,200	10,000
10% Loan notes	12,500	12,500
10% Redeemable Preference Shares	<u>—</u>	<u>2,000</u>
	<u>52,700</u>	<u>47,500</u>
<u>Current Liabilities:</u>		
Trade Payables	7,500	10,750
Taxation	24,000	16,000
Bank Overdrafts	<u>12,300</u>	<u>33,250</u>
	<u>43,800</u>	<u>60,000</u>
Total Equity and Liabilities	<u>96,500</u>	<u>107,500</u>

The Board of Directors were worried over the dwindling financial performance and precarious financial position of the company. The products are ageing; the economic depression is biting as a result of the worsening exchange rate of \$1 to ₦400. The company imports 60% of the goods sold in Garden City. The worsening exchange rate had affected the company's importation, consequently the revenue of the company dropped significantly. The unsafe financial performance has also affected the market

price of the company's share which dropped from 12kobo/share in the year ended September 30, 2015 to 8kobo/share in 2016.

You are required to:

- a. Calculate the following ratios for the year ended September 30, 2015 and 2016 in columnar form:
- i. Return on Capital Employed
 - ii. Total Assets Turnover
 - iii. Quick Ratio
 - iv. Debt- Equity Ratio
 - v. Fixed Interest Cover
 - vi. Earnings Yield
 - vii. Price Earnings Ratio
 - viii. Dividend Yield
- (12 Marks)
- b. Write a brief and formal technical report to the Board of Directors to assess the performance, liquidity and stability of the Company using only:
- i. Return on Capital Employed
 - ii. Total Assets Turnover
 - iii. Quick Ratio
 - iv. Fixed Interest Cover
 - v. Debt Equity Ratio
- (8 Marks)
(Total 20 Marks)

Hint: Brevity, technical and formal report presentations are essential and will be rewarded.

QUESTION 4

The summarised Financial Statements for the year ended March 31, 2016 of Perfect World Plc are as follows:

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED MARCH 31, 2016

	₦'m
Revenue	19,350
Cost of Sales	<u>(9,000)</u>
Gross Profit	10,350
Operating Expenses	(4,500)
Finance Costs	<u>(1,125)</u>
Profit Before Tax	4,725
Income Tax Expense	<u>(2,025)</u>
Profit for the year	<u><u>2,700</u></u>

STATEMENT OF FINANCIAL POSITION AS AT MARCH 31

	2016	2015
	₦'m	₦'m
Non-Current Assets:		
Property, Plant & Equipment	18,900	16,650
Current Assets		
Inventories	6,750	7,200
Trade Receivables	<u>9,900</u>	<u>8,100</u>
	<u>16,650</u>	<u>15,300</u>
Total Assets	<u><u>35,550</u></u>	<u><u>31,950</u></u>
Equity		
Share Capital	5,400	5,400
Retained Earnings	<u>9,900</u>	<u>8,550</u>
	<u>15,300</u>	<u>13,950</u>
Non-Current Liabilities		
Deferred Tax	4,815	3,825
Financial Lease Liabilities	<u>5,850</u>	<u>5,400</u>
	<u>10,665</u>	<u>9,225</u>
Current Liabilities		
Trade Payables	5,625	4,905
Current Tax	1,013	923
Finance Lease Obligation	2,250	2,025
Bank Overdraft	<u>697</u>	<u>922</u>
	<u>9,585</u>	<u>8,775</u>
Total Equity & Liabilities	<u><u>35,550</u></u>	<u><u>31,950</u></u>

Additional Information include:

- (i) Dividend paid during the year amounted to ~~₦~~1,350million.
- (ii) Perfect World Plc finances a number (but not all) of its property plant and equipment purchased using finance lease. During the period, property, plant and equipment which would have cost ~~₦~~2,700million to purchase outright was acquired under finance lease.
- (iii) There was no accrual of interest at the beginning or at the end of the year.
- (iv) Depreciation charged for the year totalled ~~₦~~4,365million. There were no disposals of property, plant and equipment during the year.

Required:

- a. Prepare the statement of cashflows of Perfect World Plc for the year ended March 31, 2016 using indirect method. (14 Marks)
 - b. Draft a Memo to the Director of Perfect World Plc summarising the major benefits that users receive from a published statement of cashflows. (6 Marks)
- (Total 20 Marks)**

SECTION C: YOU ARE REQUIRED TO ANSWER ANY TWO OUT OF THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

- a. In many Countries of the world, Government provides financial assistance to industry in the form of grants. In accordance with IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance.

Explain the term:

- i. Grant related to Assets (2 Marks)
 - ii. Grant related to Income (2 Marks)
- b. Prospect Nigeria Plc obtained a grant of ~~₦~~100million from the Federal Government of Nigeria (FGN) for an investment project to construct a plant costing ~~₦~~880million.

The principal terms of the grant are as follows:

- Grant payment will be made subject to attaining the minimum level of the plant expenditure.
- The secondary intention of the grant is to safeguard 500 jobs.
- The grant will have to be repaid pro-rata if there is an under spending on capital.
- Twenty percent (20%) of the grant will have to be paid if the jobs are not safeguarded until 18 months after the date of the cost of capital expenditure.

Prospect Nigeria Plc completed the construction of plant on January 1, 2013 at a total cost of ₦900million. The plant has an expected useful life of 20 years and is depreciated on a straight line basis with no residual value.

Required:

- i. State the type of grant that Prospect Nigeria Plc has obtained giving reasons for your answer. (3 Marks)
- ii. Show how the Asset and the grant would be reflected in the Statement of Financial Position and Statement of Profit or Loss for years ended December 31, 2013; 2014 and 2015 under both methods of Accounting for Grants allowed by IAS 20. (8 Marks)

(Total 15 Marks)

QUESTION 6

- a. Identify the **TWO** kinds of leases stipulated in IAS 17 and compare in tabular form with at least **FIVE** differences. (7 Marks)
- c. Ijaw Oil Plc has entered into agreement to lease a plant and equipment from Ogoni Leasing Company Limited. The lease period of the plant and equipment is six (6) years. The agreement provides that Ogoni Leasing Company Limited will incur upkeep expenses. The cost of the plant and equipment is ₦900,000,000,000. The economic useful life is 20 years. Ijaw Oil Plc is to pay annual lease rentals of ₦150,000,000 in advance over 6 years after which the plant and equipment revert to the lessor. The implicit interest rate is 22% per annum which is stated below:

Year	0	1	2	3	4	5	6
PV(N1)	1.0000	0.8197	0.6719	0.5507	0.4514	0.3700	0.3033

You are required to:

- i. Calculate the present value of the lease rental of the equipment. (4 Marks)
 - ii. Identify with justification the kind of lease involved (3 Marks)
 - iii. Advise on how to treat the lease rentals paid by Ijaw Oil Plc. in the financial statements (1 Mark)
- (Total 15 Marks)**

QUESTION 7

Alpha Plc started a 4-year contract to build a dam. Activities commenced on February 1, 2015. The total contract price amounted to ~~₦~~30billion, and it was estimated that work would be completed at a total cost of ~~₦~~23.75billion. In the construction agreement, the customer agreed to accept increase in wages tariffs in addition to the contract price.

The following information relates to contract activities for the financial year ended December 31, 2015.

- (1) Cost for the year:

	₦'million
Material	3,500
Labour	2,000
Operating Overheads	375
Subcontractors	450

- (2) Current estimate of total contract costs indicate the following:

- i. Material will be ~~₦~~450million higher than expected.
- ii. Total labour cost will be ~~₦~~750million higher than expected. Of this amount only ~~₦~~600million will be the result of increase in wage tariffs. The remainder will be caused by inefficiencies.
- iii. A savings of ~~₦~~75million is expected on operating overheads.

- (3) During the year ended December 31 2015 the customer requested a variation to the original contract and it was agreed that the contract price would be increased by ~~₦~~2.250billion. The total estimated cost of this extra work is ~~₦~~1.875billion.

- (4) By the end of year 2015, certificate issued by the quantity surveyors indicated a 25% stage of completion.

Required:

- a. Calculate the profit to date based on:
 - i. Option A – Contract cost in proportion to estimated contract costs. (6 Marks)
 - ii. Option B – Percentage of work certified. (6 Marks)
 - b. Briefly explain **TWO** methods recognized by IAS 11 which can be used to determine the stage of completion of any contract. (3 Marks)
- (Total 15 Marks)**



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**MAY 2017 DIET
SKILLS LEVEL EXAMINATIONS**

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FOREWARD

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- (i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN);
- (ii) Unsuccessful candidates in the identification of those areas in which they lost marks and need to improve their knowledge and presentation;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subject contained herein; and
- (iv) The professional; in improving pre-examinations and screening processes, and thus the professional performance of candidates.

The answers provided in this publication do not exhaust all possible alternative approaches to solving these questions. Efforts had been made to use the methods, which will save much of the scarce examination time. Also, in order to facilitate teaching, questions may be edited so that some principles or their application may be more clearly demonstrated.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2017

FINANCIAL REPORTING

Time Allowed: 3 hours

INSTRUCTION: YOU ARE REQUIRED TO ANSWER FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

1. The following information relates to financial statements included in the annual report of Bello Professional Nigeria Limited.

Summarised Statement of Profit or Loss for the year ended March 31

	2015	2014
	₦'000	₦'000
Revenue	412,500	300,000
Cost of sales	<u>(328,500)</u>	<u>(187,500)</u>
Gross profit	84,000	112,500
Operating expenses	(90,000)	(45,000)
Finance expenses	<u>(7,500)</u>	<u>(4,500)</u>
Profit/(loss) before tax	(13,500)	63,000
Income tax credit/(expense)	<u>5,250</u>	<u>(21,000)</u>
Profit/(loss) for the year	<u><u>(8,250)</u></u>	<u><u>42,000</u></u>

Summarised Statement of Financial Position as at March 31

	2015	2014
	₦'000	₦'000
ASSETS:		
Non-current assets		
Property, plant & equipment	142,500	191,250
Current assets:		
Inventories	93,750	34,500
Trade receivables	33,750	15,000
Sundry receivables	3,750	-
Bank balance	<u>-</u>	<u>11,250</u>
Total assets	<u><u>273,750</u></u>	<u><u>252,000</u></u>

	2015 N'000	2014 N'000
EQUITY & LIABILITIES		
Equity		
Ordinary shares of N1 each	75,000	60,000
Share premium	24,000	30,000
Retained earnings	<u>33,750</u>	<u>47,250</u>
	<u>132,750</u>	<u>137,250</u>
Non-current liabilities:		
10% loan notes	-	37,500
Finance lease obligations	36,000	15,000
Deferred tax liabilities	<u>9,000</u>	<u>6,000</u>
	<u>45,000</u>	<u>58,500</u>
Current liabilities:		
10% loan notes	37,500	-
Current income tax	-	18,750
Bank overdraft	10,500	-
Finance lease obligation	12,750	6,000
Trade payables	<u>35,250</u>	<u>31,500</u>
	<u>96,000</u>	<u>56,250</u>
Total equity and liabilities	<u>273,750</u>	<u>252,000</u>

The following additional information is also available:

- (i) The finance expenses are made up of the following items:

	2015 N'000	2014 N'000
Loan notes interest	3,750	3,750
Finance lease charges	2,250	750
Interest on overdraft	<u>1,500</u>	<u>-</u>
	<u>7,500</u>	<u>4,500</u>

- (ii) The property, plant and equipment schedule included in the notes to the financial statements contained in the report are as follows:

	2015 N'000	2014 N'000
Leased plant	48,750	18,750
Leasehold plant	-	66,000
Owned plant	<u>93,750</u>	<u>106,500</u>
	<u>142,500</u>	<u>191,250</u>

During the year Bello Professional Nigeria Limited sold its leasehold plant for ₦63.75million and entered into an agreement to rent it back from the purchaser. There were no additions to or disposals of owned Plant during the year. The depreciation charges which are included in the cost of sales for the year ended 31 March 2015 were as follows:

	₦'000
Leased plant	13,500
Leasehold plant	1,500
Owned plant	<u>12,750</u>
	<u>27,750</u>

- (iii) On August 1 2014 there was a bonus issue of shares from share premium of one new share for every 10 held on May 1 2014. There was a fully subscribed cash issue of shares at par as at March 31, 2015
- (iv) The 10% loan notes is due for repayment on June 30, 2016. Bello Professional Nigeria Limited is in negotiation with the loan providers, Accrual Bank Plc.

Required:

- a. Prepare a statement of cashflow for Bello Professional Nigeria Limited for the year ended March 31, 2015 in accordance with IAS 7 using indirect method. (18 Marks)
- b. One of the directors present at the annual general meeting of Bello Professional Nigeria limited where the financial statements were laid before members was of the view that direct method of preparing cashflow is more useful and provides better information to users than the indirect method.

Comment on the director's view stating whether you agree or not, giving reasons for your opinion. (7 Marks)

- c. IAS 7 – Statement of cashflow allows some variation in the ways that the cashflow for interests and dividends are presented in the statement.

Explain the various ways of classifying the following items in a Statement of cashflow as permitted by IAS 7.

- i. Interests paid
- ii. Dividends received

(5 Marks)

(Total 30 Marks)

**SECTION B: YOU ARE REQUIRED TO ANSWER ANY TWO OUT OF THREE QUESTIONS
IN THIS SECTION (40 MARKS)**

QUESTION 2

Abuja Limited acquired 80% of Abaji Limited's ordinary shares on January 1 2015. The company paid an immediate ₦5.00 per share and a further payment of ₦19,440,000 in cash. The company only recorded the cash consideration of ₦5 per share. The two statements of financial position as at December 31 2015 are stated below:

	Abuja Limited ₦'000	Abaji Limited ₦'000
Non- current assets:		
Property, plant and equipment	75,600	57,600
Development costs	-	7,200
Investment	68,400	3,600
Current assets	<u>23,940</u>	<u>16,380</u>
Total assets	<u>167,940</u>	<u>84,780</u>
Equity and liabilities:		
Ordinary shares of ₦1 each	48,600	14,400
Share premium	14,400	7,200
Revaluation reserve	8,100	-
Retained earnings:		
January 1 2015	28,800	24,120
Year to December 31 2015	34,200	13,680
Non-current liability		
8% intercompany loan	-	10,800
Current liability	<u>33,840</u>	<u>14,580</u>
Total equity & liabilities	<u>167,940</u>	<u>84,780</u>

Additional information provided are:

- (i) The parent company, Abuja Limited, value non-controlling interests (NCI) using the fair value at the acquisition date. The fair value of NCI at the acquisition date was ₦14,940,000. There is an impairment as at December 31 2015 resulting in the reduction of NCI to ₦14,220,000.

- (ii) Abaji Limited revalued land and building using fair value which resulted in an increase of ₦3,600,000 at the acquisition date and a further ₦720,000 at December 31, 2015.
- (iii) Abaji Limited have line of products with a brand name valued at ₦7,200,000 with an estimated life of 10 years as at 1 January 2015. The brand is not included in Abaji statement of financial position on this date.
- (iv) A loan of ₦10,800,000 from Abuja Limited granted to Abaji Limited at acquisition date was included in Abuja Limited investment. Loan interest is payable annually in arrears. Abuja Limited did not receive the interest due and paid by Abaji for the year ended December 31, 2015 until after the year end. Therefore Abuja Limited has not accounted for the Abaji accrued interest.
- (v) The development project of Abaji Limited was completed on June 30, 2015 at a cost of ₦9,000,000. As at December 31, 2015, ₦1,800,000 had been amortised. Abaji Limited had capitalised ₦3,240,000 at the acquisition date. However, the directors of Abuja Limited are of the opinion that Abaji Limited development costs cannot be recognised as an asset because it does not meet the requirement in IAS 38.
- (vi) Abuja Limited bought goods from Abaji Limited. One third of the goods were still in the inventory of Abuja Limited at December 31, 2015. The goods was sold to Abuja Limited at a profit of ₦1,080,000.

Required:

Provide figures to be included in the consolidated statement of financial position as at December 31 2015 in respect of the following:

- a. Non- controlling interest (7 Marks)
- b. Goodwill (7 Marks)
(show your calculations of net assets as at date of acquisition and date of consolidation)
- c. Consolidated reserves:
 - i. Share premium
 - ii. Retained earnings
 - iii. Revaluation reserve (6 Marks)

(Show your workings) **(Total 20 Marks)**

NB. You are not required to prepare a consolidated statement of financial position as at December 31 2015

QUESTION 3

You are a financial reporting consultant. The management of Bode Limited a well-diversified company with branches in all states of the federation has some transactions for which it requires advice from you. Bode Limited has a financial accountant who is not yet a qualified accountant.

These transactions are as listed below:

- (a) The company recognised a cash generating unit during the year ended December 31, 2015 which is made up of the following assets.

	Costs
	N'm
Property, plant and equipment	4,050
Goodwill	450
Other assets	<u>2,700</u>
	<u><u>7,200</u></u>

The management of Bode Limited estimated that the recoverable amount of the cash generating unit as at the end of the year will be ₦6.30billion.

The financial accountant of Bode Limited is aware of some of the provisions of IAS 36 on impairment of assets but he is confused as to how impairment (if any) on these assets should be allocated among the assets that make up the cash generating unit of the company.

- (b) Also, on January 1, 2015 Bode Limited borrowed ₦300million to finance the production of two assets both of which were expected to take one year to build.

The work started on January 1, 2015. The loan facility was drawn down on the same day and was utilised as follows with the remaining funds invested temporarily.

	Asset X	Asset Y
	N'000	N'000
January 1, 2015	50,000	100,000
July 1, 2015	50,000	100,000

The loan interest rate is 9% per annum and Bode Limited can invest surplus funds at 7% per annum.

The financial accountant is not certain as to how these assets (X and Y) should be accounted for in the financial statement of Bode Limited as at December 31, 2015.

- (c) The company owns a building which it has been using as head office in Abuja. In order to reduce cost, the company's management on June 30, 2015 decided to move the head office to the branch office at Abuja and has now let out its head office building.

The company's accounting policy is to use fair value model for Investment Property.

The head office building had an original cost on January 1, 2006 of ~~₦~~37.5million and was being depreciated over 50 years. As at December 31, 2015 the fair value of the head office building was assessed by an independent valuer to be ~~₦~~52.5million.

The financial accountant is confused as to how these transactions should be treated in the financial statements of the company.

Required:

Write a memo to the management of Bode Limited explaining how these transactions should be accounted for in their financial statements. Provide relevant calculations where necessary. **(Total 20 Marks)**

QUESTION 4

- a. Explain the following, stating their importance to investors in the evaluation of financial performance:
- i. Earnings per share (EPS)
 - ii. Price earnings ratio (PE-ratio) **(6 Marks)**
- b. The issued and fully paid share capital of Almond Nigeria Limited which has remained unchanged since the date of incorporation until the financial year ended March 31, 2015 include the following:
- (i) 2,400,000,000 ordinary shares
 - (ii) 600,000,000 6% participating preference share of ₦1 each.

The company has been operating at a profit for a number of years. As a result of a very conservative dividend policy in the previous years, there is a large accumulated profit balance on the statement of financial position.

On July 1, 2015, the directors decided to issue to all ordinary shareholders two bonus shares for every one previously held.

The following is the extract of group statement of profit or loss and other comprehensive income for the year ended March 31, 2016.

Almond Nigeria Limited
Extract of Group Statement of Profit or Loss and other Comprehensive
Income for the year ended March 31, 2016

	2016	2015
	N'000	N'000
Profit for the year	740,000	540,000
Other comprehensive income	<u>--</u>	<u>(20,000)</u>
Total comprehensive income	<u>740,000</u>	<u>520,000</u>
Total comprehensive income attributable to:		
Owners of parent	680,000	480,000
Non-controlling interest	<u>60,000</u>	<u>40,000</u>
	<u>740,000</u>	<u>520,000</u>

The following dividend have been paid or declared at the end of the period.

	2016	2015
	N'000	N'000
Ordinary	330,000	240,000
Preference	<u>69,000</u>	<u>60,000</u>

The participating preference shareholders are entitled to share profit in the same ratio in which they share dividends after payment of fixed preference dividend. The preference shareholders will share the same benefit as the ordinary shareholders of the company should the company be liquidated.

Required:

- i. Calculate the earnings per share (EPS) in accordance with IAS 33 and the dividend per share (DPS) for the year ended March 31, 2015 and 2016. (10 Marks)
 - ii. What are the limitations of earnings per share (EPS) as a measure of a company's performance? (4 Marks)
- (Total 20 Marks)**

**SECTION C: YOU ARE REQUIRED TO ANSWER ANY TWO OUT OF THREE QUESTIONS
IN THIS SECTION (30 MARKS)**

QUESTION 5

The difference between debt and equity in an entity's statement of financial position is not easily distinguishable for preparers of financial statements. Debts and equity financial instruments may have similar characteristics, which may lead to inconsistency of reporting.

Required:

- a. Discuss the main distinguishing features in the presentation of debt and equity under International Financial Reporting Standards (IFRS) with clear examples. (10 Marks)
- b. Explain why it is important for entities to understand the impact of the classification of a financial instrument as debt or equity in the financial statement. (5 Marks)

(Total 15 Marks)

QUESTION 6

- a. IFRS 5 - Non-Current Assets Held For Sale and Discontinued Operations set out requirements that specify the accounting treatment for assets held for sale and the presentation and disclosure of discontinued operations.

Required

Explain the conditions that must apply at the reporting date for an asset (or disposal group) to be classified as held for sale and how the assets can be measured. (5 Marks)

- b.
 - i. Explain how impairment of asset should be identified and accounted for at the end of a reporting period. (4 Marks)
 - ii. A company has decided to dispose off a group of its assets. The carrying amounts of the assets immediately before the classification as held for sale were as follows:-

	₹
Goodwill	800,000
Property, plant and equipment (at revalued amounts)	3,050,000
Property, plant and equipment (at cost)	3,200,000
Inventory	840,000
Other current assets	<u>700,000</u>
Total	<u>8,590,000</u>

The company estimates that the “fair value less cost to sell” of the disposal group is ₦6,400,000.

Required:

Calculate the impairment loss and its allocation to the non-current assets in the disposal group. (6 Marks)

(Total 15 Marks)

QUESTION 7

- a. IAS – 37 applies to all provisions and contingencies apart from those covered by the specific requirement of other standards.

Therefore provisions differ from other liabilities because there is uncertainty about timing or amount of the future cashflow required to settle the liability.

