

COVENANT UNIVERSITY

TUTORIAL KIT

PROGRAMME: ACCOUNTING

OMEGA SEMESTER

200 LEVEL



*Raising A New Generation Of Leaders*

## **DISCLAIMER**

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CANAANLAND, KM 10, IDIROKO ROAD  
P.M.B 1023, OTA, OGUN STATE, NIGERIA.

**TITLE OF EXAMINATION:** B.Sc. EXAMINATION

**COLLEGE:** COLLEGE OF BUSINESS AND SOCIAL SCIENCES

**SCHOOL:** SCHOOL OF BUSINESS

**DEPARTMENT:** DEPARTMENT OF ACCOUNTING

**SESSION:** 2014/2015

**SEMESTER:** OMEGA

**COURSE CODE:** ACC 221

**CREDIT UNIT:** 3

**COURSE TITLE:** PRINCIPLES OF FINANCIAL ACCOUNTING II

**INSTRUCTION:** ANSWER ALL QUESTIONS

**TIME:** 3HOURS

## SECTION A

### MULTIPLE CHOICE QUESTIONS

1. A cash deposit made by business appears on the bank statement as a \_\_\_\_\_ balance
  - a) Debit
  - b) Credit
  - c) Expenses
  - d) Liability
2. Bank charges amounting to N15000 was not entered in the cash book. Identify the correct adjustment in cash book
  - a) Bank charges will be debited in cash book
  - b) Bank charges will be added to cash book balance
  - c) Bank charges will be credited in cash book
  - d) Bank charges need no adjustment in cash book
3. What is a share's 'nominal value?'
  - a) The maximum value that the share can be sold for.
  - b) A fixed amount that represents the notional value of the share's worth.
  - c) The current market value of the share.
  - d) The maximum value that can be paid for a share.
4. What is a company's 'issued share capital?'
  - a) The total nominal value of shares that have actually been allotted.
  - b) The total nominal value of shares that may be issued by a company.

- c) The total market value of shares that have actually been allotted.
  - d) The difference between the total nominal value of shares that have been allotted and the total nominal value of shares that can be allotted.
5. When setting the issue price for a rights issue of ordinary shares, which one of the following is a critical factor?
- a) The need to encourage members of the public to take up the shares.
  - b) The need to make sure that the issue price stays below the market price until the issue takes place.
  - c) The need to protect the interests of existing shareholders.
  - d) The need to raise a particular amount of money.
6. Which one of the following types of share issue involves a direct appeal to the public?
- a) Rights issues
  - b) Offer for sale
  - c) Placing
  - d) Bonus issues
7. Redeemable preference shares can be redeemed out of
- a) The proceeds from investment
  - b) The proceeds of a fresh issue of shares
  - c) Share premium
  - d) The proceeds of issue of debentures
8. Which of the following statements is NOT TRUE with regard to redemption of Preference shares
- a) Partly paid shares cannot be redeemed
  - b) The redemption of Preference shares shall be taken as reduction of company's authorized share capital
  - c) When shares are issued for redemption in future, it will not be treated as increase in capital
  - d) Preference share can be redeemed either out of the profit by capitalization or amount of fresh issue of shares.
  - e) Premium on redemption of preference shares is provided out of the share premium account.
9. Which of the following statements are true?
- a) A debenture holder is the owner of a company
  - b) A debenture holder can get his money back only on the liquidation of the company
  - c) A debenture issued at a discount can be redeemed at a premium
  - d) A debenture holder receives interest only in the event of profit
10. Which of the following is not a characteristic of bearer debentures?
- a) They are treated as negotiable instruments

- b) Their transfer requires a deed of transfer
  - c) They are transferable by mere delivery
  - d) The interest on it is paid to the holder irrespective of identity
11. A business starts trading on 1 October 2014. During the year, it has sales of N500,000, purchases of N250,000 and closing inventory of N75,000. What is the gross profit for the year?
- a) N175,000
  - b) N675,000
  - c) N325,000
  - d) N250,000
12. Tunde's trial balance includes the following items: non-current assets N50,000, inventory N15,000, payables N10,000, receivables N5,000, bank N110,000, allowance for receivables N1,000.

What is the figure for current assets?

- a) N180,000
- b) B N170,000
- c) C N129,000
- d) D N134,000

13. Which of the following is a short-term liquidity ratio?

- a) Cash ratio
- b) Current ratio
- c) Quick ratio
- d) Inventory turnover
- e) All of the above

14. The difference between total current assets and total current liabilities is:

- a) Accounting working