Required:

Explain the criteria for recognition of provisions in the financial statements and distinguish between provisions and contingent liabilities. (6 Marks)

- b. The following activities took place in **THREE** different companies:

(i) Otapiapia Plc a Rat Trap Company based in Nigeria has just secured exportation of rat killers to South Africa. The advertising slogan of the rat killers is “**KILL the BLACKS**”. A South African anti-racist movement with representative in Nigeria is claiming ₦15,000,000 from the company as damages because the advertising slogan allegedly compromises the dignity of black people. The company’s legal representative believes that the success of the claim will depend on the judge who presides over the case. They estimate however, that there is a 70 percent probability that the claim will be thrown out and a 30 percent probability that it will succeed.

(ii) Ire-Akari Motors Plc is a Nigerian company that specialises in the manufacture of “made-in-Nigeria cars”.

During the current financial year 100 cars have been completed and sold. During the testing of the cars a defect was found in their steering mechanism.

All the 100 customers that bought the cars were duly informed of the defect and were told to bring their cars back to have the defects repaired at no cost. All the customers have indicated that this is the only remedy they require. The estimated cost of the recall is ₦10.5m.

The manufacturer of the steering mechanism, a quoted company with sufficient fund has accepted responsibility for the defect and has undertaken to reimburse Ire-Akari Motors Plc all cost that it might incur in this regard.

- (iii) Abeokuta Electricity Company Plc sold a number of electricity transformers with a warranty in the year ended December 31, 2015. At the beginning of the year the provisions for warranty stood at ₦5,625,000.

A number of claims have been settled during the period for ₦3,000,000.

As at the year-end there were unsettled claims for 300 customers. Experience is that 40% of the claims submitted do not fulfil warranty conditions and can be defended at no cost. The average cost of settling other claims will be ₦52,500 each.

Required:

Explain how the matters in b(i) to b(iii) above should be accounted for in the financial statements of the three companies using figures to illustrate your points where appropriate.

(9 Marks)

(Total 15 Marks)



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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION - NOVEMBER 2017

FINANCIAL REPORTING

Time Allowed: 3¼ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

On April 1, 2017 Higherhigher Limited acquired 60% of the equity share capital of Lowerlower Limited in a share exchange of two shares in Higherhigher for three shares in Lowerlower. The issue of shares has not yet been recorded by Higherhigher Limited. At the date of acquisition, shares in Higherhigher had a market value of ₦6 each.

Below is the summarised draft financial statements of both companies.

Statement of Profit or Loss and other Comprehensive Income for the year ended September 30, 2017

	Higherhigher Limited ₦'000	Lowerlower Limited ₦'000
Revenue	2,720,000	1,344,000
Cost of sales	<u>(2,016,000)</u>	<u>(1,024,000)</u>
Gross profit	704,000	320,000
Distribution costs	(64,000)	(64,000)
Administrative expenses	(192,000)	(102,400)
Finance costs	<u>(9,600)</u>	<u>(12,800)</u>
Profit before tax	438,400	140,800
Income tax expense	<u>(150,400)</u>	<u>(44,800)</u>
Profit for the year	<u>288,000</u>	<u>96,000</u>

Statement of Financial Position as at September 30, 2017

Higherhigher

Lowerlower

	Limited	Limited
	₦'000	₦'000
Assets		
Non-current assets:		
Property, Plant & Equipment	1,299,200	403,200
Current assets	<u>512,000</u>	<u>211,200</u>
Total Assets	<u>1,811,200</u>	<u>614,400</u>
Equity & Liabilities		
Equity shares of ₦1 each	320,000	128,000
Retained earnings	<u>1,132,800</u>	<u>208,000</u>
	1,452,800	336,000
Non-current liabilities		
10% Loan notes	96,000	128,000
Current liabilities	<u>262,400</u>	<u>150,400</u>
Total equities and Liabilities	<u>1,811,200</u>	<u>614,400</u>

The following information is relevant:

- (1) At the date of acquisition, the fair value of Lowerlower Limited's assets was equal to their carrying amounts with the exception of an item of plant which had a fair value of ₦64m in excess of the carrying amount and had a remaining life of five years at that date; using straight line depreciation method. Lowerlower Limited has not adjusted the carrying amount of its plant as a result of the fair value exercise.
- (2) Sales from Lowerlower Limited to Higherhigher Limited in the post-acquisition period were ₦256m. Lowerlower Limited made a mark-up on cost of 40% on these sales. Higherhigher Limited had sold ₦166.4m (at cost to Higherhigher Limited) of these goods by September 30, 2017.
- (3) Other than where indicated, profit or loss items are deemed to accrue evenly on a time basis.
- (4) Lowerlower Limited trade receivables at September 30, 2017 include ₦19.2m due from Higherhigher Limited which did not agree with Higherhigher Limited's corresponding trade payables. This was due to cash in transit of ₦6.4m from Higherhigher Limited to Lowerlower Limited. Both companies have positive bank balances.
- (5) Higherhigher Limited has a policy of accounting for any non-controlling interest at fair value. For this purpose fair value of the goodwill attributable to the non-controlling interest in Lowerlower Limited is ₦48m. The consolidated goodwill was not impaired as at September 30, 2017.

You are required to prepare:

- a. Consolidated statement of profit or loss and other comprehensive income for the period ended September 30, 2017 (10 Marks)
- b. Consolidated statement of financial position as at

(20 Marks)
(Total 30 Marks)

QUESTION 2

	DR	CR
	N'000	N'000
Revenue		185,000
Production costs	103,500	
Inventory at October 1, 2016	17,375	
Distribution costs	13,500	
Administration expenses	18,250	
Loan Interest expenses	3,000	
Land at valuation	131,250	
Building – cost	100,000	
Plant and equipment at cost	160,000	
Accumulated depreciation - building at 1/10/16		26,625
Accumulated depreciation PPE at 1/10/16		31,000
Trade receivables	51,500	-
Trade payables		28,000
Bank overdraft		1,000
Issued ord. shares at 50k each (Sept.30, 2017)		175,000
Share premium at (Sept.30, 2017)		50,000
Revaluation surplus		37,500
Retained earnings		39,250
12% Loan notes (payable 2021)		<u>25,000</u>
	<u>598,375</u>	<u>598,375</u>

- (1) Inventory at September 30, 2017 amounted to ₦19.5m.
- (2) Depreciation is to be provided on cost of the non-current assets as follows:
Building 2% per annum

Plant & equipment 20% per annum
 80% of the depreciation is to be charged to cost of sales and 10% each to distribution cost and administrative expenses.

- (3) Land is to be revalued to ₦125m.
 (4) Accrued expenses and prepayments were

	Accrued Expenses	Prepayments
	₦'000	₦'000
Distribution cost	2,375	1,500
Administrative expenses	875	750

- (5) During the year ended September 30, 2017, 100million ordinary shares were issued at 75k per share. The directors of Quadri Top declared an interim dividend of 2k per share in September 2017. No dividends were paid during the year.
 (6) Loan interest is paid annually, on September 30 each year.

Required:

Prepare in accordance with IAS1:

- Statement of profit or loss and other comprehensive income for the year ended September 30, 2017. (8 Marks)
 - Statement of financial position as at September 30, 2017 (12 Marks)
- (Total 20 Marks)**

QUESTION 3

- (a) The basic financial ratios can be grouped into the following broad categories.
- Profitability and efficiency
 - Long term solvency and stability
 - Short term solvency and liquidity
 - Shareholders investment ratios

Required:

Briefly explain the main aims and give **TWO** examples of each category of the above financial ratios. (8 Marks)

- (b) The following is the financial information extracted from the records of Nwokeke Nigeria Plc for the year ended March 31, 2017.

FINANCIAL INFORMATION EXTRACTS

	₦'000
Inventories:	
Raw materials	142,500
Work in progress	57,000

Finished goods	190,000
Purchases	475,000
Revenue	855,000
Cost of goods sold	712,500
Trade receivables	218,500
Trade payables	114,000

Additional Information

The directors of Nwokeke Nigeria Plc are of the opinion that the average cash operating cycles of companies that operate in the same industry as Nwokeke Plc is 75 days.

Required:

- i. Explain the term cash operating cycle. (2 Marks)
 - ii. Calculate the cash operating cycle of Nwokeke Nigeria Plc. (4 Marks)
 - iii. Assess the performance of Nwokeke Nigeria Plc's cash management relative to the industry average performance. (2 Marks)
 - iv. Suggest **TWO** steps that should be taken by the directors of Nwokeke Nigeria Plc to improve the cash operating cycle of the company. (4 Marks)
- (Total 20 Marks)**

QUESTION 4

- a.
 - i. Explain what is meant by the terms "associate" and "significant influence" (2 Marks)
 - ii. Explain the equity method of accounting which is used to account for investment in an associate. (2 Marks)
 - iii. Distinguish between joint operation and joint ventures. (2 Marks)
- b. On October 31, 2013, Y Limited paid ₦70,000 to acquire 40% of the share capital of Z Limited (which became its associate). Draft financial statements of the two companies for the year to October 31, 2017:

Statement of comprehensive income for the year ended October 31, 2017

	Y Limited ₦`000	Z Limited ₦`000
Operating profit	325	70
Dividend received from Z Ltd	<u>10</u>	-
Profit before tax	335	<u>70</u>

Income tax expense	<u>(85)</u>	<u>(15)</u>
Profit for the Year	<u>250</u>	<u>55</u>

STATEMENT OF FINANCIAL POSITION AS AT OCTOBER 31, 2017

	Y	Z
	Limited	Limited
	₹` 000	₹` 000
Assets		
Non-current asset		
Property, plant & equipment	800	400
Investment in Z Ltd at cost	<u>70</u>	<u>-</u>
	870	400
Current asset	<u>390</u>	<u>145</u>
	<u>1260</u>	<u>545</u>
Equity		
Ordinary share capital	500	100
Retained earnings	<u>605</u>	<u>360</u>
	1105	460
Liabilities		
Current liabilities	<u>155</u>	<u>85</u>
	<u>1260</u>	<u>545</u>

Statement of Changes in equity (retained earnings only) for the year to October 31, 2017

	Y Limited	Z Limited
	₦`000	₦`000
Balance at October 31, 2016	355	330
Profit for the year	250	55
Dividend paid	-	(25)
Balance at October 31, 2017	<u>605</u>	<u>360</u>

The following information is also available:

- (i) In the draft financial statements of Y Limited, the company's investment in Z Limited has been recognised at cost and the dividend received from Z Limited has been recognised as income. The financial statements, showed the situation as it would be without application of the equity method, either in the year October 31, 2017 or in previous year.
- (ii) The retained earnings of Z Limited on October 31, 2013 were ₦50,000 and all of its assets and liabilities were carried at fair value. None of the companies has issued any share since that date.
- (iii) During the year to October 31, 2017 Y Limited bought goods from Z Limited for ₦15,000, which had cost Z Limited ₦10,000. One-quarter of these goods were unsold by Y Limited at October 31, 2017.

Required:

Prepare the separate financial statements of Y Limited for the year ended October 31, 2017, incorporating the result of the associate Z Limited, using the equity method of accounting.

(14 Marks)
(Total 20 Marks)

SECTION C: YOU ARE REQUIRED TO ANSWER ANY TWO OUT OF THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

- a. It is a general application of the concept of prudence that the carrying amount of an asset should not be greater than its recoverable amount. IAS 36 Impairment of Assets gives guidance on the application of this principle particularly for non-current assets.

Under the rules in IAS 36, an asset must be written down to its recoverable amount when this is less than its carrying amount. The standard ensures that impairment loss is measured and recognised on a consistent basis.

Required:

Explain the need for the application of IAS 36 and the concept of recoverable amount as contained in the standards. (7 Marks)

- b. The determination of related party status depends on the substance of the relationship, not just the legal form.

Required:

- i. Define a “related party transaction” and give **TWO** examples of such transactions. (4 Marks)

- ii. In the context of IAS 24-Related Party Disclosures, state **FOUR** conditions under which an entity can be said to be related to another. (4 Marks)

(Total 15 Marks)

QUESTION 6

- a. Snow-Ball Nigeria Plc is a manufacturer of school bags that are sold in most Nigerian modern markets. The following transactions and errors occurred during the year ended October 31, 2017.

- i. As at the beginning of the year, the remaining useful life of the plant and equipment of the company was reassessed as four years rather than seven years. (2 Marks)

- ii. Bonuses of ₦24million, compared with ₦4.6million in the previous year had been paid to employees. The financial manager explained that a new incentive scheme was adopted whereby all employees shared in increased sales. (2 Marks)

- iii. During the year the company was responsible for the formation of “Back to School Foundation”. This foundation forms part of the company’s social investment programme. The company contributed ₦14million to the fund. (2 Marks)

Required:

Briefly explain how each of the above transactions would be treated in the statement of profit or loss of Snow-Ball Nig. Plc for the year ended October 31, 2017, stating whether a separate disclosure is required or not.

Note: No calculation is required. (6 Marks)

- b. The inventory balance of Papaya Nigeria Limited are as follows for the year ended March 31, 2017.

	₦'000
Opening Inventory	28,875
Closing Inventory	31,425

In the course of preparing the financial statements at March 31, 2017, the need for a number of adjustments emerged as stated below:

- (i) The opening inventory was found to have been overstated by ₦3,135,000 as a result of error in the calculation of values in the inventory sheets.
- (ii) Some items included in the closing inventory at the cost of ₦120,000 were found to be defective and were sold after the end of the reporting period for ₦78,000. Selling cost amounted to ₦4,500.

Required:

- i. Explain how adjustment should be made for errors in the opening inventory according to IAS 8 – “Accounting policies changes in accounting estimates and errors. **NB:** No calculation is required. (2 Marks)
 - ii. State two disclosure required by IAS 8 in the financial statements as at March 31, 2017 for the adjustments above. **NB:** No calculation is required: (3 Marks)
 - iii. Show how the final figures for inventory should be presented in the statement of financial position as at March 31, 2017. (4 Marks)
- (Total 15 Marks)**

QUESTION 7

Manilla Nigeria Plc leased an equipment from Capa Finance Limited. The terms of the lease are as follows:

Inception of the Lease	January 1, 2015
Lease term	4 years; ₦788,640 per annum payable

	in arrears.
Present value of minimum lease payments	₦2,500,000
Useful life of the assets	4 years

Required:

- a. Briefly explain the term “interest rate implicit in the lease “under IAS 17
(2 Marks)
- b. Calculate the interest rate implicit in the above lease, using the table below.
(4 Marks)

This table shows the present value of ₦1 per annum, receivable or payable at the end of each year for n years.

Years (n)	Interest Rate		
	<u>6%</u>	<u>8%</u>	<u>10%</u>
1	0.943	0.926	0.909
2	1.833	1.783	1.736
3	2.673	2.577	2.487
4	3.465	3.312	3.170
5	4.212	3.993	3.791

- c. How should Manilla Nigeria Plc treat this type of lease transaction (give reasons for your answer).
(3 Marks)
 - d. Briefly discuss the effect of classifying a lease incorrectly in the income statement and statement of financial position.
(6 Marks)
- (Total 15 Marks)**



**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF NIGERIA**

PATHFINDER

**MAY 2018 DIET
SKILLS LEVEL EXAMINATIONS**

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FOREWARD

This issue of the **PATHFINDER** is published principally, in response to a growing demand for an aid to:

- (i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN);
- (ii) Unsuccessful candidates in the identification of those areas in which they lost marks and need to improve their knowledge and presentation;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subject contained herein; and
- (iv) The professional; in improving pre-examinations and screening processes, and thus the professional performance of candidates.

The answers provided in this publication do not exhaust all possible alternative approaches to solving these questions. Efforts had been made to use the methods, which will save much of the scarce examination time. Also, in order to facilitate teaching, questions may be edited so that some principles or their application may be more clearly demonstrated.

It is hoped that the suggested answers will prove to be of tremendous assistance to students and those who assist them in their preparations for the Institute's Examinations.

NOTES

Although these suggested solutions have been published under the Institute's name, they do not represent the views of the Council of the Institute. The suggested solutions are entirely the responsibility of their authors and the Institute will not enter into any correspondence on them.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
SKILLS LEVEL EXAMINATION - MAY 2018

FINANCIAL REPORTING

Time Allowed: 3¼ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

- a. Adanna Plc. has a subsidiary, Ebuka Limited. The statement of profit or loss and other comprehensive income of the companies are as follows:

Statement of Profit or Loss and Other Comprehensive Income for the year ended December 31, 2017

	Adanna Plc ₦'000	Ebuka Limited ₦'000
Revenue	986,546	614,206
Cost of sales	<u>(593,204)</u>	<u>(365,903)</u>
Gross profit	393,342	248,303
Other income	57,850	12,420
Distribution costs	(69,496)	(40,562)
Administrative expenses	(158,624)	(95,036)
Other expenses	(32,108)	(15,814)
Finance costs	<u>(20,600)</u>	<u>(10,220)</u>
Profit before tax	170,364	99,091
Income tax expense	<u>(51,110)</u>	<u>(26,727)</u>
Profit for the year	119,254	72,364
Other comprehensive income:		
Gain on revaluation of property	<u>68,166</u>	<u>29,202</u>
Total comprehensive income	<u>187,420</u>	<u>101,566</u>

Additional Information

- (i) Adanna Plc. acquired 75% of the issued equity shares of Ebuka limited three years ago. Goodwill on acquisition was ₦280 million. The recoverable amount of goodwill at the year-end was estimated to be

~~₦~~268 million and this was the first time that the recoverable amount of goodwill had fallen below the amount at initial recognition.

- (ii) During the year, Ebuka Limited invoiced goods worth ~~₦~~300 million to Adanna Plc. A quarter of these goods are included in the inventory of Adanna Plc. at year end. It is the policy of Ebuka Limited to invoice goods at cost plus 25%.
- (iii) The distribution costs of Ebuka Limited include depreciation of an asset which had been subject to a fair value increase of ~~₦~~155 million on acquisition. The asset is being written off on a straight line basis over ten years.
- (iv) The other income in Adanna Plc.'s statement of profit or loss and other comprehensive income includes an inter-company management charge of ~~₦~~10 million to Ebuka Limited and Ebuka Limited has recognised this in administrative expenses.

Required:

Prepare the Consolidated Statement of Profit or Loss and other Comprehensive Income of Adanna Plc's group for the year ended December 31, 2017. (20 Marks)

- b. A parent acquired 600,000 equity shares of its subsidiary three years ago for ~~₦~~1,200,000. The subsidiary's issued equity share capital on that date was ~~₦~~250,000 denominated at 25 kobo per share. Other components of the subsidiary's net asset at the acquisition date were share premium ~~₦~~550,000 and retained earnings of ~~₦~~680,000. The subsidiary's shares were quoted at the stock exchange at ~~₦~~1.80k per share at the date the parent took control.

Required:

Calculate the goodwill on acquisition if it is the policy of the parent to measure non-controlling interest at its fair value. (4 Marks)

- c. IFRS 10 states that, with certain exceptions, a parent must present consolidated financial statements in which it consolidates its investments in subsidiaries.

Required:

State **FOUR** exceptions to the rule.

(6 Marks)

(Total 30 Marks)

QUESTION 2

- | | N |
|--------|--------------|
| Year 1 | 3,600,000 |
| Year 2 | 3,960,000 |
| Year 3 | 4,356,000 |

i. You are required to prepare extracts from the Yo-Yo Products Limited's projected statement of profit or loss for three years to March 31, 2020 using the above figures with separate calculation each for legal form and substance form of the transaction.

(10 Marks)

- ii. Comment on the effects that these calculations will have on the performance of the company.

(4 Marks)

(Total 20 Marks)

QUESTION 3

The statement of financial position of Abagana Plc. as at July 31, 2016 and 2017 is shown below

Statement of financial position as at July 31

	2017		2016	
	₦'000	₦'000	₦'000	₦'000
ASSETS:				
Non- current assets:				
Property, plant and equipment at cost	735		675	
Accumulated depreciation	<u>(555)</u>	180	<u>(495)</u>	180
Investment at cost		<u>28</u>		<u>66</u>
		<u>208</u>		<u>246</u>
Current assets:				
Inventories		434		264
Trade receivable	346		159	
Allowance for doubtful debt	<u>(39)</u>	307	<u>(6)</u>	153
Prepayments		19		18
Cash on 7 day deposit		-		75
Cash at bank and in hand		<u>-</u>		<u>88</u>
		<u>760</u>		<u>598</u>
		<u>968</u>		<u>844</u>
EQUITY and LIABILITIES				
Equity:				
Ordinary share capital		375		300
Share premium		45		-
Retained earnings		<u>237</u>		<u>319</u>
		657		619
Liabilities:				
Non-current liabilities:				
14% Loan notes		-		60
12% Loan notes		45		-
Current Liabilities:				
14% Loan notes	60			
Trade payables	90		83	
Accruals	13		12	

Other payables	30		-	
Tax payable	13		70	
Bank overdraft	<u>60</u>	<u>266</u>	<u>-</u>	<u>165</u>
		<u>968</u>		<u>844</u>

Additional Information

- (i) Equipment which had cost ₦45,000 during the year to July 31, 2014 was sold in February 2017 for ₦15,000. The company depreciates equipment at 20% per annum on cost with a full charge in the year of acquisition and none in the year of disposal.
- (ii) Non- current asset investments which had cost ₦38,000 some years ago was sold during the year for ₦31,500.
- (iii) Dividends received during the year were ₦7,500. Dividends totalling ₦150,000 were paid during the year.
- (iv) The 14% Loan notes were issued many years ago and are due to be redeemed in January 2017. A fresh issue of 12% Loan notes was made on July 31, 2017.
- (v) In January 2017 the company issued ₦75,000 ordinary shares at a premium of 60 kobo per share.
- (vi) The cash on 7-day deposit ranks as a cash equivalent.
- (vii) The net cash flow from operating activities using the indirect method is ₦187,000 deficit.

Required:

- a. Prepare a statement of cash flows for the year ended July 31, 2017 in accordance with the requirements of IAS 7 (using the indirect method).
(12 Marks)
- b. Reconcile the total cash and cash equivalents shown by the statement of cash flows to the equivalent figures shown in the opening and closing statements of financial position.
(5 Marks)
- c. Comment briefly on the significance of the information provided by the statement of cash flows.
(3 Marks)

(Total 20 Marks)

QUESTION 4

Ibadan Nigeria Limited would like to acquire a suitable private limited liability company.

The board of directors of Ibadan Limited engaged the service of a financial consultant to carry out a critical financial analysis of the two companies, Abuja Limited and Rivers Limited. Both companies operate in the same industry and their management have indicated that they would be receptive to the acquisition.

The draft financial statements of the two companies are as follows:

Statements of profit or loss

	Abuja Limited	Rivers Limited
	₦'000	₦'000
Revenue	3,980	2,240
Cost of Sales	<u>(2,640)</u>	<u>(1,588)</u>
Gross Profit	1,340	652
Operating expense	(496)	(300)
Interest expense	<u>(140)</u>	<u>(40)</u>
Profit before Taxation	704	312
Tax expense	<u>(260)</u>	<u>(100)</u>
Profit for the year	<u><u>444</u></u>	<u><u>212</u></u>

Statements of financial position

	Abuja Limited	Rivers Limited
	₦'000	₦'000
Non-current assets:		
Property, plant & equipment	<u>3,060</u>	<u>1,640</u>
Current assets:		
Inventory	620	560
Trade receivables	680	1,580
Bank	<u>200</u>	<u>180</u>
	<u>1,500</u>	<u>2,320</u>
Current liabilities:		
Trade payables	(940)	(1,200)
Other payables	<u>(520)</u>	<u>(500)</u>
	<u>(1,460)</u>	<u>(1,700)</u>
Net current assets:	<u>40</u>	<u>620</u>
Non-current liabilities:		
Loan notes	<u>(880)</u>	<u>(280)</u>
Net assets	<u><u>2,220</u></u>	<u><u>1,980</u></u>

Equity:

Ordinary share capital	1,800	1,760
Retained earnings	<u>420</u>	<u>220</u>
	<u>2,220</u>	<u>1,980</u>

Required:

As the Financial Consultant appointed to carry out the financial analysis,

- a. Draft a report addressed to the chairman, board of directors of Ibadan Limited to assess the financial performance and position of the two companies.

Your report should make use of the following specific ratios:

- (i) Profitability ratios: gross profit percentage and net profit margin.
- (ii) Liquidity ratios: acid test ratio, current ratio, trade receivable period.
- (iii) Long term financial stability ratios: gearing ratio and proprietary ratio.
- (iv) Efficiency ratios: total asset turnover and non-current asset turnover. (12 Marks)

- b. Explain the limitations of ratio analysis and further information that may be useful to the board of directors of Ibadan Limited when making the acquisition decision (8 Marks)

(Total 20 Marks)

SECTION C: YOU ARE REQUIRED TO ANSWER ANY TWO OUT OF THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

In Nigeria, financial statements are reported in more detail in both words and figures following the introduction of International Financial Reporting Standards (IFRS).

You are required to:

- a. Explain the following qualitative characteristics of financial statements reported under IFRS and assess how they make the information very useful.
- i. Relevance
 - ii. Comparability
 - iii. Understandability
 - iv. Faithful Representation (6 Marks)

- b. Explain the differences between the accruals, cash and break up basis of accounting. (6 Marks)
 - c. Explain with relevant examples the meaning of 'true and fair' view of financial statements. (3 Marks)
- (Total 15 Marks)**

QUESTION 6

- a. IAS 12 - Income Tax details the requirements relating to the accounting treatment of deferred tax and current income tax.

Required:

Explain the need to provide for deferred tax and briefly outline the principles of accounting for deferred tax contained in IAS 12 . (7 Marks)

- b. Lawmarg Nigeria Limited purchased an item of plant for ₦2,000,000 on October 1, 2014. It had an estimated life of eight years and an estimated residual value of ₦400,000. The plant is depreciated on a straight-line basis. The tax authorities do not allow depreciation as a deductible expense. Instead an initial capital allowance of 40% of the cost of this type of asset can be claimed against income tax, and 20% per annum (on a reducing balance basis) of its tax base thereafter. The rate of income tax can be taken as 30%.

Required:

In respect of the above item of plant, calculate the deferred tax charge/credit in Lawmarg Nigeria Limited's statement of profit or loss for the year ended December 31, 2017 and the deferred tax balance in the statement of financial position at that date. (8 Marks)

(Total 15 Marks)

QUESTION 7

- a. Explain the disclosure requirements in published financial statements with respect to property, plant and equipment in accordance with IAS 16. (5 Marks)
- b. As the accounting officer in charge of your company's property plant & equipment (PPE), draft a memo to the chief accountant explaining how impairment of PPE should be identified and accounted for by your company in accordance with IAS 36. (7 Marks)

- c. Odeda Limited operates its business with plant and equipment that qualified under IAS 16 as property, plant and equipment. On January 1, 2016 the cost of the company's plant was ₦4,000,000 and the accumulated depreciation was ₦1,600,000. On January 2, 2016 the company bought a new equipment at the cost of ₦1,000,000 and the equipment supplier accepted an old equipment owned by Odeda Limited in part exchange for a value of ₦80,000. The equipment originally cost ₦600,000 and its accumulated depreciation is ₦500,000.

You are required to calculate the gain or loss on the disposal of the old equipment.

(3 Marks)

(Total 15 Marks)

SOLUTION 1

(a)

Adanna Plc

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended December 31, 2017

	₦'000
Revenue (Wk 1)	1,300,752
Cost of sales (Wk 2)	<u>(674,107)</u>
Gross profit	626,645
Other income (wk 3)	60,270
Distribution cost (wk 4)	(125,558)
Administrative expenses (wk 5)	(255,660)
Other expenses	(47,922)
Finance costs	<u>(30,820)</u>
Profit before tax	226,955
Income tax expenses	<u>(77,837)</u>
Profit for the year	149,118
Other comprehensive income:	
Gain on revaluation of property	<u>97,368</u>
Total comprehensive income	<u>246,486</u>
Profit for the year attributable to:	
Equity owners of parent (149,118 – 12,966)	136,152
Non-controlling interest (NCI) Wk 7	<u>12,966</u>
	<u>149,118</u>
Total comprehensive income attributable to:	
Equity owners of parent (246,486 - 20,267)	226,220
Non-controlling interest (NCI) Wk 4	<u>20,267</u>
	<u>246,486</u>



**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF NIGERIA**

PATHFINDER

NOVEMBER 2018 DIET

SKILLS LEVEL EXAMINATIONS

Question Papers

Suggested Solutions

Marking Guides

Plus

Examiner's Reports

FOREWARD

This issue of the **PATHFINDER** is published principally, in response to a growing demand for an aid to:

- (i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN);
- (ii) Unsuccessful candidates in the identification of those areas in which they lost marks and need to improve their knowledge and presentation;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subject contained herein; and
- (iv) The professional; in improving pre-examinations and screening processes, and thus the professional performance of candidates.

The answers provided in this publication do not exhaust all possible alternative approaches to solving these questions. Efforts had been made to use the methods, which will save much of the scarce examination time. Also, in order to facilitate teaching, questions may be edited so that some principles or their application may be more clearly demonstrated.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
SKILLS LEVEL EXAMINATION - NOVEMBER 2018

FINANCIAL REPORTING

Time Allowed: 3¼ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

The financial statements of OSHODI Nigeria Limited for the year ended May 13 2017 are as follows:

Statement of Profit or Loss for the year ended May, 31 2017

	N'm
Revenue	3,820
Cost of sales	<u>(2,620)</u>
Gross profit	1,200
Operating expenses	<u>(300)</u>
	900
Interest	<u>(30)</u>
Profit before tax	870
Taxation expense	<u>(270)</u>
Net profit for the year	<u>600</u>

Statement of Financial Position as at May 31 2017 (including comparative figures)

	2017	2016
	N'm	N'm
Non-Current Assets		
Property, plant and equipment	1,890	1,830
Intangible assets	<u>650</u>	<u>300</u>
	<u>2,540</u>	<u>2,130</u>
 Current Assets		
Inventory	1,420	940
Account receivables	990	680
Cash	<u>70</u>	<u>nil</u>
	<u>2,480</u>	<u>1,620</u>
Total Assets	<u>5,020</u>	<u>3,750</u>

Equity and Liabilities

Ordinary shares of ₦1 each	750	500
----------------------------	-----	-----

Reserves:

Share premium	300	100
Revaluation reserve	190	Nil
Retained earnings	<u>1,610</u>	<u>1,400</u>

Equity	2,850	2,000
Non-current liabilities	870	540
Current liabilities	<u>1,300</u>	<u>1,210</u>
Total equity and liabilities	<u>5,020</u>	<u>3,750</u>

OSHODI NIGERIA LIMITED**Statement of Changes in Equity for the year ended May 31 2017**

	Share Capital ₦'m	Share Premium ₦'m	Revaluation Reserve ₦'m	Retained Earnings ₦'m	Total ₦'m
June 1 2016	500	100	Nil	1,400	2,000
Profit for the year	-	-	-	600	600
Transactions within Equity:					
Dividend				(400)	(400)
Bonus issue	50	(50)			
Issue of shares	200	250		-	450
Revaluation reserve	-	-	200	-	200
Transfer to retained earnings	-	-	(10)	10	-
May 31, 2017	<u>750</u>	<u>300</u>	<u>190</u>	<u>1,610</u>	<u>2,850</u>

Notes to the financial statements:

- (1) **Cost of sales** includes depreciation of property, plant and equipment of ₦320 million and a loss on the sale of plant of ₦50 million. It also includes a credit for the amortisation of government grants. Operating expenses include a charge of ₦20 million for the amortisation of goodwill.

(2)	Intangible assets:	2017	2016
		₦'m	₦'m
	Deferred development expenditure	470	100
	Goodwill	<u>180</u>	<u>200</u>
		<u>650</u>	<u>300</u>
(3)	Non-current Liabilities:	2017	2016
		₦'m	₦'m
	10% loan notes	300	100
	Government grants	260	300
	Deferred tax	<u>310</u>	<u>140</u>
		<u>870</u>	<u>540</u>
4)	Current Liabilities:		
	Account payables	875	730
	Bank overdraft	Nil	115
	Accrued loan interest	15	5
	Declared dividends unpaid	280	200
	Taxation	<u>130</u>	<u>160</u>
		<u>1,300</u>	<u>1,210</u>

The following additional information is relevant:

- (i) Intangible assets:
The company successfully completed the development of a new product during the current year, capitalising a further ₦500 million before amortisation charges for the period.
- (ii) Property, plant and equipment/revaluation reserve:
The company revalued its buildings by ₦200 million on June 1 2016. The surplus was credited to revaluation reserve.
- New plant was acquired during the year at a cost of ₦250 million and a government grant of ₦50 million was received for the plant.
 - On June 1, 2016 a bonus issue of 1 new share for every 10 held was made from the share premium.
 - ₦10 million has been transferred from the revaluation reserve to realised profits as a year-end adjustment in respect of the additional depreciation created by the revaluation.
 - The remaining movement on property, plant and equipment was due to the disposal of obsolete plant.
- (iii) Share issue:
In addition to the bonus issue referred to above, Oshodi Nigeria Limited made a further issue of ordinary shares for cash.

Required:

- a. Prepare statement of cash flows for Oshodi Nigeria Limited for the year ended May 31, 2017 in accordance with IAS 7 'Statements of Cash Flows' using the indirect method.
(25 Marks)
- b. Compare the direct and indirect methods of preparing statement of cash flows.
(5 Marks)
(Total 30 Marks)

SECTION B: YOU ARE REQUIRED TO ANSWER TWO OUT OF THREE QUESTIONS IN THIS SECTION (40 MARKS)

QUESTION 2

- a. IAS 33 on earnings per share defined potential ordinary share as a financial instrument or other contract that may entitle its holder to ordinary shares at some time in the future. State the three examples of potential ordinary shares according to IAS 33.
(6 Marks)
- b. Anambra Limited acquired 80% of Omambala Limited's ordinary shares for ₦210 million on January 1, 2013. On the acquisition date, the retained earnings of Omambala Limited were ₦105 million. The fair value of non-controlling interest in Omambala Limited at the date of acquisition was ₦56 million. The financial statements of the two companies for the year ended December, 31 2017 are stated below:

	Anambra Limited ₦'000	Omambala Limited ₦'000
ASSETS		
Non-Current Assets		
Property, plant and equipment	210,000	157,500
Investments	280,000	-
Current Assets		
Inventories	56,000	52,500
Trade and other receivables	42,000	98,000
Cash and cash equivalents	7,000	17,500
Total Assets	<u>595,000</u>	<u>325,500</u>

EQUITY AND LIABILITIES**Equity**

Share capital	56,000	42,000
Share premium	14,000	7,000
Retained earnings	206,500	175,000

Non-Current Liabilities

Loans notes	210,000	59,500
-------------	---------	--------

Current Liabilities

Trade payables	<u>108,500</u>	<u>42,000</u>
Total equity and liabilities	<u>595,000</u>	<u>325,500</u>

The following additional information is relevant:

- (i) Anambra Limited sold goods to Omambala Limited for ₦35 million with a gross profit margin of 25%. Included in the inventories of Omambala Limited is 40% of the goods as at December 31, 2017.
- (ii) The fair values of net assets of Omambala are equal to their carrying amounts at acquisition date, this does not include land. The company has land which was included in the accounts at its cost amounting to ₦105 million and has a value of ₦126 million.

Required:

Prepare consolidated statement of financial position for the Anambra Limited group as at December 31, 2017.

(14 Marks)

(Total 20 Marks)

QUESTION 3

Yemnike Nigeria Limited has an accounting profit before taxation of ₦225 million for the year ended December 31, 2017.

The following are extracts of the financial position of Yemnike Nigeria Limited as at December 31, 2017.

NON-CURRENT ASSETS

	₦'000
Building	157,500
Plant and machinery	250,000
Assets held under finance lease	<u>200,000</u>

RECEIVABLES

Trade receivables	182,500
Interest receivable	<u>2,500</u>

PAYABLES

Fines	25,000
Finance lease obligation	216,000
Interest payable	<u>8,250</u>

The following information is relevant:

- (i) The building was acquired by the company at the cost of ₦175million at the start of the year and it is the policy of the company to depreciate building at 10% p.a. on straight line basis.

The company tax consultants have stated that the company can claim ₦105million capital allowance this year on the building.

- (ii) The balance in respect of plant and machinery is after providing for depreciation of ₦30million and the capital allowance claimable on it is ₦25million.
- (iii) The asset held under finance lease was acquired during the year. The relevant tax law does not distinguish between finance lease and operating lease. Rental expense for lease is tax deductible. The annual lease rental is ₦72million and was paid on December 31, 2017. The depreciation policy for leased assets is 20% p.a. on straight line while annual finance charge amounted to ₦36,667million.
- (iv) The receivables figure is shown net of an allowance for doubtful balances of ₦17.5million. This is the first year that such an allowance has been recognised. A deduction for debt is only allowed for tax purposes when the debtor enters liquidation.
- (v) Interest income is taxed and interest expense is allowable both on cash bases. There were no opening balances on interest receivable and interest payable.
- (vi) Provision for fines and penalties are not allowable deductions for tax purposes. The fines payable is a provision made during the year.

Required:

- | | | |
|----|--|------------|
| a. | Calculate current tax expense for the period. | (7 Marks) |
| b. | Calculate the deferred tax liability as at December 31, 2017 | (12 Marks) |
| c. | Prepare notes showing the component of tax expense for the year. | (1 Mark) |

N.B: Income tax rate is 30%.

(Total 20 Marks)

QUESTION 4

The following financial statements were extracted from the books of Adebayo Trading Company Plc for the relevant years.

Statement of Profit or Loss and Other Comprehensive Income for the year ended March 31:

	2018	2017
	₦'000	₦'000
Revenue	250,000	400,000
Cost of sales	<u>(137,500)</u>	<u>(225,000)</u>
Gross profit	112,500	175,000
Administrative expenses	(36,050)	(44,500)
Distribution expenses	(20,200)	(24,250)
Finance cost	<u>(3,125)</u>	<u>(3,125)</u>
Profit before tax	53,125	103,125
Taxation expense	<u>(20,000)</u>	<u>(40,000)</u>
Profit for the year	<u>33,125</u>	<u>63,125</u>

Statement of Financial Position as at March 31:

	2018	2017
	₦'000	₦'000
Assets		
Non-current assets at cost	136,500	196,000
Accumulated depreciation	<u>(36,500)</u>	<u>(52,250)</u>
	<u>100,000</u>	<u>143,750</u>
Current assets		
Inventory	79,250	20,750
Trade receivables	50,000	12,500
Bank balance	<u>12,000</u>	<u>91,750</u>
	<u>141,250</u>	<u>125,000</u>
Total Assets	<u>241,250</u>	<u>268,750</u>
Equity and Liabilities:		
Equity		
Ordinary shares of 50 kobo each	57,500	57,500
Retained earnings	<u>43,000</u>	<u>25,000</u>
	100,500	82,500
Non-current liabilities:		
10% Loan notes	31,250	31,250
12% Redeemable preference shares	-	5,000
	<u>31,250</u>	<u>36,250</u>

Current Liabilities:

Trade payables	18,750	26,875
Taxation	60,000	40,000
Bank overdraft	<u>30,750</u>	<u>83,125</u>
	<u>109,500</u>	<u>150,000</u>
Total equity and liabilities:	<u><u>241,250</u></u>	<u><u>268,750</u></u>

Additional Information:

- (i) Dividend paid to Equity holders are ~~₦~~15,125,000 for the year ended, March 31, 2018 and ~~₦~~21,375,000 in 2017.
- (ii) There was a drop in the market price per share of the company's equity shares from 36 kobo in the year ended March 31, 2017 to 24 kobo in 2018.
- (iii) The finance cost relates to the interest paid on the 10% loan notes.

Required:

- a. Calculate in columnar form, for the two relevant years the following financial ratios:
 - Return on capital employed
 - Net profit margin (use profit after tax)
 - Current ratio
 - Quick ratio
 - Debt ratio
 - Fixed interest cover
 - Dividend cover
 - Dividend yield (12 Marks)
- b. Comment on the profitability and short term liquidity of the company based on the ratios calculated. (4 Marks)
- c. Management may use various forms of Creative Accounting to manipulate the view given by the financial statements. Identify and explain **four** creative accounting techniques. (4 Marks)

(Total 20 Marks)

**SECTION C: YOU ARE REQUIRED TO ANSWER TWO OUT OF THREE
QUESTIONS IN THIS SECTION
(30 MARKS)**

QUESTION 5

Akawo Limited is a building contracting firm based in Abuja. ABC Limited awarded a contract to Akawo Limited to construct a residential building in Lagos. The agreed contract price is ₦80 million and the completion date is December 31, 2017.

The following are details of transactions on the contract to March 31, 2016.
The contract commenced July, 1 2015.

Contract costs:	₦'000
Architects and surveyor's fees	1,000
Materials	6,200
Direct labour costs	7,000
Overhead is 40% of direct labour costs	
Estimated cost to completions (Excluding depreciation)	29,600
 Plant and machinery used exclusively on the Contract	 7,200

The value of the plant at the end of the contract would be ₦1.2m and the basis of depreciation is period of usage. Material on site as at March 31, 2016 is ₦600,000.

Progress payment made by ABC Limited to Akawo Limited amounted to ₦25.6m as at March 31, 2016.

The following information is also relevant to the contract as at March, 31 2017:

Cost incurred since the commencement of the contract to date ~~₦40.8m~~.
Estimated cost to completion (excluding depreciation) ~~₦13.2m~~

ABC Limited paid additional ~~₦32.4m~~ to Akawo Limited on March, 31 2017 Akawo Limited uses percentage of completion to determine profit on a contract.

Required:

Prepare in relation to the building contract, the statement of profit or loss extracts for the years ended March 31, 2016 and 2017 and the statement of financial position extracts as at the year ended on those dates.
(Total 15 Marks)

QUESTION 6

Intangibles assets by their nature do not exist physically under IAS 38 Intangible assets. The following information on initial cost of intangibles asset were extracted from the Notes to the financial statements of Igbo-hood Limited, a film production company on January 1, 2017:

	₦'000
Books and literary works	800
Quick books and SAGE	950
Patents	1,200
Video and motion picture films	2,500
Franchise	3,200
Pictures and photographs	3,400
Order or production backlog	4,000
Plays	4,200
Customers' contract	4,400
Trade marks for customers	4,600
Broadcasting rights	5,000
Internet	5,400
Trade secrets	4,800

Additional Information:

(i)		Date of Acquisition	Assessed Useful life
	Quick books and SAGE	January 1, 2016	5
	Trade marks	January 1, 2015	8
	Plays	January 1, 2014	7
	Franchise	January 1, 2013	8

(ii) Intangible assets are to be amortised on a straight line basis.

Required:

- a. Calculate the costs of the following intangible assets:
 - i. Market based
 - ii. Customer related
 - i. Artistic related
 - iv. Contract based
 - v. Technology based
- b. Calculate the carrying amounts of the following intangibles assets as at December 31, 2017
 - i. Quick books and SAGE
 - ii. Trade marks
 - iii. Plays
 - iv. Franchise

(6 Marks)

- c. Identify **four** internally generated intangible assets that are prohibited in IAS 38 (Intangibles Assets.) (4 Marks)
(Total 15 Marks)

QUESTION 7

Financial statements identify financial position, performance and changes in cash flows over a period of time. The main statements include statement of financial position, statement of comprehensive income and statement of cash flows. These statements are intended to show how well a company has performed and give indication of the value of the business. However, many accountants are of the opinion that the financial statements are limited in value to the users.

Required:

- a. Identify and discuss the limitations of financial statements (8 Marks)
b. Identify potential users of financial statements and their likely Information needs. (5 Marks)
c. State the underlying assumptions of financial statements as enunciated by “The Conceptual Framework for Financial Reporting”. (2 Marks)
(Total 15 Marks)



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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2019

FINANCIAL REPORTING

Time Allowed: 3¼ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

- a. Explain why consolidated financial statements are useful to the users of financial statements as opposed to just the parent company's separate financial statements. (5 Marks)
- b. You are provided with the following statement of financial position for Ajakaye Limited and Ajalorun Limited.

Statement of financial position as at 31 March 2019

	Ajakaye Ltd.	Ajalorun Ltd.
	₦'000	₦'000
Non-current assets:		
Property plant & equipment	367,500	84,000
Investment	<u>140,000</u>	<u>--</u>
	<u>507,500</u>	<u>84,000</u>
Current assets:		
Inventory at cost	154,000	49,000
Trade receivables	101,500	73,500
Bank balance	<u>70,000</u>	<u>--</u>
	<u>325,500</u>	<u>122,500</u>
Total Assets	<u>833,000</u>	<u>206,500</u>

Equity and liabilities:

Ordinary shares at ₦1 each	490,000	119,000
Retained earnings	<u>150,500</u>	<u>35,000</u>
	640,500	154,000

Current liabilities:

Trade payables	192,500	38,500
Bank overdraft	_____	<u>14,000</u>
	<u>833,000</u>	<u>206,500</u>

The following information is also available:

- i. Ajakaye Ltd acquired 70% of the issued ordinary share capital of Ajalorun Ltd. four years ago, when the retained earnings of Ajalorun were ₦14million. There has been no impairment of goodwill;
- ii. For the purpose of the acquisition, property plant & equipment with a carrying amount of ₦35million was revalued to its fair value of ₦42million. The revaluation was not recorded in the accounts of Ajalorun Ltd. Depreciation is charged at 20% using the straight line method;
- iii. It is the group's policy to value non-controlling interest at fair value;
- iv. The market price of the shares of the non-controlling shareholders just before the acquisition was ₦1.50;
- v. Ajakaye Ltd sells goods to Ajalorun Ltd. at a markup of 25%. At 31 March 2019, the inventories of Ajalorun Ltd. included ₦31.5million of goods purchased from Ajakaye Ltd; and
- vi. Ajalorun Ltd. owes Ajakaye Ltd. ₦24.5million for goods purchased and Ajakaye Ltd owes Ajalorun Ltd. ₦10.5million.

You are required to:

Prepare the consolidated statement of financial position of Ajakaye Group Ltd. as at 31 March, 2019. (20 Marks)

- (c) Abuja Plc., a company with a subsidiary acquired 7,500,000 shares out of the 30million ₦1 ordinary shares in Abaji Ltd. for ₦15million on 1 January, 2018. In the year to 31 December, 2018. Abaji Limited earned profit after tax of ₦6million from which it declared a dividend of ₦1,500,000.

Required:

Explain how Abaji Limited's result should be accounted for in the separate and consolidated accounts of Abuja Limited for the year ended 31 December, 2018.

(5 Marks)

(Total 30 Marks)

SECTION B: YOU ARE REQUIRED TO ANSWER ANY TWO OUT OF THREE QUESTIONS IN THIS SECTION (40 MARKS)

QUESTION 2

Babafrayo Nig. Ltd. is a company located in Lagos and is engaged in hotel and tourism business. The financial statements of the company are as follows:

Statement of profit or loss and other comprehensive income for the year ended 31 December, 2018

	₦'000
Revenue	994,500
Cost of sales	<u>(884,000)</u>
Gross profit	110,500
Admin expenses	(21,250)
Distribution cost	(44,200)
Finance costs	<u>(4,250)</u>
Profit before taxation	40,800
Income tax expense	<u>(5,100)</u>
Profit for the year	<u>35,700</u>
Other comprehensive income:	
Gains on property revaluation	<u>17,000</u>
Total comprehensive income	<u>52,700</u>

Statement of financial position as at 31 December, 2018

	2018	2017
	₦'000	₦'000
Non-current assets:		
Property plant & equipment	<u>242,250</u>	<u>174,250</u>
	<u>242,250</u>	<u>174,250</u>
Current assets:		
Inventories	49,300	51,000
Trade receivables	35,700	25,500
Cash and cash equivalent	<u>2,550</u>	<u>4,250</u>
Total current assets	<u>87,550</u>	<u>80,750</u>
	<u>329,800</u>	<u>255,000</u>

Equity and liabilities:

Equity

Share capital	93,500	76,500
Share premium	17,000	8,500
Retained earnings	83,300	51,850

Non-current liabilities:

Loan notes	<u>80,750</u>	<u>68,000</u>
------------	---------------	---------------

Current liabilities:

Trade payables	24,650	27,200
Bank overdraft	1,700	10,200
Current tax payable	<u>3,400</u>	<u>4,250</u>
	<u>29,750</u>	<u>41,650</u>
	<u>329,800</u>	<u>255,000</u>

Additional information

- (i) Property, plant and equipment with a carrying value of ₦23,800,000 was sold during the year ended 31 December 2018 for ₦24,650,000. The asset had originally cost ₦38,250,000.
- (ii) Depreciation on property, plant and equipment for the year 2018 amounted to ₦34,000,000.
- (iii) Dividend paid during the year 2018 amounted to ₦4,250,000 and is reported in the statement of changes in equity for the year.

Required:

- a. Prepare statement of cash flows for the year ended 31 December 2018 in accordance with IAS 7 using indirect method. (12 Marks)
 - b. Prepare net cash flows from operating activities **only** using the direct method. (6 Marks)
 - c. Discuss the advantages of the direct method of preparing statement of cash flows over the indirect method. (2 Marks)
- (Total 20 Marks)**

QUESTION 3

Shown below are the financial statements of Kobape Limited for its most recent two years.

Extract from statement of profit or loss for the year ended 30 April

	2019	2018
	₦'000	₦'000
Revenue	224,000	195,000
Cost of sales	<u>(169,200)</u>	<u>(136,500)</u>
Gross profit	54,800	58,500
Administrative costs	(32,700)	(38,040)
Distribution costs	(10,900)	(12,680)

Finance cost – loan note interest	<u>(1,900)</u>	<u>(1,380)</u>
	<u>9,300</u>	<u>6,400</u>

Statement of financial position as at 30 April

	2019		2018	
Assets	₦'000	₦'000	₦'000	₦'000
Non-current assets		37,000		28,600
Current assets:				
Inventory	12,800		9,800	
Trade receivables	24,600		21,600	
Cash balance	<u>1,600</u>		<u>2,400</u>	
		<u>39,000</u>		<u>33,800</u>
Total assets		<u>76,000</u>		<u>62,400</u>
Equity and liabilities				
Ordinary share capital		16,000		16,000
Retained earnings		<u>26,200</u>		<u>18,600</u>
		42,200		34,600
Non-current liabilities:				
10% loan notes		16,000		12,000
Current liabilities:				
Bank overdraft	2,200		1,600	
Trade payables	15,000		13,800	
Taxation	<u>600</u>		<u>400</u>	
		<u>17,800</u>		<u>15,800</u>
Total equity and liabilities		<u>76,000</u>		<u>62,400</u>

The following are the ratios calculated for Kobape Limited based on the financial statements of the previous year and also the latest industry average ratios:

	Kobape Ltd 30 April 2018	Industry Average
Net profit margin	3.99%	4.73%
ROCE (Capital employed = equity + loan notes)	16.69%	18.50%
Asset turnover	4.19times	3.91times
Current ratio	2.14:1	1.90:1
Quick ratio	1.52:1	1.27:1
Gross profit margin	30.0%	35.23%
Account receivables collection period	40days	52days
Account payables payment period	37days	49days
Inventory turnover (Times)	13.9times	18.3times
Gearing ratio	25.75%	32.71%

Required:

- a. Calculate the cash operating cycle of Kobape Limited for the year ended 30 April, 2018 and 2019. (5 Marks)
 - b. Calculate the comparative ratio(s) (to two decimal places where appropriate) for Kobape Limited for the year ended 30 April, 2019. (5 Marks)
 - c. Draft a report addressed to the board of directors of Kobape Limited, analysing the performance of the company for the year 2019 based on the result of the previous year and the industry average. (10 Marks)
- (Total 20 Marks)**

QUESTION 4

- a. The objectives of IAS 16 is to prescribe the accounting treatment of property, plant and equipment (PPE).

Required:

Explain how initial costs of property, plant and equipment (PPE) should be measured and state the circumstances in which subsequent expenditure on non-current assets should be capitalised. (7 Marks)

- b. You are a senior accounting officer in Chidinma Ventures Plc. The chief accountant of the company has requested you to explain to some newly recruited trainee accountants, the requirements of IAS 16 as regards the revaluation of non-current assets and accounting treatment of surpluses and deficits on revaluation as well as gain and losses on disposal of assets.

Required:

Explain the transactions as required by the chief accountant. (5 Marks)

- c. Chidinma Ventures Plc. acquired a 12 years lease on a property on 1 October, 2016 at a cost of ~~₦~~132million. The company's policy is to revalue its properties to their market value at the end of each year.

Accumulated amortisation is eliminated and the property is restated to the revalued amount. Annual amortisation is calculated on the carrying values at the beginning of the year. The market values of the property on 30 September 2017 and 2018 were ~~₦~~127.05million and ~~₦~~96.25million respectively. The existing balance on the revaluation surplus at 1 October, 2016 was ~~₦~~27.5million. This is related to some non-depreciable land whose value had not changed significantly since 1 October 2016.

Required:

Prepare extracts of the statement of profit or loss and statement of financial position for the year ended 30 September 2017 and 2018 in respect of the leasehold property.

(8 Marks)

(Total 20 Marks)

SECTION C: YOU ARE REQUIRED TO ANSWER ANY TWO OUT OF THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

Grandkano Nig. Plc. is a company listed on the Nigerian Stock Exchange (NSE) and located in the northwestern part of the country.

The company has been paying yearly penalties to NSE in respect of non-disclosure of related party transactions in its published financial statements.

The company has therefore approached a partner in your firm to assist in this regard in order to avoid payment of these yearly penalties.

The partner in your firm has requested for a list of all transactions with parties connected with the company and the directors of the company provided the following summary:

- (i) A factory building had been sold to the brother of Alhaji Nagode the Managing director of Grandkano Nig. Plc. for ₦300million (net of selling cost of ₦5million). The market value of the property (factory building) was ₦322.5million.

The carrying amount of the factory building was ₦375million and its value in use was ₦270million.

- (ii) Every month Grandkano Nig. Plc sells ₦750,000 worth of goods to Malam Bayero the finance director. The finance director has set up a small retail business for his son (Dongoyaro) and the goods are sold at cost price to him.

The annual turnover of Grandkano Nig. Plc is ₦4.5billion. Also Malam Bayero has purchased his official company's car from the company for ₦675,000 (market value ₦1.2million). Malam Bayero earns a salary of ₦7.5million per annum and he is a very wealthy man.

Required:

Draft a report that the partner will present to the Chairman of the board of directors of Grandkano Nig. Plc. Your report should cover the following:

- a. Reasons why it is important to disclose related party transactions.

(5 Marks)

- b. The nature of any disclosures required in transactions (i) and (ii) above under IAS 24 related party disclosures. (10 Marks)
(Total 15 Marks)

QUESTION 6

- a. A company might incur significant interest cost if it has to raise a loan to finance the purchase or construction of an asset. IAS 23 on borrowing costs defines borrowing costs and sets out guidance on the circumstances under which such interest are to be capitalised as part of the cost of qualifying assets.

Required:

Discuss the conditions that must be met in order to capitalise borrowing cost under IAS 23, setting out when capitalisation of the borrowing cost should commence, be suspended or cease. (8 Marks)

- b. JACKO Company Limited has three major sources of borrowings stated below as at 1 January 2018.

Types	Average loan in the year N'000	Interest expense incurred in the year N'000	Income earned from temporary investment of the amount borrowed N'000
7 years loan notes	128,000	20,000	12,480
10 years loan notes	160,000	14,400	--
Bank overdraft	80,000	14,400	--

The 7 years loan notes has been specifically raised to fund the building of a qualifying asset.

During the year to 31 December, 2018 Jacko Company Limited spent ~~N144~~million on the building and the fair value of building is ~~N147~~million as at 31 December, 2018.

The company also incurred the following expenditure on a qualifying project funded from the other borrowings for the year ended 31 December 2018.

Date Incurred	Amount (N'000)
31 March, 2018	16,000
31 July, 2018	19,200
31 October, 2018	12,600

Required:

Calculate the amount to be capitalised in respect of the qualifying capital work- in-progress for the year ended 31 December 2018.

(7 Marks)

(Total 15 Marks)

QUESTION 7

- a. Soft Solutions Limited is a Nigerian company that specialises in the development of software applications. The company has been in operation for over 16 (sixteen) years and they have invested considerable amount of money internally, in developing accounting and banking softwares. The treatment of these assets is prescribed by IAS 38 – Intangible Assets.

Required:

As a partly qualified accountant working in the accounts department of Soft Solutions Limited, the financial controller of the company asked you for a memo which addresses the following:

- i. Whether internally developed intangible assets should be recognised and if so, how should they be recorded initially and subsequently accounted for. (5 Marks)
 - ii. The criteria for revaluation of intangible assets? (3 Marks)
- b. During the year ended 31 December, 2018 Soft Solutions Limited carried out the following transactions:
- ₦720m was spent on developing a new “Microfinance Software” which received the approval of software regulatory authority in Nigeria on 1 July, 2018 and is proving commercially successful.

The financial controller expects the project to be in profit within 12 months of the approval date. The patent was registered with Federal Ministry of Trade and Investment on 1 July, 2018; it costs ₦180m and remains in force for three years.

- On 1 September, 2018 Soft Solutions Limited acquired an up to date list of Global Positioning System (GPS) at a cost of ₦60m and the company has been visiting the tracked customers to explain the operations of the new microfinance software in rural and urban areas. This is expected to generate sales throughout the life-cycle of the microfinance software.
- A research project was set up on 1 October, 2018 which is expected to result in a new banking software called “Recent Bankers”. ₦24m was spent on computer equipment and ₦48m on staff salaries. The equipment has an expected life of four years.

Required:

Using the above information:

- i. Prepare the extract of statement of financial position of Soft Solutions Limited as at 31 December, 2018. (5 Marks)
 - ii. Prepare the summary of the cost to be charged to statement of profit or loss for the year ended 31 December, 2018. (2 Marks)
- (Total 15 Marks)**

SOLUTION 1

(a) Usefulness of consolidated financial statements to users of group financial statements

- The main reason for preparing consolidated accounts is that the group operates as a single economic unit and it is not possible to understand the affairs of the parent without taking into account the financial position and performance of all companies that it controls.
- The directors of the parent should be held fully accountable for all money they have invested on their shareholders' behalf, done directly by parent or via subsidiary.
- The parent's own financial statements only shows the original cost of the investment and the dividends received from the subsidiary, and this sometimes hide the true value and nature of the investment in the subsidiary hence without consolidation this could be used to manipulate the reporting result of the parent.
- Without showing the consolidated results, the assets and liabilities of the subsidiary are disguised e.g. a subsidiary could be very highly geared, making its liquidity and profitability volatile. Also, a subsidiary assets might consist of intangible assets or other assets with highly subjective value.
- The parent sometimes control the dividend policy of the subsidiary, enabling it to smooth-out profit fluctuations with a steady dividend; consolidation will reveal the underlying profit of the group.
- Over time the net assets of the subsidiary could increase, but the cost of the investment will stay fixed and will soon bear no relationship to the true value of the subsidiary.
- It enables users to view the group performance and how members of the group is contributing to the performance.



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FOREWARD

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- (i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN);
- (ii) Unsuccessful candidates in the identification of those areas in which they lost marks and need to improve their knowledge and presentation;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subject contained herein; and
- (iv) The professional; in improving pre-examinations and screening processes, and thus the professional performance of candidates.

The answers provided in this publication do not exhaust all possible alternative approaches to solving these questions. Efforts had been made to use the methods, which will save much of the scarce examination time. Also, in order to facilitate teaching, questions may be edited so that some principles or their application may be more clearly demonstrated.

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The profit statement includes two main components: profit or loss and other comprehensive income; where would the gain or losses go? Presumably the treatment of gains or losses is same for any non-current assets, which one is measured at fair value?

Required:

Provide answers to the issues raised by the Managing Director. You should justify your answers with reference to the relevant IFRS. (12 Marks)

- b. The Chief Accountant of Uchena Nigeria plc. has just forwarded the trial balance of the company to you for review before the preparation of draft financial statements for the year ended December 31 2018.

The trial balance are as follows:

	N'm	N'm
Ordinary share capital		43,200
Revenue		125,280
Staff cost	18,720	
Leasehold building	21,600	
Patent rights	4,320	
Work-in-progress January 1 2018	9,000	
Accum. Depreciation on building January 1 2018		4,320
Inventories of finished goods January 1 2018	11,160	
Consultancy fee	3,168	
Directors' salaries	25,920	
Computer at cost (Hardware)	3,600	
Accum. Depreciation on computer (Hardware) Jan. 1 2018		1,440
Retained earnings Jan. 1 2018		8,712
Dividend paid	9,000	
Cash and bank	31,680	
Trade receivables	30,240	
Trade payables		6,624
Sundry expenses	21,168	
	189,576	189,576

Additional information:

- On January 1 2018, buildings were revalued to ₦25,920million. This has not been reflected in the accounts. Computer (hardware) are depreciated over five years. Buildings are now to be depreciated over 30 years.
- The patent rights relate to a computer software with 3 year life span.
- An allowance for bad debts (irrecoverable debts) of 5% is to be created.
- Closing inventories of finished goods are valued at ₦12,960million. work-in-progress has increased to ₦10,080million.

- There is an estimated liability for current tax of ₦8,640million which has not been recognised.

Required:

- Prepare draft statement of profit or loss (analysing expenses by nature) for the year ended December 31, 2018. (6 Marks)
 - Statement of changes in equity, for the year ended December 31, 2018; and (4 Marks)
 - Statement of financial position as at December 31, 2018. (6 Marks)
- c. State the main factors that IAS 8 requires management of a company to consider in selecting and applying accounting policies in the absence of any IFRS and identify the alternative accounting policies on the following items in the financial statements.
- i. Inventories; and
 - ii. Depreciation (12 Marks)
- (Total 40 Marks)**

SECTION B: YOU ARE REQUIRED TO ANSWER ANY THREE OUT OF FIVE QUESTIONS IN THIS SECTION (60 MARKS)

QUESTION 2

- In accordance with IAS 12 on Income Tax, the income tax expense in statement of profit or loss is composed of two tax components:
- (i) Current tax; and
 - (ii) Deferred tax

Required:

Explain these **TWO** tax components. (5 Marks)

- Dan Ruwa Nigeria Limited is a company that is based in the North-western part of Nigeria and specialises in the production of bottled and sachets water.

The company was incorporated on January 1, 2018.

The summarised financial statements of the company for the year ended December 31, 2018 is as follows:

Extract of Statements of profit or loss for the year ended December 31, 2018

	N'000
Revenue	270,000
Administrative and other allowable expenses	(138,000)
Accounting depreciation	<u>(11,000)</u>
Net profit before taxation	<u>121,000</u>

Extracts of statement of financial position as at December 31, 2018

Assets (Non-current assets)	N'000
Property, plant & equipment	48,000
Motor vehicle	12,000
Less:	
Depreciation	<u>(11,000)</u>
Carrying amount December 31, 2018	<u>49,000</u>

	N'000
Ordinary share capital	17,000
Retained earnings	12,000
Other liabilities	<u>20,000</u>
	<u>49,000</u>

The Federal Inland Revenue Service (FIRS) granted the company a capital allowance on its non-current assets, which amounted to ₦15,000,000 and company income tax rate is 30%.

Required:

- Calculate the current income tax expense and the deferred tax liability balance that should be disclosed in the statement of financial position of the company as at December 31, 2018. (10 Marks)
 - Prepare the statement of profit or loss of Dan Ruwa Nigeria Limited incorporating the tax expense for the year ended December 31, 2018. (5 Marks)
- (Total 20 Marks)**

QUESTION 3

Family plc. is the parent company of Children Limited. The Statement of Financial Position of the two companies as at September 30, 2019 are presented below:

Statement of Financial Position as at September 30, 2019

ASSETS	Family Plc	Children Limited
NONCURRENT ASSETS	N'Million	N'Million
Office building complex	5,000	1,920
Plant and machinery	7,000	6,000
Investment in children shares	<u>6,028</u>	-
	<u>18,028</u>	<u>7,920</u>
CURRENT ASSETS		
Inventory	3,600	1,900
Trade receivables	4,100	1,700
Other receivables	300	20
Tax assets	0	100
Bank balances	<u>1,440</u>	<u>840</u>
	<u>9,440</u>	<u>4,560</u>
Total Assets	<u>27,468</u>	<u>12,480</u>
Equity and Liabilities		
Ordinary shares of N1.50k each	21,600	9,600
Retained earnings	<u>1,260</u>	<u>480</u>
	<u>22,860</u>	<u>10,080</u>
CURRENT LIABILITIES		
Trade payables	2,000	280
Other payables	928	200
Overdrafts	<u>1,680</u>	<u>1,920</u>
	<u>4,608</u>	<u>2,400</u>
Total Equity and Liabilities	<u>27,468</u>	<u>12,480</u>

The following information is relevant:

- Children Limited had been making continuous losses in the income statements over the past three years; recently, it is steadily returning into a profit making entity. Family Plc bought 4.8 billion equity shares in Children limited a year ago when Children Limited had retained earnings of ₦144 million and the fair value of the non-controlling interest was ₦3.396 billion. Profits were evenly distributed over the years.
- During the year ended September 30, 2019; Family plc. sold goods with an invoiced value of ₦576 million at cost plus 20% to Children limited. Half of the goods were still in the inventory of Children limited as at the end of the year.

- Children Limited owed Family Plc ₦72 million for the goods it purchased during the year ended September 30, 2019.
- Included in the other payables was the proposed dividend of 2½ kobo per ordinary shares of Children Limited for the year ended September 30, 2019. Both companies had agreed that the proposed dividend should be paid by the directors of Children Limited before consolidation.

Required:

Prepare the Consolidated Statement of Financial Position of Family plc. as at September 30, 2019. **(Total 20 Marks)**

QUESTION 4

- The IASB's framework for preparation and presentation of financial statements requires financial statements to be prepared on the basis that they comply with certain accounting concepts and underlying assumptions.

Required:

Explain the meaning of each of the following concepts and the underlying assumption.

- Substance over form; and
- Going concern **(6 Marks)**
- IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, sets out the principles of accounting for these items and classifies when provision should not be made prior to its issue. The inappropriate use of provisions had been an area where companies had been accused of manipulating financial statements and of creative accounting.

Required:

Distinguish between provisions, contingent liabilities and contingent assets as contained in IAS 37. **(14 Marks)**
(Total 20 Marks)

QUESTION 5

Sekiri Nigeria Limited is a major competitor to Ijor Ventures Limited. Both companies operate in the same industry in the last 20 years.

The summarised financial information of Sekiri Nigeria Limited for the last 2 years are as follows:

Sekiri Nigeria Limited
Summarised profit or loss for the year ended September 30,

	2019	2018
	N'm	N'm
Revenue	4,565	4,905
Cost of sales	<u>(2,950)</u>	<u>(3,225)</u>
Gross profit	1,615	1,680
Selling, distribution & admin expenses	(1,095)	(1,070)
Interest expense	<u>(95)</u>	<u>(75)</u>
Net profit before taxation	425	535
Taxation	<u>(225)</u>	<u>(260)</u>
Profit for the year	<u>200</u>	<u>275</u>

Statement of financial position as at September 30,

	2019	2018
	N'm	N'm
Assets		
Non-current assets:		
Intangible assets	240	200
Tangible assets (carrying amount)	<u>1,080</u>	<u>1,030</u>
	1,320	1,230
Current assets		
Inventories	1,470	1,515
Trade receivables	800	705
Bank	<u>260</u>	<u>290</u>
	<u>3,850</u>	<u>3,740</u>
Equity & liabilities	2019	2018
Equity	N'm	N'm
Ordinary share capital	500	500
Retained earnings	<u>1,730</u>	<u>1,650</u>
	2,230	2,150
Non-current liabilities		
Loan – notes	<u>690</u>	<u>690</u>

Current liabilities:		
Trade payables	375	375
Other payables	<u>555</u>	<u>525</u>
	<u>3,850</u>	<u>3,740</u>
Financial ratios of Sekiri Nigeria Limited:		
	2019	2018
Ratios:		
Gross profit margin	35.4%	34.3%
PBIT		
ROCE	17.8%	21.5%
Equity plus loan notes		
Net profit margin	11.4%	12.4%
Asset turnover	1.56times	1.73times
Gearing ratio	23.6%	24.3%
Debt/equity ratio	30.9%	32%
Interest cover	5.5	8.1
Current ratio	2.7	2.8
Quick ratio	1.1	1.1
Receivable payment period (days)	64	52
Inventory turnover period (days)	182	171
Payable turnover period (days)	<u>46</u>	<u>42</u>

Sekiri Nigeria Limited declared dividend of ₦120m each in years 2018 and 2019.

Required:

- As the Chief Accountant of Ijor Ventures Limited, write a report to your company's Finance Director analysing the performance of Sekiri Nigeria Limited which is your company's competitor. (10 Marks)
 - Highlight **FIVE** areas, which will require further investigation, including reference to other pieces of information, which would complement your analysis of performance of Sekiri Nigeria Limited. (10 Marks)
- (Total 20 Marks)**

QUESTION 6

- IFRS 15 on revenue from contract with customers was issued for the purpose of ensuring that revenue are properly accounted for, better than what we have under IAS 18 and IAS 11.

Required:

- i. Identify the **FIVE** step-model that needs to be followed by entities when recognising revenue from contract under IFRS 15.
 - ii. Explain how IFRS 15 is expected to improve the financial reporting of revenue. (6 Marks)
- Phonetell Nigeria Limited is a network service provider registered with the Nigeria Stock Exchange (NSE). The company has been operating in the country for the past 10 years.

On September 1, 2019, the company entered into a service contract with its customers to provide a special model handset and one year service at a price of ₦250,000.

If the customers acquired the handset only, it would be sold at a price of ₦75,000 and if the network service is separately provided for one year duration, the customer will be made to pay the sum of ₦200,000 for the one year duration.

The financial year end of Phonetell Nigeria Limited is September 30.

Required:

Calculate the revenue from this contract for the accounting years ended 2019 and 2020 in accordance with the provisions of IFRS 15. (10 Marks)

- On September 20, 2019, Phonetell Nigeria Limited sold 100 units of Android PT-Tablet to a major customer for ₦200,000 each. The PT-Tablet costs Phonetell Nigeria Limited ₦160,000 each.

The terms of sales are that the customers have the right to return the tablets for a full refund within 3 months. On expiration of the 3 months period, the customer can no longer return the PT-Tablet and payment becomes immediately due. Phonetell has entered into transactions of this type with these customers previously and can reliably estimate that 4% of the Android PT-Tablets are likely to be returned within the three-month period.

Required

Explain how the above transactions would be reported in the financial statements of Phonetell Nigeria Limited for the year ended September 30, 2019. (4 Marks)

(Total 20 Marks)



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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MARCH/JULY 2020

FINANCIAL REPORTING

Time Allowed: 3¼ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER FOUR OUT OF SIX QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (40 MARKS)

QUESTION 1

Dangoyaro Plc is a manufacturing company and the summarised financial statements for the year ended September 30, 2019 and the comparative figures for 2018 are as follows:-

	2019 N'000	2018 N'000
Revenue	737,500	900,000
Cost of sales	<u>(637,500)</u>	<u>(650,000)</u>
Gross profit	100,000	250,000
Distribution cost	(26,250)	(20,000)
Admin expenses	(122,500)	(97,500)
Investment income	1,250	5,000
Finance cost	<u>(15,000)</u>	<u>(12,500)</u>
Profit/(loss) before taxation	(62,500)	125,000
Income tax at 30% (expense)/relief	<u>10,000</u>	<u>(37,500)</u>
Profit/(loss) for the year	<u><u>(52,500)</u></u>	<u><u>87,500</u></u>

Statement of financial position as at September 30

	2019 N'000	2018 N'000
Non-current assets		
Property plant and equipment	440,000	612,500
Financial assets fair value through profit or loss	<u>60,000</u>	<u>100,000</u>
	500,000	712,500

Current assets

Inventory & work-in progress	55,000	47,500
Trade receivables	70,000	70,000
Bank	<u>30,000</u>	<u>2,500</u>
	155,000	120,000
Total assets	<u><u>655,000</u></u>	<u><u>832,500</u></u>

Equity and liabilities**Equity**

Ordinary share capital of ₦1 each	325,000	300,000
Share premium	25,000	--
Revaluation reserves	--	112,500
Retained earnings	90,000	162,500
	<u>440,000</u>	<u>575,000</u>

Non-current liabilities

Bank loan	100,000	125,000
Deferred tax	30,000	17,500
	<u>130,000</u>	<u>142,500</u>

Current liabilities

Payables	85,000	70,000
Current tax payable	--	45,000
	<u>85,000</u>	<u>115,000</u>

Total equity and liabilities	<u>655,000</u>	<u>832,500</u>
-------------------------------------	-----------------------	-----------------------

The following information was obtained from the chairman's statement in the annual report presented at the Annual General Meeting (AGM) held on December 22, 2019 and in the notes to the financial statements.

- (i) Market condition during the year ended September 30, 2019 proved very challenging due largely to difficulties in the global economy as a result of recession, which led to a decline in the share price and property values.
- (ii) Dangoyaro plc has not been immuned from these effects and our property have suffered impairment losses of ₦125million in the year. The excess of these losses over previous surpluses has led to a charge to cost of sales of ₦37.5million in addition to the normal depreciation charge.
- (iii) There is no addition to or disposal of non-current assets during the year.
- (iv) In response to the downturn, the company has made a number of employees redundant, incurring severance cost of ₦32.5million (included in cost of sales), undertaken cost savings in advertising and other administrative expenses.
- (v) The difficulty in the credit market has meant that the finance cost of our fixed interest bank loan has increased from ₦12.5million to ₦15million. In order to improve cash flows, the company made a rights issue during the year and reduced the dividend per share by 50%.
- (vi) Despite the above events and the associated costs, the board of directors of Dangoyaro Plc believes the company's performance has been quite resilient in these difficult times.

You are required to prepare:

- a. An adjusted statement of profit or loss for the year ended September 30, 2019 (without taking into consideration information in the chairman's statement and notes to the financial statements). (5 Marks)
- b. Statement of changes in equity for the year ended September 30, 2019. (8 Marks)
- c. Statement of cash flows for the year ended September 30, 2019 using indirect method in accordance with provisions of IAS 7. (12 Marks)
- d. Analyse and discuss the financial performance and position of Dangoyaro plc as shown by the above financial statements as at September 30, 2019 using the following financial ratios:
 - i. Gross profit margin
 - ii. Net profit margin
 - iii. Return on capital employed (CE = ordinary shares plus reserves)
 - iv. Asset turnover
 - v. Current ratio
 - vi. Quick ratio
 - vii. Gearing ratio
 - viii. Receivables period
 - ix. Inventory period
 - x. Payables period

(15 Marks)

(Total 40 Marks)

SECTION B: YOU ARE REQUIRED TO ANSWER ANY THREE OUT OF FIVE QUESTIONS IN THIS SECTION (60 MARKS)

QUESTION 2

- a. IFRS 5 sets out requirements that specify the accounting treatment for Non-current Assets Held for Sale and the presentation and Discontinued Operations.

Required:

Explain the criteria to be met before assets can be classified as held for sales in accordance with IFRS 5. (5 Marks)

- b. Explain the recognition criteria on provisions in accordance with International Accounting Standards (IAS 37) on provisions, contingent liabilities and contingent assets. (5 Marks)
- c. What are the disclosure requirements of International Accounting Standards (IAS 37) on provisions. (5 Marks)

- d. Explain **FIVE** fundamental principles set out in the ICAN code of ethics.
(5 marks)
(Total 20 Marks)

QUESTION 3

- a. International Financial Reporting Standards IFRS 10 - Consolidated Financial Statements states that a parent must prepare consolidated financial statements for the group as a whole.

Required:

Explain the exceptions to this rule according to IFRS 10. (7 Marks)

- b. The following information relates to financial statements included in the annual report of Papa Limited and Mama Limited as at December 31, 2018. Papa Limited acquired 80% of the ordinary shares of Mama Limited for ₦1,200m on January 1, 2014:

	Papa Limited ₦'m	Mama Limited ₦'m
Assets		
Non-current assets		
Property, plant and equipment	1,200	900
Investments	1,600	Nil
Current assets		
Inventories	320	300
Trade receivables	240	560
Cash and cash equivalents	<u>40</u>	<u>100</u>
	<u>3,400</u>	<u>1,860</u>
Equity and Liabilities		
Share capital	320	240
Share premium	80	40
Retained earnings	1,180	1,000
Non-current liabilities		
Loan notes	1,200	340
Current liabilities		
Trade payables	<u>620</u>	<u>240</u>
	<u>3,400</u>	<u>1,860</u>

Additional Information provided are:

- (i) At the date of acquisition, Mama Limited retained earnings were ₦600m. Non-controlling interest fair value in Mama Limited on the date of acquisition was ₦320m.
- (ii) Papa Limited sold goods worth ₦200m to Mama Limited during the year making 25% gross profit margin. 40% of the goods are still included in the inventories of Mama Limited as at December 31, 2018.
- (iii) The fair values of the net assets of Mama Limited at the date of acquisition is the same as their carrying amount, with the exception of land and buildings. The cost of these land and buildings is ₦600m and it was estimated to have a fair value of ₦720m.

You are required to:

Prepare the consolidated statement of financial position for the Papa Limited group as at December 31, 2018.

(13 Marks)

(Total 20 Marks)

QUESTION 4

- a. The Federal Government of Nigeria is committed to improving Medium, Small and Micro Enterprises (MSME) programme. In view of this, the government issued directives to the Central Bank of Nigeria (CBN) to give grants to MSME that has at least 25% local equity participation.

Required:

- (i) Explain the **TWO** types of grant/government assistance that are recognised by IAS 20 on accounting for government grants and disclosure of government assistance.
 - (ii) Outline the **TWO** methods of presenting grant/government assistance that are recognised by IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance. (8 Marks)
- b. During the year ended June 30, 2019, Gbogbonise Enterprises having qualified for the 25% local equity participation, received the following grants from Central Bank of Nigeria (CBN).
- (i) On September 1, 2018, a grant of ₦1million was received from CBN. The grant was in respect of training casual workers. The training cost incurred by Gbogbonise Enterprises in this respect, was ₦1.75million.
 - (ii) On November 1, 2018, Gbogbonise Enterprises acquired plant and equipment costing ₦8.75million and received a grant of ₦2.5million from Central Bank of Nigeria (CBN) in respect of the purchase. The plant

and equipment which has a residual value of ₦1.25million is depreciated on straight line basis over its useful life of 5 years.

- (iii) On June 1, 2019, a grant of ₦2.5million was made by CBN. The grant was in respect of relocation costs that Gbogbonise Enterprises had incurred for movement of its business to a free trade zone allocated to Medium, Small and Micro Enterprises (MSME). The grant is repayable in full unless Gbogbonise Enterprises recruits at least one hundred (100) employees from the free trade zone local area by the end of the month of June, 2019. Gbogbonise is finding it difficult to recruit this number of employee in the local area.

Required:

Prepare extracts of statement of financial position and statement of profit or loss of Gbogbonise Enterprises for the year ended June 30, 2019 using the two methods of presenting grants in the financial statement of business entities. (12 Marks)

(Total 20 Marks)

QUESTION 5

- a. IFRS requires several methods for recognising gains and losses on re-measurement of various types of assets recognised by different International Accounting Standards.

Required:

Explain how IFRS requires gains or losses on re-measurement to be dealt with in the financial statements for each of the following type of assets:

- i. Financial assets held at fair value under – IFRS 9. (3 Marks)
- ii. Property, plant and equipment held under revaluation model of IAS 16.

(2 Marks)

- b. The assistant accountant of Gbebody Nigeria Limited after preparing the company's draft statement of profit or loss for the year ended September 30, 2019 and adding the current year's profit to retained earnings extracted a summarised trial balance of the company as at that date are as follows:

	₦'000	₦'000
Retained earnings as at September 30, 2019	-	26,250
Ordinary shares at ₦1 each	-	60,000
Land (₦7.5m) and building at cost	82,500	-
Plant & equipment at cost	87,750	-
Accumulated depreciation at October 1, 2018:	-	
- Building		30,000
- Plant & equipment		51,750
Current assets	60,750	-
Current liabilities	-	57,600
Deferred tax	-	3,750
Current tax	-	1,650
	<u>231,000</u>	<u>231,000</u>

The chief accountant of Gbebody Nigeria Limited on reviewing the draft trial balance discovered that the following information were not taken into consideration by the assistant accountant of the company.

- The price of property has increased significantly in recent years and on October 1, 2018, the directors decided to revalue the land and building.
- The directors accepted the report of an independent valuer who valued the land at ₦12m and the building at ₦58.5million on that date. The remaining life of the building at October 1, 2018 was 15 years. Gbebody Nigeria Limited does not make an annual transfer to retained earnings to reflect the realisation of the revaluation gain, however, the revaluation will give rise to a deferred tax liability. The company income tax rate is 30%.
- Plant and equipment is depreciated at 12½% per annum using reducing balance method. No depreciation has been charged on any non-current assets for the year ended September 30, 2019.

- Provision of ₦3.6million is required for current income tax on the profit for the year to September 30, 2019. The balance on current tax in the trial balance is the under/over provision of tax for the previous year. In addition to the temporary difference relating to the information in the note above. Gbebody Nigeria Limited has further taxable temporary difference of ₦15m as at September 30, 2019.

You are required to prepare:

- Adjusted retained earnings after taking into consideration the additional information in the notes above. (5 Marks)
- The statement of financial position of Gbebody Nigeria Limited as at September 30, 2019. (10 Marks)

(Total 20 Marks)

QUESTION 6

- The conceptual framework specifies the fundamental reasons why financial statements are produced worldwide which, is to satisfy the requirement of external users.

Required:

Outline **FIVE** types of economic decisions for which financial statements are likely to be used for and identify **TWO** advantages of conceptual framework. (10 Marks)

- The regulatory body responsible for issuing accounting standards in accordance with local and international regulations in Nigeria is the Financial Reporting Council of Nigeria (FRCON).

Required:

Explain briefly **THREE** main objectives of setting up the Financial Reporting Council of Nigeria (FRCON) and identify **TWO** ethical issues in financial reporting which companies may be sanctioned for by this body.

(10 Marks)

(Total 20 Marks)



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ACCOUNTANTS OF NIGERIA**

PATHFINDER

**NOVEMBER 2020 DIET
SKILLS LEVEL EXAMINATIONS**

Question Papers

Suggested Solutions

Marking Guides

and

Examiner's Reports

FOREWARD

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- (ii) Unsuccessful candidates in the identification of those areas in which they lost marks and need to improve their knowledge and presentation;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subject contained herein; and
- (iv) The professional; in improving pre-examinations and screening processes, and thus the professional performance of candidates.

The answers provided in this publication do not exhaust all possible alternative approaches to solving these questions. Efforts had been made to use the methods, which will save much of the scarce examination time. Also, in order to facilitate teaching, questions may be edited so that some principles or their application may be more clearly demonstrated.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2020

FINANCIAL REPORTING

Time Allowed: 3¼ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER FOUR OUT OF SIX QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (40 MARKS)

QUESTION 1

- a. The financial statements of Orobo, Lepa and Opeke as at December 31, 2018 are as follows:

Statement of financial position as at December 31, 2018

	Orobo Plc	Lepa Limited	Opeke Limited
	₦'000	₦'000	₦'000
Non-current assets:			
Freehold property	48,750	31,250	12,500
Plant and equipment	19,875	9,375	7,125
Investment	37,500	--	--
	<u>106,125</u>	<u>40,625</u>	<u>19,625</u>
Current assets			
Inventory	14,375	7,500	6,625
Trade receivables	8,250	7,250	9,250
Bank and cash	1,250	3,000	500
	<u>23,875</u>	<u>17,750</u>	<u>16,375</u>
Total assets	<u>130,000</u>	<u>58,375</u>	<u>36,000</u>
Equity and liabilities:			
Equity:			
Ordinary share capital – ₦1 each	50,000	25,000	18,750
Retained earnings	36,500	22,125	9,750
	<u>86,500</u>	<u>47,125</u>	<u>28,500</u>
Non-current liabilities			
12% loan notes	<u>12,500</u>	<u>2,500</u>	<u>-</u>
Current liabilities			
Trade payables	17,000	8,750	7,500
Bank overdraft	14,000	-	-
	<u>31,000</u>	<u>8,750</u>	<u>7,500</u>
Total equity and liabilities	<u>130,000</u>	<u>58,375</u>	<u>36,000</u>

Additional information:

- (i) Orobo Plc acquired 15million ordinary shares in Lepa Limited in January 2013 for ₦25million when the retained earnings of Lepa Limited were ₦5million.
- (ii) At the date of acquisition of Lepa Limited, the fair value of its freehold property was considered to be ₦10million greater than its value in Lepa Limited's statement of financial position. Lepa Limited had acquired the property in January 2013 and the building element (comprising of 50% of the total value) is depreciated on cost over 40 years.
- (iii) Orobo Plc acquired 5.625million ordinary shares in Opeke Limited on January 1, 2017 for ₦12.5million when the retained earnings of Opeke Limited were ₦3.75 million.
- (iv) Lepa Limited manufactures components used by both Orobo Plc and Opeke Limited. Transfers were made by Lepa Limited at cost plus 25%. Orobo Plc held ₦2.5million inventory of these components at December 31, 2018. In the same period Orobo plc sold goods to Opeke Limited of which Opeke Limited had ₦2million in inventory as at December 31, 2018. Orobo plc had marked these goods up by 25%.
- (v) The goodwill of Lepa Limited is impaired and should be fully written off. An impairment loss of ₦2.3million is to be recognised on the investment in Opeke Limited.
- (vi) Non-controlling interest is valued at full fair value, Lepa Limited shares were trading at ₦1.60 just prior to the acquisition by Orobo Plc.

Required:

Prepare the consolidated statement of financial position of Orobo group for the year ended December 31, 2018. (25 Marks)

- b. Ikoko Plc started business 3 years ago following a research breakthrough that motivated large scale customers to order the company's new product.

Extracts from the financial statements recently published are as follows:

Statement of profit or loss for the year ended December 31, 2014

	2014	2013
	₦'m	₦'m
Revenue	360	20
Cost of sales	<u>(150)</u>	<u>(12)</u>
Gross profit	210	8
Operating expenses	<u>(50)</u>	<u>(3)</u>
Operating profit	160	5
Interest expense	(10)	-
Tax expense	<u>(60)</u>	<u>(2)</u>
Profit for the year	<u>90</u>	<u>3</u>

Statement of financial position as at December 31, 2014

	2014 ₦'m	2013 ₦'m
Non-current assets:		
Property, plant & equipment	80	20
Current assets:		
Inventory	200	40
Trade receivables	70	25
Bank	(50)	30
Total assets	300	115
Equity and liabilities		
Equity:		
Ordinary shares of ₦1 each	60	40
Current liabilities:		
Trade payables	190	60
Current tax	50	15
	300	115

Required:

- Discuss **THREE** signs which show that Ikoko Plc is suffering from overtrading during the year ended December 31, 2014 from the published financial statements. (5 marks)
 - Identify any **FIVE** possible causes of the problem from the published financial statements. (5 marks)
 - Recommend any **FIVE** possible solutions to the problem. (5 marks)
- (Total 40 Marks)**

SECTION B: YOU ARE REQUIRED TO ANSWER ANY THREE OUT OF FIVE QUESTIONS IN THIS SECTION (60 MARKS)

QUESTION 2

Non-accounting professionals usually wonder why an entity's general purpose financial reporting should be regulated without allowing users to be free from choice of presentations.

In order to give clarity on this subject to the non-accounting professionals in your workplace,

You are required to:

- Explain **FOUR** reasons why financial reporting should be regulated in Nigeria. (4 Marks)
- Identify and explain **TWO** sources of accounting regulations in Nigeria. (3 Marks)

- c. Highlight **THREE** objectives of the International Accounting Standard Boards (IASB). (3 Marks)

- d. Eko Transport Company (ETC) limited is preparing its financial statements for publication for the year ended August 31, 2019. The draft statement of changes in equity is presented as follows:

	Share Capital N' Million	Share Premium N' Million	Retained Earnings N' Million	Total N' N' Million
Balance: 31/8/2018	750	75	135	960
Profit for the year end	<u>0</u>	<u>0</u>	<u>803</u>	<u>803</u>
	750	75	938	1,763
Dividend paid	<u>0</u>	<u>0</u>	<u>(150)</u>	<u>(150)</u>
Balance: 31/8/2019	<u>750</u>	<u>75</u>	<u>788</u>	<u>1,613</u>
Retained earnings (August 31, 2017)			<u>(90)</u>	

Additional information:

- (1) On January 10, 2020, ETC Limited discovered that inventory was overstated by ₦105,000,000 as at August 31, 2019 and by ₦90,000,000 as at August 31, 2018.
- (2) There was transposition error in reporting dividend payments in the statement of changes in equity, the correct figure as at August 31, 2019 was ₦105,000,000.
- (3) The company income tax rate is 30% in each year.
- (4) On August 31, 2019; additional shares of 50,000,000 were issued at ₦1.25 kobo. The par value of ETC Limited share is ₦1.00 per share. This was inadvertently omitted in the record of ETC Limited.

You are required to prepare:

- i. Revised Comparative Income Statements after necessary adjustments for the years ended August 31, 2018 and 2019. (3 Marks)
- ii. Adjusted Statement of Changes in Equity as at August 31, 2019. (5 Marks)
- iii. The journal entries to correct the errors in (2) and (4) above (2 Marks)

(Total 20 Marks)

QUESTION 3

- a. IAS 10 on events after reporting period has two main objectives:
- To specify when a company should adjust its financial statements for events that occur after the end of the reporting period; and
 - To specify the disclosure that should be given about events that have occurred after the end of the operating period but before the financial statements were authorised for issue.

Required:

Discuss the following key concepts under IAS 10:

- Event after reporting period
 - Adjusting events
 - Non-adjusting events
- (6 Marks)

- b. The following events took place in Chakachaka Company Nig. Limited:

- Shortly after the financial year ended on June 30, 2018 but before the financial statements were authorised for issue, Chakachaka Nigeria Limited's inventory was destroyed by a fire outbreak which resulted in a loss of ₦200 million.
- The company's financial year that ended June 30, 2018 shows an amount of ₦60million that is due from one of its debtors, Mr. Onigbese. Chakachaka Nigeria Limited provided for impairment at June 30, 2018 of ₦15million against the gross value of ₦60million due from Mr. Onigbese. On July 31, 2018 before the financial statements were authorised for issue, Mr. Onigbese was declared bankrupt and unable to pay the debt.
- Chakachaka Nigeria Limited was sued on June 30, 2018 but the judgment was only handed down on July 21, 2018. The Company was found liable for damages and cost amounting to ₦31million were awarded against it. On July 22, 2018, Chakachaka Nigeria Limited filed a claim with its insurers and on July 29, 2018, it was notified that the insurer would only cover ₦26 million of the loss.

Required:

Prepare a brief memorandum advising the directors of Chakachaka Nigeria Limited. on the accounting treatment and/or disclosure required as a result of the events in (i) to (iii) after the reporting date.

(14 Marks)

(Total 20 Marks)

QUESTION 4

Gbenga Nigeria Plc trial balance as at December 31, 2019 is shown below:

	N	N
Revenue		2,290,125
Administration expenses	237,150	
Selling and distribution expenses	175,200	
Legal and professional expenses	81,150	
Allowance for receivables		8,625
Inventories – finished goods – 31/12/18	276,750	
Work-in-progress – 31/12/18	49,125	
Inventories – raw materials at cost – 31/12/18	162,600	
Purchases – raw materials	1,125,900	
Carriage inwards – raw materials	15,750	
Manufacturing wages	375,000	
Manufacturing overheads	187,500	
Authorised and issued 900,000 ordinary share of 50 kobo each fully paid		450,000
150,000 8.4% cumulative preference shares of ₦1 each fully paid		150,000
Revaluation surplus		65,000
Share premium		150,000
General reserve		85,000
Retained earnings – 31/12/18		425,250
Patents and trademarks	323,250	
Motor vehicle at cost	112,500	
Freehold property at cost	375,000	
Leasehold property at cost	112,500	
Plant and equipment at cost	225,000	
Furniture and fittings at cost	75,000	
Amortisation of leasehold property – 31/12/18		22,500
Accumulated depreciation @ 31/12/2018:		
Plant and equipment		102,750
Furniture and fittings		23,625
Motor vehicles		37,500
10% loan notes		150,000
Trade payables		146,250
Trade receivables	266,445	
Bank overdraft		76,875
Cash	7,680	
	<u>4,183,500</u>	<u>4,183,500</u>

- (i) A gain of ₦20,000 made on the revaluation of old freehold property during the year is yet to be accounted for.

(ii) Inventories at December 31, 2019 were:

	=	N
Raw materials	168,900	
Finished goods	413,025	
Work-in-progress	56,700	

- (iii) Legal and professional expenses include solicitor's fees for purchase of new freehold land during the year of ₦7,500.
- (iv) Provision is to be made for full year's interest on the loan notes.
- (v) The leasehold land and buildings are held on 50 years lease, with 40 years unexpired life left as at the end of December 31, 2018.
- (vi) Depreciation for the year is to be charged as follows:
- Plant and equipment 8% on cost – charged to production
 - Furniture and fittings 10% on cost – charged to administration
 - Motor vehicles 20% on carrying amount – charged -25% to administration and 75% to selling and distribution.
- (vii) Income tax on the profit for the year is estimated at ₦68,900 and is due for payment on February 28, 2020.

Required:

Prepare the statement of profit or loss and other comprehensive income for the year ended December 31, 2019. **(Total 20 Marks)**

QUESTION 5

International Financial Reporting Standards (IFRS) may either be premised on principle or rule based concepts.

You are required to:

- a. Explain the principle and rule based concepts. (7 Marks)
- b. Highlight the **THREE** basic steps/processes necessary for developing a new accounting standard. (3 Marks)
- c. The Board of directors of Adamu Limited has decided to dispose off a group of held-for-sale-assets. The extracts of carrying amounts of the assets immediately before classification as held-for-sale were stated as follow:

	N'000
Goodwill	80,000
PPE at revalued amounts	208,000
PPE at cost	320,000
Inventory	84,000
Financial asset	68,000
	<u>760,000</u>

The Board estimated that the fair value of the disposal group is ₦650,000,000 gross with selling costs amounting to ₦10,000,000.

Required:

- i. Explain what is meant by disposal group and the rules of recognition under IFRS 5 – Non-current assets held for sale and discontinued operations. (2 Marks)
 - ii. Determine and allocate the impairments on the disposed off asset under IFRS 5. (4 Marks)
 - iii. Prepare necessary journal entries to record the transactions. (1 Mark)
 - iv. Identify **THREE** applicable criteria under IFRS 5 for classifying an asset or disposal group as held for sale in the financial statements. (3 Marks)
- (Total 20 Marks)**

QUESTION 6

Noodles Nigeria Limited (NNL) manufactures various type of noodles in Oluyole for sale across the states in Nigeria. Recently, to continue to sustain leadership of the company in the Nigerian market, on September 1 2015; a brand new machine was bought from a supplier under the following conditions:

	₦' 000
Supplier's invoice price	500,000
Trade discount applicable to invoice price 25%	
Discount applicable on invoice price for early settlements 5%	
Freight and shipment cost	100,000
Stevedore expenses	20,000
Initial operating losses	10,000
Handling cost	15,000
Electrical and installation cost	25,000
Interest on loan to the point of usage	12,000
Interest on loan after the usage	18,000
Pre-operation expenses	5,000
Staff training in use of the machine	4,000
Professional and consultancy fee on advice to buy the machine	30,000
Purchase of a four-year maintenance contract	120,000
Pre-production testing cost	13,000
Estimated residual value	90,000

Estimated useful life in machine output/units			5,000,000	
Actual	Y/E	Y/E	Y/E	Y/E
Outputs:	31/8/2016	31/8/2017	31/8/2018	31/8/2019
	'000	'000	'000	'000
Outputs/Units	1,000	1,200	1,400	800

On September 1, 2016, NNL Limited decided to upgrade the machine by adding new major components at a cost of ₦300,000,000. As a result of the new upgrade, there was an increase in the remaining useful life of the output to 8,000,000 units on September 1, 2016 and the residual value of the machine was revised to ₦114,000,000.

You are required to:

- a. Describe what is meant by depreciable amount within the context of IAS 16 on property, plant and equipment (PPE). (1 Mark)
 - b. Highlight **THREE** characteristics of depreciable assets under IAS 16. (3 Marks)
 - c. Describe the **TWO** models of accounting for cost of property, plant and equipment (PPE) under IAS 16. (3 Marks)
- Calculate the following:**
- i. Machine cost. (3 Marks)
 - ii. Revenue expenditure over the years in the statement of profit or loss. (5 Marks)
 - iii. Carrying amounts of the machine over the years. (5 Marks)
- (Total 20 Marks)**

SOLUTION 1

(a) OROBO GROUP PLC

Consolidated statement of financial position as at December 31, 2018

Non-current assets	N'000
Free hold property (w2)	89,250
Plant and equipment (19,875 + 9,375)	29,250
Investment in associates (w3)	<u>11,880</u>
	<u>130,380</u>
Current assets:	
Inventory (w4)	21,375
Trade receivable (8,250 + 7,250)	15,500
Bank and cash (1,250 + 3,000)	<u>4,250</u>
	<u>41,125</u>
Total assets	<u>171,505</u>
Equity and liabilities:	N'000
Equity	
Ordinary share capital	50,000
Retained earnings (w5)	<u>44,805</u>
	<u>94,805</u>
Non-controlling interest (w6)	<u>21,950</u>
	<u>116,755</u>
Non-current liabilities	
12% loan notes (12,500 + 2,500)	<u>15,000</u>
Current liabilities	
Trade payables (17,000 + 8,750)	25,750
Bank overdraft	<u>14,000</u>
	<u>39,750</u>
	<u>171,505</u>



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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2021

FINANCIAL REPORTING

Time Allowed: 3¼ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER FOUR OUT OF SIX QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (40 MARKS)

QUESTION 1

The following is the trial balance of Almajiri Nigeria Limited as at September 30, 2018

	₦'m	₦'m
Revenue		60,000
Cost of sales	40,800	
Distribution costs	2,900	
Administrative expenses	4,440	
Interest on bank borrowings	40	
Research and development costs	1,720	
Leasehold property (at valuation Oct. 1, 2017)	10,000	
Plant and equipment (at cost)	15,320	
Plant and equipment (accum. depr. at Oct. 1, 2017)		4,920
Capitalised development expenditure (Oct. 1, 2017)	4,000	
Development expenditure (accum. amortiz. at Oct. 1, 2017)		1,200
Closing inventory (30 Sept. 2018)	4,000	
Trade receivables	8,620	
Bank		260
Trade payables & provisions		4,760
Preference dividend paid	160	
Dividend paid on ordinary shares	1,200	
Ordinary shares at 25k each		10,000
8% Redeemable preference shares at ₦1 each (year 2020)		4,000
Retained earnings brought forward		4,900
Deferred tax		1,160
Leasehold property revaluation reserve	--	2,000
	<u>93,200</u>	<u>93,200</u>

The following information were extracted from the records of Almajiri Nigeria Limited.

Additional information:

- (i) One of the reputable customers of Almajiri Nigeria Limited sued the company for ~~₦~~400 million for breach of contract over a cancelled order. Almajiri Nigeria Limited obtained a legal opinion that there is 20% chance that Almajiri will lose the case.

Accordingly, it has provided for ~~₦~~80 million (~~₦~~400 million x 20%) included in administrative expenses in respect of the claim. The unrecoverable legal cost of defending the action was estimated at ~~₦~~20 million and these have not been provided for as the legal action will not go to court until next year.

- (ii) The directors of the Company have estimated the provision for income tax for the year ended September 30, 2018 at ~~₦~~2,280 million. The required deferred tax provision at September 30, is ~~₦~~1,200 million.
- (iii) The redeemable preference shares were issued on April 1, 2018 at par. They are redeemable at a large premium which gives them an effective finance cost of 12% per annum.
- (iv) The leasehold property had a remaining life of 20 years at October 1, 2017. The company's policy is to revalue its property at each year end and as at September 30, 2018 it was revalued at ~~₦~~8,600 million.
- (v) On October 1, 2017 an item of plant and equipment was disposed of for ~~₦~~500 million cash. The proceeds have been treated as revenue by the company. The plant is still included in the company's trial balance figure at the cost of ~~₦~~1,600 million and accumulated depreciation of ~~₦~~800 million (to date of disposal). All plants and equipment are depreciated at 20% per annum using reducing balance method. Depreciation and amortisation of all non-current assets are charged to cost of sales.
- (vi) In addition to capitalised development expenditure of ~~₦~~4,000 million further research and development cost were incurred on a new project which commenced on October 1, 2017. The research stage of the new project lasted until December 31, 2017 and incurred ~~₦~~280 million costs, from that date the project incurred development cost of ~~₦~~160 million per month. On April 1, 2018 the directors became confident that the project would be successful and yield a profit well in excess of its costs. The project is still in development as at September 30, 2018.

Capitalised development expenditure is amortised at 20% per annum using straight line method. All expensed research and development expenditure is charged to cost of sales.

You are required to prepare:

- a. Statement of profit or loss and other comprehensive income for the year ended September 30, 2018. (13 Marks)
 - b. Statement of changes in equity for the year ended September 30, 2018. (6 Marks)
 - c. Statement of movement in property, plant and equipment to be included in published financial statements. (7 Marks)
 - d. Statement of financial position as at September 30, 2018. (14 Marks)
- (Total 40 Marks)**

SECTION B: OPEN-ENDED QUESTIONS (60 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ANY THREE OUT OF FIVE QUESTIONS IN THIS SECTION

QUESTION 2

As a result of privatisation and commercialisation exercise currently going on in the country, the Ministry of Transport sold the assets and liabilities of the newly constructed standard gauge railway to a private company known as Stalus Rail Limited (SRL) to ensure smooth operations of the railway services by freeing it from government bureaucracy.

The summarised extracts of the statement of financial position at fair value of SRL on January 1, 2019 reflecting the terms and conditions of the sales agreement of the Transport Ministry are as follows:

	₦'m
Assets	
Goodwill	150,000
Operating licence	900,000
Property – Train stations and land	225,000
Rail tracks and coaches	225,000
Two (2) train engines	750,000

Purchase consideration	2,250,000
Liabilities	
Sundry liabilities	Nil

The operating licence is for a ten-year period which was issued on January 1, 2019 by the Transport Ministry and it is stated at cost.

The carrying value of the property and rail track and coaches are based on value in use. The engines are valued at their net selling prices.

On February 1, 2019 one of the train engines got damaged due to a technical fault from the manufacturer and the engine was completely destroyed. The sale of the assets to SRL was without recourse to the Transport Ministry and the manufacturer of the engines.

In view of this, it was estimated that there would be reduced passenger capacity, therefore, the estimated value in use of the whole train service business of SRL was assessed at ₦1,500 billion.

The number of passengers after one of the engines of the train got damaged was below expectation, even allowing for the reduced capacity. In the light of this, the value in use of SRL rail services was re-assessed on March 31, 2019 at ₦1,350 billion. On this date the SRL received an offer of ₦675 billion from another company called Papaya Railway Services Limited (PRSL) for the operating licence (since it is transferable). The realisable value of the other assets has not changed significantly.

Required:

- Draft a memo addressed to the MD of Stalus Rail Limited (SRL) explaining the basis of allocating an impairment loss to the assets of a cash generating unit in accordance with IAS 36 on impairment of assets.
(6 Marks)
 - Calculate the carrying amount of the assets of SRL Limited as at February 1, 2019 and March 1, 2019.
(10 Marks)
 - Explain **TWO** conditions that must exist before an impairment loss can be reversed.
(4 Marks)
- (Total 20 Marks)**

QUESTION 3

- International Financial Reporting Standards (IFRS 5) on Non-Current Assets held for Sale and Discontinued Operations specifies the accounting treatment for assets held for sale and disclosure of discontinued operations.

Required:

Discuss the conditions which must exist in order to classify a Non-Current Asset as being held for sale and explain the accounting treatments that apply when such classification is deemed appropriate. (7 Marks)

- b. Wizkid Bottling Company Plc specialises in the production of alcoholic wine known as Blue Bull and soft drink called “Wiz-Cola”, hence the company operates two divisions i.e. Blue Bull and Wiz-Cola division. Due to high cost of labour and shortage of raw materials for the production of the wine, the Blue Bull division has incurred significant operating losses.

Management decided to close down the Blue Bull division and draw up a plan to discontinue operations of the division.

On February 1, 2019 the Board of Directors of Wizkid Bottling Company Plc approved and immediately announced the formal plan.

The following figures are available for the current and prior year ending March 31.

	2019		2018	
	Blue Bull	Wiz-Cola	Blue Bull	Wiz-Cola
	₦'000	₦'000	₦'000	₦'000
Revenue	235,000	1,570,000	250,000	1,250,000
Cost of sales	175,000	505,000	200,000	450,000
Admin. expenses	35,000	311,000	25,000	255,000
Distribution costs	20,000	186,500	10,000	157,500
Other operating expenditure	15,000	124,500	10,000	102,500
Taxation expense /(credit)	(3,000)	130,500	1,500	85,000

Additional Information:

The following additional costs are directly related to the decision to discontinue operation, and are yet to be accounted for.

Severance pay of ₦42.5 million was incurred between February 1, 2019 and March 31, 2019.

A proper evaluation of the recoverability of the assets in the ‘Blue Bull Division’ in terms of IAS 36 led to the recognition of an impairment loss of ₦9.5 million which is included in other operating expenses above.

Required:

- i. Draft the statement of profit or loss for Wizkid Bottling Company Plc for the year ended March 31, 2019 together with the comparative figures for year 2018.
(10 Marks)
- ii. The Director of finance of Wizkid Bottling Company Plc stated that there should be some additional disclosure about the discontinued operations which should be shown in notes to the financial statements of the company.

5. Identify **THREE** of such disclosure requirements in accordance with IFRS

(3 Marks)

(Total 20 Marks)

QUESTION 4

Bottle Nigeria Plc acquired 80% of Glass Limited's equity share since its incorporation about 10 years ago.

The two companies' draft financial statements as at December 31, 2019 are as follows:

Statements of profit or loss for the year ended December 31, 2019.

	Bottle Nig. Plc N'000	Glass Limited N'000
Revenue	225,000	45,000
Cost of sales	<u>(130,500)</u>	<u>(27,000)</u>
Gross profit	94,500	18,000
Other expenses	<u>(76,500)</u>	<u>(14,400)</u>
Profit before taxation	18,000	3,600
Income tax expense	<u>(5,850)</u>	<u>(1,125)</u>
Profit for the year	<u><u>12,150</u></u>	<u><u>2,475</u></u>

Statement of financial position as at December 31, 2019

	Bottle Nig. Plc N'000	Glass Limited N'000
Assets		
Non-Current Assets:		
Property, plant and equipment	86,400	9,000
Investment in Glass Limited	<u>3,600</u>	<u>--</u>

	90,000	9,000
Current Assets		
Inventories	22,500	5,400
Trade receivables	29,250	1,800
Cash and cash equivalents	<u>17,550</u>	<u>1,575</u>
	<u>69,300</u>	<u>8,775</u>
Total assets	<u>159,300</u>	<u>17,775</u>
 Equity and liabilities		
Equity		
Ordinary share capital	90,000	4,500
Retained earnings	<u>22,500</u>	<u>10,800</u>
	112,500	15,300
Current liabilities		
Trade payables	40,950	1,350
Current tax liabilities	<u>5,850</u>	<u>1,125</u>
	<u>46,800</u>	<u>2,475</u>
	<u>159,300</u>	<u>17,775</u>

Additional Information:

- (i) On December 31, 2019 Bottle Nigeria Plc dispatched goods which cost ~~₦3,600,000~~ to Glass Limited at an invoice price of ~~₦4,500,000~~. Glass Limited received the goods on January 2, 2020 and recorded the transaction on that date.
- (ii) It is the group's policy to value non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required:

Prepare Bottle Group draft consolidated statement of:

- Profit or loss for the year ended December 31, 2019. (8 Marks)
- Statement of financial position as at December 31, 2019. (10 Marks)
- Explain the term "cash and cash equivalent" under IAS 7 Statement of Cash Flows. (2 Marks)

(Total 20 Marks)

QUESTION 5

You are the Chief Accountant of Jolmarg Nigeria Limited, Pepeyoyo Limited is a competitor in the same industry as Jolmarg and has been operating for the past 20 years.

The following is the result of Pepeyoyo Limited for the last three years ended December 31.

Ratios		2016	2017	2018
Gross profit margin	%	34	34.4	35.4
ROCE	%	21.1	21.5	17.8
Net profit margin	%	11.9	12.4	11.4
Asset turnover	times	1.78	1.73	1.56
Gearing ratio	%	15.6	24.3	23.6
Debt ratio	%	18.5	32.0	30.9
Interest cover	times	16.7	8.1	5.5
Current ratio	ratio	3:1	2.8:1	2.7:1
Quick ratio	ratio	1.2:1	1.1:1	1.1:1
Receivable collection period	(days)	46	52	64
Inventory turnover period	(days)	158	171	182
Payable payment period	(days)	35	42	46

Required:

Write a report to the finance director of Jolmarg Nigeria Limited analysing:

- Performance (profitability, liquidity and long term financial stability) of Pepeyoyo Limited based on the information available. (10 Marks)
- Identify **FIVE** areas which require further investigation, including references to other pieces of information which would compliment your analysis of the performance of Pepeyoyo Limited. (10 Marks)

(Total 20 Marks)

QUESTION 6

- The qualitative characteristics of relevance, faithful representation and comparability identified in the IASB's framework for the preparation and presentation of financial statements are some of the attributes that make financial information useful to various users of financial statements.

Required:

Explain what is meant by:

- i. Relevance
- ii. Faithful representation
- iii. Comparability and how they make financial information useful. (6 Marks)

b. The following transactions and events took place in Jaye Investment Nigeria Limited during the year ended March 31, 2019.

- (i) The company entered into a lease to rent an asset paying ₦150,000 a year for 5 years out of its useful economic life of 15 years. Assume a rate of interest implicit in the lease to be 10%. (6 Marks)
- (ii) The company's statement of profit or loss prepared using historical cost method showed a loss from operating its hotels but the company is aware that the increase in value of its properties during the year far outweigh the operating loss. (4 Marks)
- (iii) A decision was made by Jaye Investment Nigeria Limited's board of directors to change the company's accounting policy from one of expensing the finance cost on building new retail outlets to one of capitalising such costs. (4 Marks)

Required:

Explain how you would treat the items in (i) to (iii) above in Jaye Investment Nigeria Limited's financial statements and indicate on which of the qualitative characteristic framework your treatment is based. (Total 20 Marks)

SOLUTION 1

- (a) **Almajiri Nigeria Limited**
Statement of Profit or Loss and Other Comprehensive Income for the Year Ended September 30, 2018

	₦'m
Revenue (60,000 – 500)	59,500
Cost of sales (w1)	<u>(45,080)</u>
Gross profit	14,420
Distribution cost (w1)	(2,900)
Admin expenses (w1)	(4,380)
Finance costs	<u>(280)</u>
Profit before taxation	6,860
Income tax expense (w3)	<u>(2,320)</u>



**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF NIGERIA**

PATHFINDER

**NOVEMBER 2021 DIET
SKILLS LEVEL EXAMINATIONS**

**Question Papers
Suggested Solutions
Marking Guides
and
Examiners' Reports**

FOREWARD

This issue of the **PATHFINDER** is published principally, in response to a growing demand for an aid to:

- (i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN);
- (ii) Unsuccessful candidates in the identification of those areas in which they lost marks and need to improve their knowledge and presentation;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subject contained herein; and
- (iv) The professional; in improving pre-examinations and screening processes, and thus the professional performance of candidates.

The answers provided in this publication do not exhaust all possible alternative approaches to solving these questions. Efforts had been made to use the methods, which will save much of the scarce examination time. Also, in order to facilitate teaching, questions may be edited so that some principles or their application may be more clearly demonstrated.

It is hoped that the suggested answers will prove to be of tremendous assistance to students and those who assist them in their preparations for the Institute's Examinations.

NOTES

Although these suggested solutions have been published under the Institute's name, they do not represent the views of the Council of the Institute. The suggested solutions are entirely the responsibility of their authors and the Institute will not enter into any correspondence on them.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
SKILLS LEVEL EXAMINATION – NOVEMBER 2021

FINANCIAL REPORTING

Time Allowed: 3¹/₄ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER FIVE OUT OF SEVEN IN THIS QUESTIONS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

The trial balance for United Nigeria Plc as at December 31, 2020 is given below:

	DR N'000	CR N'000
Purchases/ Revenue	300,000	680,000
Inventories 1/1/2020	80,000	
Property, plant and equipment at cost 1/1/2020	950,000	
Property, plant and equipment Accum. depreciation 1/1/2020		390,000
Interest on 10% loan notes as at 30/6/2020	5,000	
Discounts	10,000	8,000
Distribution expenses	80,000	
Retained earnings		252,000
Administrative expenses	75,000	
Bank balance	160,000	
Bad debts written off	12,000	
12% preference shares		120,000
10% loan notes		100,000
Ordinary share capital of 50 kobo each		150,000
Share premium		90,000
Returns	8,000	6,000
Allowances for trade receivables		10,000
Trade receivables and payables	<u>360,000</u>	<u>234,000</u>
	<u>2,040,000</u>	<u>2,040,000</u>

Additional information:

- (i) Inventories at the end of the year were ₦120,000,000. Included in the closing inventories was damaged item with a cost of ₦30,000,000 which has a net realisable value of ₦18,000,000.
- (ii) Additional ordinary shares of 50,000,000 were issued and fully paid for at 80 kobo per share, this is yet to be recorded in the trial balance.

- (iii) Interest on 10% loan notes is outstanding and dividend on 12% preference shares were paid on December 31, 2020. Existing ordinary shareholders were paid dividend of 5 kobo per share on December 31, 2020. These were yet to be recorded in the trial balance.
- (iv) Allowances for trade receivables are to be increased to 15% per annum. Depreciation is charged on plant and equipment (PPE) at the rate of 15% on reducing balance basis.
- (v) ~~₦~~5,000,000 administrative expenses were outstanding and ~~₦~~25,000,000 company income tax is estimated for the year. Depreciation is charged to administrative expenses.

You are required to prepare the followings:

- a. i. Statement of comprehensive income of United Nigeria PLC for the year ended December 31, 2020. (10 Marks)
- ii Statement of changes in equity for the year ended December 31, 2020. (5 Marks)
- iii Statement of financial position as at December 31, 2020. (10 Marks)
- b. Under IAS 36 – Impairments of Assets:
Required:
Briefly explain how an entity should identify and account for impairment of assets. (5 Marks)

(Total 30 Marks)

SECTION B: OPEN-ENDED QUESTIONS**(40 MARKS)**

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ANY TWO OUT OF THE THREE QUESTIONS IN THIS SECTION

QUESTION 2

The statements of profit or loss and other comprehensive income of Okechukwu and its subsidiary, Ogenta Limited for the year ended December 31, 2019 are presented below:

	Okechukwu Plc	Ogenta Ltd
	₦'000	₦'000
Revenue	487,500	330,800
Cost of sales	<u>(304,500)</u>	<u>(258,300)</u>
Gross profit	183,000	72,500
Investment income	26,300	10,200
Distribution cost	(24,050)	(13,370)
Administrative expenses	(40,625)	(21,120)
Finance costs	<u>(10,500)</u>	<u>(9,860)</u>
Profit before tax	134,125	38,350
Income tax expense	<u>(33,800)</u>	<u>(13,000)</u>
Profit for the year	100,325	25,350
Other comprehensive income	<u>23,880</u>	<u>10,440</u>
Total comprehensive income	<u>124,205</u>	<u>35,790</u>

Additional Information:

- (i) Okechukwu Plc acquired 300 million of the ordinary shares issued by Ogenta Limited for ₦428 million.
- (ii) During the year ended December 31, 2019, Okechukwu Plc invoiced goods worth ₦80million to Ogenta Limited. It has been the policy of Okechukwu Plc to invoice goods at cost plus 33⅓%. Three-quarters of these goods are yet to be sold by Ogenta Limited at the year end.

- (iii) Extracts from the books of Ogenta Limited as at the date of acquisition revealed the following capital structure:

	N'000
Issued ordinary shares of 50 kobo each	200,000
General reserves	80,000
Retained earnings	52,500

- (iv) The fair value of the non-controlling interests at the acquisition date amounted to ~~N~~92.5million.
- (v) An impairment test on the goodwill of Ogenta Limited carried out on December 31, 2019 showed that the goodwill should be written down by ~~N~~3.2million.
- (vi) On the acquisition date, the fair value of net assets of Ogenta Limited were same as their carrying amount except for the land and building and office equipment which had fair values of ~~N~~5million and ~~N~~1.5million respectively in excess of their carrying amounts. The group non-current assets are depreciated at the rate of 10% per annum on straight-line and charged to administration expenses.
- (vii) Ogenta Limited paid a total of ~~N~~20million as dividend to all its shareholders for the year ended December 31, 2019. Okechukwu Plc has accounted for the dividend received.
- (viii) The finance cost of Ogenta Limited included ~~N~~2million interest paid to Okechukwu Plc as interest on loan granted. Okechukwu Plc has recognised the amount as interest received.

Required:

Prepare the consolidated statement of profit or loss and other comprehensive income of Okechukwu group for the year ended December 31, 2019.

(Total 20 Marks)

QUESTION 3

- a. There are three bases of accounting on which transactions are recognised and measured.

Required:

Discuss these **THREE** bases.

(6 Marks)

- b. IFRS 15-Revenue from Contracts with Customers; sets out principles to be applied in order to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

Required:

- i. Explain the core principles upon which IFRS 15 is based

(2 Marks)

- ii. Briefly explain the **FIVE** steps-model involved in the application of the core principles

(5 Marks)

- c. IAS 2-Inventories; sets out the requirements to be followed when accounting for inventories.

Required:

Enumerate **SEVEN** disclosure requirements for inventories to be shown in notes to the financial statements.

(7 Marks)

(Total 20 Marks)

QUESTION 4

Below are the statements of financial position of Onye Nigeria Plc as at October 31, 2020 and extract from the statement of profit or loss for the year ended on that date.

Onye Nigeria Plc
Statement of financial position as at October 31, 2020

	2020	2019
	₦'000	₦'000
Non-current assets		
Property plant and equipment	8,325	6,435
Current assets		
Inventories	2,880	2,205
Trade receivables	5,535	4,860
Cash and bank	360	540
	<u>17,100</u>	<u>14,040</u>
Equity and liabilities:		
Ordinary share capital	3,600	3,600
Retained earnings	5,603	3,938
Non-current liabilities:		
10% loan notes	3,600	2,700
Current liabilities:		
Trade payables	3,375	3,105
Bank overdraft	495	360
Taxation	135	90
Accrued expenses	292	247
	<u>17,100</u>	<u>14,040</u>

Onye Nigeria Plc
Extracts from Statement of profit or loss for the year ended October 31

	2020	2019
	₦'000	₦'000
Revenue	50,400	43,875
Cost of sales	38,070	30,713
Profit before taxation	2,093	1,440

Additional information:

(i) The profit before tax is after charging

	2020	2019
	₦'000	₦'000
Depreciation	1,620	1,620
interest on loan note	360	270
Interest on bank overdraft	68	41
Audit fees	54	45

(ii)	The latest industry average ratios is as follows:	
	ROCE (capital employed = equity and loan notes)	18.50%
	Net profit margin	4.73%
	Gross profit margin	35.23%
	Assets turnover	3.91 times
	Current ratio	1.90:1
	Quick ratio	1.27:1
	Trade receivables period	52 days
	Trade payables period	49 days
	Inventory turnover	18.30 times
	Gearing ratio	32.71%

Required:

- Calculate the above ratios of Onye Nigeria Plc for years 2019 and 2020. (10 Marks)
 - Analyse the performance and liquidity of Onye Nigeria Plc for year 2020. (5 Marks)
 - Comment on the limitation of use of accounting ratios in financial statements analysis. (5 Marks)
- (Total 20 Marks)**

SECTION C: OPEN-ENDED QUESTIONS (30 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ANY TWO OUT OF THE THREE QUESTIONS IN THIS SECTION

QUESTION 5

Dongo Limited statement of profit or loss for the year ended December 31, 2020

	₦'000
Revenue	420,000
Cost of goods sold	<u>(99,000)</u>
Gross profit	321,000
Administrative cost	<u>(140,800)</u>
Operating profit	180,200
Investment income	8,100
Interest paid	<u>(17,120)</u>
Profit before taxation	171,180
Income tax expense	<u>(37,000)</u>
Profit for the year	<u>134,180</u>

Dongo Limited statement of financial position as at December 31,

	2020	2019
	₦'000	₦'000
Assets		
Non-current assets:		
Property, plant and equipment at cost	370,300	212,000
Less: Accumulated depreciation	<u>152,650</u>	<u>109,340</u>
Carrying amount	217,650	102,660
 Investment at cost	 <u>130,000</u>	 <u>130,000</u>
	<u>347,650</u>	<u>232,660</u>
Current assets:		
Inventories	96,220	107,430
Bill receivables	92,610	68,100
Prepaid expenses	<u>17,200</u>	<u>17,000</u>
	<u>206,030</u>	<u>192,530</u>
Total assets	<u>553,680</u>	<u>425,190</u>

	2020	2019
	₦'000	₦'000
Equity and liabilities:		
Ordinary share capital at ₦1.50	135,000	105,000
Retained earnings	<u>200,850</u>	<u>152,540</u>
Equity	<u>335,850</u>	<u>257,540</u>
Non-current liabilities:		
12% loan notes	<u>85,000</u>	<u>55,000</u>
 Current liabilities		
Bill payables	40,290	69,310
Other accrued expenses	20,630	8,250
Taxation	37,000	32,300
Bank balance	<u>34,910</u>	<u>2,790</u>
	<u>132,830</u>	<u>112,650</u>
Total equity and liabilities	<u>553,680</u>	<u>425,190</u>

Additional information:

- (i) During the year ended December 31, 2020; other comprehensive income was nil.
- (ii) A dividend of ₦85, 870,000 was paid during the year ended December 31, 2020.
- (iii) There was no disposal of non-current assets during the year.

You are required to:

- a. Prepare statement of cash flows using the indirect method under IAS 7 (10 Marks)
- b. Calculate the company's current ratio as at the year ended December 31, 2019 and 2020. (2 Marks)
- c. State **THREE** technical reasons which accounted for the company's rise in overdrafts for the **TWO** years. (3 Marks)

(Total Marks 15)

QUESTION 6

- a. An internally-generated intangible asset is an asset created by a company through its own efforts and by its nature do not exist physically.

Required:

- i. Explain the terms: Research and Development and state **TWO** examples each. (4 Marks)
- ii. Development costs must be recognised as an intangible asset if only some conditions can be satisfied. Identify **FIVE** such conditions. (5 Marks)

- b. The following information were extracted from the non-current assets register of Olugbenga Nigeria Limited for the year ended March 31, 2021.

	₦' Million
Internally generated development costs	1,595
Software licences at cost	418
Goodwill at cost	4,050

Accumulated amortisation and impairment loss 1/4/2020:

	₦' Million
Development costs	775
Software licences	204
Goodwill	540

During the year, the following acquisitions and disposals of assets were recorded:

	₦' Million
Acquisitions - Development costs	330
- Software licences	91
Disposals - Development costs	160
- Software licences	12

Also during the year, goodwill acquired from business combination amounted to ₦102 million. The year-end impairment test on the goodwill revealed a loss of ₦82 million.

Annual amortisation charge on the internally generated development costs and software licences are based on their estimated useful life of 10 years and 15 years respectively. The accumulated amortisations on the disposal were ₦110million and ₦40million for development cost and software licences respectively.

Required:

Prepare a schedule for movement in intangibles to be disclosed in the note to the financial statements for the year ended March 31, 2021.

(6 Marks)

(Total 15 Marks)

QUESTION 7

- a. The Conceptual Framework states the qualitative characteristics of financial information.

Required:

Identify and explain **FIVE** qualitative characteristics of General Purpose Financial Statements (GPFS).

(10 Marks)

- b. IAS 16 prescribes the principles and models of the valuation in recognising items of property, plant and equipment in the financial statements of an entity.

Required:

Briefly explain the **TWO** methods of valuation recognised in IAS 16 - property, plant and equipment.

(5 Marks)

(Total 15 Marks)



**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF NIGERIA**

PATHFINDER

**MAY 2022 DIET
SKILLS LEVEL EXAMINATIONS**

Question Papers

Suggested Solutions

Marking Guides

and

Examiners' Reports

FOREWARD

This issue of the **PATHFINDER** is published principally, in response to a growing demand for an aid to:

- (i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN);
- (ii) Unsuccessful candidates in the identification of those areas in which they lost marks and need to improve their knowledge and presentation;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subject contained herein; and
- (iv) The professional; in improving pre-examinations and screening processes, and thus the professional performance of candidates.

The answers provided in this publication do not exhaust all possible alternative approaches to solving these questions. Efforts had been made to use the methods, which will save much of the scarce examination time. Also, in order to facilitate teaching, questions may be edited so that some principles or their application may be more clearly demonstrated.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2022

FINANCIAL REPORTING

Time Allowed: 3¼ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN IN THIS QUESTIONS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

Endtime PLC is a company based in Benin with the following trial balance for the year ended December 31, 2020:

	₦Million	₦Million
Depreciation: Plant and equipment 1/1/2020		13,875
Revenue		226,625
Administrative costs	26,200	
Plant held for sale	7,500	
Cost of sales	140,000	
Finance costs	5,500	
Multi-Users S&P and SAGE accounting software	5,700	
Inventory at 31/12/2020	10,000	
Distribution expenses	12,300	
Plant and equipment 1/1/2020	50,000	
Ordinary share capital of 50 kobo each		40,000
Allowances for doubtful debts		2,000
Investment property at valuation 1/1/2020	15,000	
Trade receivables/payables	10,000	3,000
Rental income from investment property		2,500
Bank balance		3,500
Land and buildings 1/1/2020	62,000	
15% preference shares of ₦1 each		13,000
Deferred taxation		4,200
Revaluation reserves on land and buildings		20,000
Retained earnings		16,500
Discounts	3,000	2,000
	<u>347,200</u>	<u>347,200</u>

Additional Information:

- (i) Finance costs include full year dividends on preference shares and ordinary share dividends of 2½ kobo paid at the end of the year. Allowances for

doubtful debts are no longer necessary as customers paid as at when due from time to time in the past 2 years.

- (ii) Severely damaged inventories, which cost ₦790,000,000 were included in the inventories in the trial balance. This will need to be repaired at a cost of ₦440,000,000 before a knowledgeable buyer will be interested to pay ₦940,000,000 at arm's length transaction.
- (iii) As at December 31, 2020, a valuer based in Victoria Island in Lagos was contacted by the company to review its land and buildings. The land and buildings was revalued upward by ₦13,000,000,000 and a certificate was issued to this effect. The board of directors approved the valuation but it has not yet been accounted for in the trial balance. The valuer advised that the remaining useful life of the asset is reasonably and reliably estimated to be 20 years. Depreciation is on straight-line basis.
- (iv) Depreciation on plant and equipment is charged at 15% on reducing balance basis. The multi-users S&P and Sage was bought on September 30, 2020. The amortisation is at the rate of 12.5% annually. The amortisation is evenly distributed over the year. Besides, software installation, customisation and handling cost of ₦800,000,000, training costs of ₦900,000,000, consultancy fee of ₦600,000,000 and other general overheads of ₦850,000,000 on the new software were included in administrative expenses. All depreciations are treated as administrative costs.
- (v) On December 30, 2020, a chartered surveyor valued investment property at ₦14,000,000,000 and the company uses fair value model in IAS 40 - Investment Property.
- (vi) Current income tax has been estimated for the year ended December 31, 2020 at ₦9,000,000,000 and deferred tax provision as at December 31, 2020 is to be adjusted in the income statement to reflect the tax base of the company's net assets of ₦12,000,000,000 less than the carrying amounts. The current company income tax rate is 30%.
- (vii) The plant held for sale is valued in the trial balance at its carrying amount. A broker is readily available to buy the plant for ₦6,000,000,000 at a fee of 6% of sales proceed. The sale would take place in January, 2021. Any necessary adjustment is to be treated as cost of sales.

You are required to prepare:

- a. Statement of profit or loss and other comprehensive income for the year ended December 31, 2020. (13 Marks)
 - b. Statement of changes in equity for the year ended December 31, 2020. (4 Marks)
 - c. Statement of financial position as at December 31, 2020. (13 Marks)
- (Total 30 Marks)**

SECTION B: OPEN-ENDED QUESTIONS**(40 MARKS)****INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT ANY TWO OUT OF THREE QUESTIONS IN THIS SECTION****QUESTION 2**

- a. The aim of IAS 8- Accounting Policies, Changes in Accounting Estimates and Errors is to enhance compatibility of the entity's financial statements to previous periods and to the financial statements of other entities.

Required:

Explain the terms, "accounting polices and accounting estimates". (3 Marks)

- b. In an in-house training for newly recruited trainee accountants in your organisation, a disagreement arose on the distinction between change in accounting policies and change in accounting estimates. Consequent upon the above the finance director requested you as the head of accounting department to make a presentation on the subject matter.

Required:

Write a memo addressed to the finance director distinguishing changes in accounting policies and changes in accounting estimates, highlighting also the accounting treatment of the changes in accounting estimates. (8 Marks)

- c. An extract from the non-current assets register of Eze Nigeria Limited at July 1, 2019 were as follows:

	Freehold property N'000	Office equipment N'000	Computer software licence N'000
Cost/valuation	995,000	525,000	1,100,000
Accumulated depreciation/ amortisation	<u>(100,000)</u>	<u>(334,000)</u>	<u>(110,000)</u>
Carrying amount	<u>895,000</u>	<u>191,000</u>	<u>990,000</u>

Other relevant information:

- (i) The computer software licence was acquired from Microsoft Zap Incorporated, USA on July 1, 2018 and has 10 years lifespan. In June 2020, a review of the sales of the computer software showed a very big decline in patronage. As a result of the review, estimated recoverable amount of the licence as at June 30, 2020 was ₦333million. The license is amortised on a straight-line basis.

- (ii) The freehold property consisted of land and buildings which were revalued few years ago for ₦395million attributable to the land and ₦600million to the buildings. On that date, the estimated remaining useful life of the buildings was 24 years. However, a second revaluation of the freehold property on July 1, 2019 attributed ₦410million to land, ₦560million to buildings and 20 years as the estimated remaining useful life for buildings.
- (iii) On Jan 1, 2020 an item of office equipment was purchased for ₦128million and a further ₦22million was spent on commission and installation of the equipment. Annual depreciation is charged at the rate of 18½% on cost and is appropriately apportioned on time basis as situation demands. There were no disposals of non-current assets during the year to June 30, 2020.

Required:

Prepare with comparative figures, statement of financial position extracts of Eze Nigeria Limited as at June 30, 2020. Show relevant notes for PPE and intangible assets.

(9 Marks)

(Total 20 Marks)

QUESTION 3

Daddy PLC is a first-tier entity quoted on the Nigeria Stock Exchange (NSE). The entity acquired 640 billion equity shares in Mummy PLC on January 1, 2020. The purchase consideration comprised the following:

- (i) Issue of one ordinary share of Daddy PLC in exchange for every two shares in Mummy PLC.
- (ii) Issue of ₦100 12% loan notes in Daddy PLC in exchange for every 400 shares in Mummy PLC; and
- (iii) A cash payment of 15 kobo per share for every share acquired in Mummy PLC on January 1, 2020.

At the date of acquisition, the market price of Daddy PLC's shares was 75k each. The cost incurred by banks when a fixed rate loan is paid out early, is assumed to be nil. Also, Daddy PLC has recorded the 12% loan notes in the purchase consideration in the accounts. The statements of financial position of the two (2) companies as at December 31, 2020 are presented below:

	Daddy PLC ₦'billion	Mummy PLC ₦'billion
Assets		
Non-current assets:		
Property, plant and equipment (PPE)	650	350
Investments	160	0
Intangible assets	<u>0</u>	<u>40</u>
	<u>810</u>	<u>390</u>
Current assets:		
Inventories	100	25
Trade receivables	190	70
Bank	<u>0</u>	<u>35</u>
	<u>290</u>	<u>130</u>
Total assets	<u>1,100</u>	<u>520</u>
Equity and liabilities:		
Ordinary shares at 25 kobo each	350	200
Retained earnings 1/1/2020	220	120
Retained earnings 31/12/2020	<u>100</u>	<u>50</u>
	<u>670</u>	<u>370</u>
Non-current liabilities:		
12% Loan notes	<u>160</u>	<u>40</u>
Current liabilities:		
Trade payables	150	60
Other accrued expenses	40	20
Current taxation	50	30
Bank	<u>30</u>	<u>0</u>
	<u>270</u>	<u>110</u>
Total equity and liabilities	<u>1,100</u>	<u>520</u>

Additional information:

- (i) As at the date of acquisition, the carrying amount of the net assets of Mummy PLC was equal to their fair value except for an item of property, which had a fair value of ₦50 billion in excess of its carrying amount with additional depreciation of ₦5 billion in the post-acquisition period to March 31, 2020. This has not been reflected in Mummy's PLC statement of financial position.
- (ii) The intangible asset was a television programme designed to promote the business activities of Mummy PLC. However, as a result of new government legislation on security matters on banditry and criminalities, such television programmes have now been pronounced illegal in the country. The appropriate government security agency advised the company to immediately stop the television programme and ₦12 billion compensation is to be received from the Television Authority. As a result of the new legislation, the governing board of Daddy PLC was of the opinion that goodwill on consolidation has been severely impaired by ₦30 billion.

- (iii) It is the group's policy to value non-controlling interest at full fair value. The fair value of non-controlling interests as at the date of acquisition was ₦100 billion.
- (iv) Mummy PLC sold goods worth ₦20 billion to Daddy PLC during the post-acquisition period, ₦5 billion of these goods were included in the inventory of Daddy PLC as at December 31, 2020. Mummy PLC made a profit of ₦8 billion on the sales.
- (v) Mummy PLC trade payables of ₦9 billion did not agree with Daddy PLC's trade receivables as a result of cash in transit of ₦5 billion.

You are required to:

Prepare the consolidated statement of financial position as at December 31, 2020.

(Total 20 Marks)

QUESTION 4

- a. The following financial statements were extracted from the 2021 annual report and accounts recently published by Odibeze Nigeria PLC.

Statement of profit or loss and other comprehensive income for the year ended April 30, 2021

	₦'000
Revenue	849,940
Cost of sales	<u>(564,200)</u>
Gross profit	285,740
Investment income	18,000
Operating expenses	<u>(192,400)</u>
Finance costs	<u>(26,000)</u>
Profit before taxation	85,340
Income tax expense	<u>(28,340)</u>
Profit for the year	57,000
Other comprehensive income:	
Gain on revaluation of property	<u>15,000</u>
Total comprehensive income	<u><u>72,000</u></u>

Statement of financial position as at April 30, 2021

	2021	2020
	N'000	N'000
Non-current assets:		
Freehold properties	350,000	385,000
Plant and machinery	220,000	242,000
Trade investments	120,000	88,000
Goodwill	-	38,500
Current assets:		
Inventories	325,700	265,000
Trade receivable	203,050	190,000
Cash and bank	64,000	10,200
	<u>1,282,750</u>	<u>1,218,700</u>
Equity and liabilities:	N'000	N'000
Ordinary shares of N1.20k each	120,000	72,000
Share premium	21,000	-
Revaluation reserves	15,000	5,000
Retained earnings	679,000	654,000
Non-current liabilities:		
8½% Redeemable preference shares	32,000	-
Current liabilities:		
Trade payables	260,500	350,200
Taxation	65,200	107,400
Bank overdraft	90,050	30,100
	<u>1,282,750</u>	<u>1,218,700</u>

Additional information

- (i) During the financial year the company made a bonus issue of one share for every six shares held and a cash issue at N1.90kobo per share to provide funds for its anticipated expansion.
- (ii) It is the company's policy to revalue its freehold properties annually with any resulting surplus transferred to revaluation reserves account. There was no disposal of freehold properties during the year.
- (iii) A plant with a carrying amount of N20,000,000 was disposed on September 30, 2020 for N11,200,000 while the depreciation charge for the year on the remaining plant and machinery of N24,000,000 was included in the operating expenses.
- (iv) The investment income represents interest received on the trade investment during the year. The trade investment suffered impairment loss of N10,000,000 by the year end.
- (v) The company paid an interim dividend of N25,000,000 and proposed a final dividend of N45,000,000.

Required:

- a. Prepare the statement of cash flows of Odibeze Nigeria PLC for the year ended April 30, 2021 in accordance with IAS 7, using indirect method. (17 Marks)
- b. In the context of IAS-7 – Statement of Cashflows, explain the term cash and cash equivalent. List **THREE** examples. (3 Marks)

(Total 20 Marks)

SECTION C: OPEN-ENDED QUESTIONS (30 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT ANY TWO OUT OF THREE QUESTIONS IN THIS SECTION

QUESTION 5

IFRS 15 - Revenue from Contract with Customers, defines contract as an agreement between two or more parties that create enforceable rights and obligations.

Required:

- a. Compare with an example, where necessary:
 - i. Contract liabilities versus contract assets
 - ii. Stand-alone-selling price versus transaction price (5 Marks)
- b. Under IFRS 15, highlight **SIX** criteria to assess a contract (6 Marks)
- c. Explain what is meant by contract modification and state **TWO** ways in which it can be accounted for. (4 Marks)

(Total 15 Marks)

QUESTION 6

- a. The IASB Conceptual Framework for Financial Reporting gives much detail about the qualitative characteristics of financial statements which make them useful.

Required:

Discuss the qualitative characteristics, which make information useful to users of financial statements. (10 Marks)

- b. The Financial Reporting Council of Nigeria (FRCoN) is a Federal Government parastatal under the supervision of the Federal Ministry of Industry, Trade and Investment.

Required:

Identify **FOUR** main objectives of FRCoN as defined in the Act establishing the Institution. (2 Marks)

- c. The conceptual framework of IASB states that there are two concepts of capital maintenance.

Required:

Explain the term financial capital maintenance and physical capital maintenance concepts. (3 Marks)

(Total 15 Marks)

QUESTION 7

The Board of Directors of Owerri PLC is planning to acquire controlling interest in Warri Health PLC, a vaccine producing company to expand the profitability of the group. Both companies were quoted on the Nigerian Stock Exchange (NSE). The Chief Accountant of Owerri PLC has been given the industrial average and the financial statements of Owerri PLC and Warri Health PLC for the year ended December 31, 2020. This was done to enable the Chief Accountant compute the relevant ratios and to evaluate the inherent potentials of the acquisition of the controlling interest in the company. As the Senior Accountant of Owerri PLC, the Chief Accountant gave you the financial statements of the two companies from which you computed the following ratios.

Comparative ratios of Warri Health PLC and Owerri PLC with the industrial average

	Owerri PLC	Warri Health PLC	Industrial Average
Profitability:			
Gross profit margin	32.6%	38.5%	34%
Expenses margin	12.6%	5.0%	15%
Net profit after tax margin	18%	9%	20%
Liquidity:			
Current ratio	2:1	5:1	2:1
Quick ratio	1:1	3:1	1:1
Gearing/stability ratios:			
Debt equity ratio	15%	65%	25%
Interest cover	10 times	0.05 times	8 times
Investment ratio:			
Earnings per share (EPS)	30 kobo	12 kobo	10 kobo
Price earnings ratio	5.6 times	2.5 times	2.40 times

In addition to the above ratios computed and submitted to your boss, he has asked you to compute the cost of sales ratio and earnings yield (EY). The industrial average for both ratios are 60% and 12% respectively.

You are required to:

- a. Compute the **TWO** additional ratios of the companies for the year ended December 31, 2020. (2 Marks)
- b. Draft a technical report to the Chief Accountant of Owerri PLC to evaluate and advise on the desirability of the acquisition of controlling interest in Warri Health PLC. (13 Marks)

(Total Marks 15)

SECTION A

SOLUTION 1

Endtime PLC

- a) Statement of profit or loss and other Comprehensive income for the year ended December 31, 2020

	Note	₦Million
Revenue		226,625
Cost of sales	1	<u>142,150</u>
Gross profit		84,475
Other incomes	2	6,500
Administrative expenses	3	(34,541)
Distribution cost	4	<u>(15,300)</u>
Operating profit		41,134
Finance cost	5	<u>(3,500)</u>
Profit before taxation		37,634
Income tax expense	6	<u>(8,400)</u>
Profit for the year		29,234
<u>Other comprehensive income:</u>		
Gain on revaluation of land and buildings		<u>13,000</u>
Total comprehensive income		<u>42,234</u>



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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**SKILLS LEVEL EXAMINATION – NOVEMBER 2022****FINANCIAL REPORTING****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or **RED INK** will not be marked.

TUESDAY, NOVEMBER 15, 2022**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2022

FINANCIAL REPORTING

Time Allowed: 3¼ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

There has been agitation to stop importation of containers from China, to increase patronage of local industries. The Board of Favour PLC is planning to acquire 75% controlling interests in either Grace Limited or Blessing Limited which produce better and cheaper containers locally. As a trainee working in Obokun Chartered Accountants, the Managing Partner has requested you to carry out performance score cards of the companies using accounting ratios to assess the viability of the acquisition.

Statement of comprehensive income for the year ended December 31, 2020:

	Favour Plc	Grace Ltd	Blessing Ltd
	₦' 000	₦' 000	₦' 000
Revenue	250,000	100,000	100,000
Cost of sales	<u>(105,000)</u>	<u>(30,000)</u>	<u>(40,000)</u>
Gross profit	145,000	70,000	60,000
Administrative expenses	<u>(39,000)</u>	<u>(19,000)</u>	<u>(27,000)</u>
Profit before interest and taxation	106,000	51,000	33,000
Finance costs: Interest on 10% loan notes	(6,000)	(3,000)	(30,000)
12% Preference share dividends	<u>(1,200)</u>	<u>(600)</u>	<u>(1,800)</u>
Profit before taxation	98,800	47,400	1,200
Income tax expense	<u>(29,640)</u>	<u>(14,220)</u>	<u>(360)</u>
Profit for the year	<u>69,160</u>	<u>33,180</u>	<u>840</u>

Statement of financial position as at December 31, 2020:

	Favour Plc ₦' 000	Grace Ltd ₦' 000	Blessing Ltd ₦' 000
Assets:			
Non-current assets:			
Property, plant and equipment (PPE) at cost	680,000	330,000	350,000
Accumulated depreciation	<u>(90,000)</u>	<u>(50,000)</u>	<u>(60,000)</u>
Carrying amounts	<u>590,000</u>	<u>280,000</u>	<u>290,000</u>
Current assets:			
Inventories	100,000	90,000	160,000
Trade receivables	70,000	40,000	60,000
Bank	<u>230,000</u>	<u>100,000</u>	<u>50,000</u>
	<u>400,000</u>	<u>230,000</u>	<u>270,000</u>
Total assets	<u>990,000</u>	<u>510,000</u>	<u>560,000</u>
Equity and liabilities:			
Ordinary shares of ₦1.25 each	480,000	200,000	110,000
Retained earnings	<u>323,160</u>	<u>237,180</u>	<u>12,840</u>
Equity	<u>803,160</u>	<u>437,180</u>	<u>122,840</u>
Non-current liabilities:			
10% loan notes	60,000	30,000	300,000
12% preference shares	<u>10,000</u>	<u>5,000</u>	<u>15,000</u>
	<u>70,000</u>	<u>35,000</u>	<u>315,000</u>
Current liabilities:			
Trade payables	109,640	34,220	90,360
10% loan notes interest	6,000	3,000	30,000
12% preference shares dividends	<u>1,200</u>	<u>600</u>	<u>1,800</u>
	<u>116,840</u>	<u>37,820</u>	<u>122,160</u>
Total equity and liabilities	<u>990,000</u>	<u>510,000</u>	<u>560,000</u>

Additional Information:

- (i) Inventories as at December 31, 2019 were ₦60 million, ₦30 million and ₦50 Million and the current market prices, 30 kobo, 28 kobo and 10 kobo for Favour Plc, Grace Limited and Blessing Limited respectively.
- (ii) Purchases for cash within 365 days in the year 2020 were 10%, 20% and 40% of cost of sales for Favour Plc, Grace Limited and Blessing Limited respectively.

Required:

- a. Calculate the following ratios for Grace Limited and Blessing Limited.
- Net profit margin
 - Quick ratio
 - Debt equity ratio
 - Proprietary ratio
 - Earnings yield
 - Net asset per share

(10 Marks)

- b. Draft a technical report titled 'Performance Scorecard' of Blessing Limited and Grace Limited and advise Favour Plc in which of the two companies it should acquire 75% controlling interests. (10 Marks)
- c. The Chief Financial Officer (CFO) of Favour Plc noted that the records of Blessing Limited and Grace Limited are maintained using block chain technologies.

Required:

Discuss the type of records that a company can maintain in blockchain and state **TWO** benefits of making use of this technology. (10 Marks)

(Total 30 Marks)

SECTION B: OPEN-ENDED QUESTIONS (40 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT ANY TWO OUT OF THREE QUESTIONS IN THIS SECTION

QUESTION 2

Financial statements and extract from the cashbook of Obudu Nigeria Limited for the year ended December 31, 2020 are summarised below:

Obudu Nigeria Limited

Statement of profit or Loss for the year ended December 31, 2020

	₦'000
Revenue	169,314
Cost of sales	<u>(102,798)</u>
Gross profit	66,516
Investment income	15,000
Expenses:	
Depreciation	(7,650)
Salaries and wages	(4,712)
Other cash expenses	(7,594)
Loss on disposal of equipment	(2,061)
Interest expense	<u>(3,375)</u>
Profit before taxation	56,124
Income tax expense	<u>(16,988)</u>
Profit for the year	<u><u>39,136</u></u>

Obudu Nigeria Limited

Statement of financial position as at December 31

	2020	2019
	₦'000	₦'000
Non-current assets:		
Property, plant and equipment	98,550	86,400
Current assets:		
Inventories	21,308	11,363
Trade receivables	22,703	14,063
Cash and bank	5,940	7,088
Trade investments	675	1,238
	<u>149,176</u>	<u>120,152</u>
Equity and liabilities:		
Ordinary share capital of ₦1 each	28,125	22,500
Retained earnings	40,111	21,600
	<u>68,236</u>	<u>44,100</u>
Non-current liabilities		
8% loan notes	33,750	40,500
Current liabilities		
Trade payables and accruals	35,375	30,240
Taxation	11,815	5,312
	<u>149,176</u>	<u>120,152</u>

Obudu Nigeria Limited

Cash book extract for the year ended December 31, 2020

	Bank	Cash
	₦'000	₦'000
Receipts:		
Opening balance b/f	5,500	1,588
Receipts from customers	153,602	8,087
Sale of investment	563	-
Transfer from cash	4,500	-
Disposal of equipment	1,600	1,019
Proceeds from issue of shares	5,625	-
	<u>171,390</u>	<u>10,694</u>
Payments:		
Salaries and wages	2,000	2,712
Other expenses	5,462	2,132
Payment to trade suppliers	108,623	-
Purchase of motor vehicles	22,230	-
Dividends paid	9,000	-
Transfer to bank	-	4,500
Interest paid	2,250	-
Tax paid	10,485	-
Redemption of 8% loan notes	6,750	-
Balance c/f	4,590	1,350
	<u>171,390</u>	<u>10,694</u>

Other Information

- (i) The 8% loan notes have been partly redeemed. It is expected that the full redemption will be made in five years time.
- (ii) A cash payment for insurance of ₦1million was omitted in the cash book and other records.
- (iii) The investments are not easily realisable.

Required:

- a. Prepare the statement of cash flows for the year ended December 31, 2020 using the direct method in accordance with IAS 7. (9 Marks)
- b. Prepare a statement of reconciliation of the operating profit to cash flow from operations. (5 Marks)
- c. Discuss the benefits of statement of cash flows information to users of financial statements. (6 Marks)

(Total 20 Marks)**QUESTION 3**

- a. Food Plc has a subsidiary, Eba Limited. The statements of financial position of the companies as at September 30, 2020 are presented below:

	Food Plc	Eba Limited
Assets:	₦'000	₦'000
Non-current assets	536,000	258,000
Investment in subsidiary at cost	220,000	-
Current assets:		
Inventories	88,500	92,000
Trade and other receivables	75,400	69,800
Bills receivables	30,000	-
Cash and bank	25,600	32,200
Due from Eba Limited	20,000	-
Total assets	<u>995,500</u>	<u>452,000</u>
Equity and liabilities:		
Ordinary share capital	400,000	150,000
Share premium	50,000	-
Retained earnings	203,400	88,500
General reserve	105,600	64,600
Non-current liabilities:		
10% Loan notes	100,000	50,000
Current liabilities:		
Trade and other payables	96,300	46,900
Bank overdrafts	40,200	-
Bills payables	-	40,000
Due to Food PLC	-	12,000
Total equity and liabilities	<u>₦995,500</u>	<u>₦452,000</u>

Additional Information:

- (i) Food PLC acquired four hundred and eighty million shares in Eba Limited two years ago when the balances in retained earnings and general reserves were ₦60,000,000 and ₦48,000,000 respectively.
- (ii) The fair value of non-controlling interests in Eba limited as at the acquisition date was ₦158,000,000.
- (iii) During the year, goods costing ₦80,000,000 to Food PLC were transferred to Eba Limited. It is the policy of Food PLC to transfer goods at cost plus 25%. A quarter of these goods have been sold by Eba Limited at year end.
- (iv) Part of the bills receivable have been discounted by Food PLC.
- (v) The sum of ₦8,000,000 transferred by Eba Limited to Food PLC as part payment for indebtedness was received after the reporting date.
- (vi) An impairment test revealed a loss of ₦16,000,000 on the goodwill arising on the acquisition of Eba Limited.
- (vii) The carrying amount of the net assets of Eba Limited is ₦20,000,000 more than the fair value at acquisition date. This was due to the loss in value of the company's machinery occasioned by change in technology. The machinery is depreciated at a flat rate of 15% on cost.
- (viii) The nominal value of the ordinary shares of Food PLC are denominated in 50 kobo per share, while those of Eba Limited are 25 kobo each.

Required:

- a. Prepare the consolidated statement of financial position of Food group as at September 30, 2020. (15 Marks)
- b. A gain from a bargain purchase may arise in the course of a business combination and when this happens, the acquirer must review or reassess the procedure used to measure certain items at the acquisition date.

Required:

- c. Explain the term "Gain from a bargain purchase" and identify the three items stipulated in IFRS 3 that must be reviewed. (5 Marks)

(Total 20 Marks)

QUESTION 4

IFRS is published subject to the appropriate level of IASB approval. This also includes the opinions of any dissenting IASB members and basis of IASB conclusions.

Required:

- a. Describe **SIX** steps involved in the process of issuing International Financial Reporting Standards (IFRS). (6 Marks)
- b. Explain any **TWO** enhancing characteristics of financial information. (2 Marks)

- c. **IFRS 9 - Financial Instruments**, prescribes principles for reporting, recognising and de-recognising financial instruments in the financial statements of an entity.

Required:

Explain **TWO** classes of financial instruments in accordance with IFRS 9.

(4 Marks)

- d. On January 1, 2020, an entity bought Lagos State Government Bond in the capital market for ₦575,000,000. The principal amount of the bond is ₦500,000,000 and it is redeemable at par on December 31, 2025. The bond has a stated interest rate of 15% payable annually and an effective interest rate of 12%.

Draft an amortisation schedule to indicate the amortised cost at the end of each year and the journal entries at the end of December 31, 2025.

(8 Marks)

(Total 20 Marks)

SECTION C:

OPEN-ENDED QUESTIONS

(30 MARKS)

INSTRUCTION:

YOU ARE REQUIRED TO ATTEMPT ANY TWO OUT OF THREE QUESTIONS IN THIS SECTION

QUESTION 5

The Institute of Chartered Accountants of Nigeria (ICAN) prescribes ethical behaviour for Chartered Accountants as well as fundamental principles, and threats to these principles.

You are required to:

- a. Explain briefly what is meant by professional behaviour and outlines **THREE** threats that could affect the work of professional accountants. (5 Marks)
- b. IAS 38 prescribes the requirements for reporting intangible assets in the financial statements of an entity.

Required:

- i. Explain **FIVE** conditions under which development costs can be recognised as intangibles in financial statements. (5 Marks)
- ii. Highlight **FIVE** conditions, which should be considered to determine The useful life in the amortisation of intangible assets in the financial statements. (5 Marks)

(Total 15 Marks)

QUESTION 6

- a. IAS 33-Earnings Per Share (EPS) requires entities to calculate basic and diluted earnings per share. However, diluted EPS and basic EPS will usually differ when there are potential ordinary shares in existence.

Required:

- i. Explain the term potential ordinary share giving **THREE** examples as stated in IAS 33. (3 Marks)
- ii. Describe the procedure for ranking when there are several types of potential ordinary share in issue when calculating diluted EPS. (3 Marks)

- b. The following information relates to Jumai Nigeria Limited for the year ended December 31, 2020.

Issued ordinary shares of 50k each	₦ 3,000,000
Profit for the year	₦18,000,000

Average market price of shares during the year was ₦70 per share. The potential financial instruments in existence in the company are detailed below:

- i. 800,000 options with exercise price of ₦52.50.
 - ii. 5% convertible bond of ₦6,000,000. Each bond is convertible in year 2025 into ordinary shares at the rate of 30 new shares for every ₦100 bonds.
 - iii. 200,000 8% convertible preference shares at ₦10 per share. Each preference share is convertible in year 2024 at the rate of one ordinary share for every 25 preference shares held.
- The Company income tax rate is 30%.
Assume that all the options are exercised.

Required:

Rank the potential ordinary shares and calculate the diluted EPS for the year ended December 31, 2020. (7 Marks)

- c. EPS is probably the single most important indicator of an entity's performance.

Required:

State **THREE** of the limitations of EPS.

(2 Marks)

(Total 15 Marks)

QUESTION 7

- Briefly explain **SIX** purposes of Conceptual Framework of the International Accounting Standard Board (IASB). (9 Marks)
- Explain **THREE** basic steps in the application of Business Model test in IFRS 9. (6 Marks)

(Total 15 Marks)

SOLUTION 1

(a) Computation of relevant accounting ratios for Grace Limited & Blessing Limited		Grace Limited	Blessing Limited
i.	Net profit margin = $\frac{\text{Profit before interest and tax} \times 100}{\text{Revenue}}$	$\frac{51,000 \times 100}{100,000}$ = <u>51%</u>	$\frac{33,000 \times 100}{100,000}$ = <u>33%</u>
ii.	Quick ratio/acid test = $\frac{\text{Current assets} - \text{inventory}}{\text{current liabilities}}$	$\frac{230,000 - 90,000}{37,820}$ = <u>3.70:1</u>	$\frac{270,000 - 160,000}{122,160}$ = <u>0.90:1</u>
iii.	Debt to equity ratio = $\frac{\text{Long-term debt} \times 100}{\text{Total Equity}}$	$\frac{35,000 \times 100}{437,180}$ = <u>8.01%</u>	$\frac{315,000 \times 100}{122,840}$ = <u>256.43%</u>
iv.	Proprietary ratio = $\frac{\text{Shareholder's fund}}{\text{Tangible assets}}$	$\frac{437,180}{510,000}$ = <u>0.86:1 or 86%</u>	$\frac{122,840}{560,000}$ = <u>0.22:1 or 22%</u>
v.	Earnings yield = $\frac{\text{EPS} \times 100}{\text{MPS}}$	$\frac{20.7 \times 100}{28}$ = <u>73.93%</u>	$\frac{0.95 \times 100}{10}$ = <u>9.50%</u>
	Earnings per share (EPS) = $\frac{\text{PAT} \times 100}{\text{No. of Ord Share}}$	$\frac{33,180 \times 100}{160,000 \text{ ord.}}$ = <u>20.7 kobo</u>	$\frac{840 \times 100}{88,000 \text{ ord.}}$ = <u>0.95 kobo</u>
vi.	Net asset per share = $\frac{\text{Net asset}}{\text{No. of Ord Share}}$	$\frac{437,180}{160,000}$ = <u>273 kobo</u> <u>OR ₦2.73k</u>	$\frac{122,840}{88,000}$ = <u>140 kobo</u> <u>OR ₦1.40k</u>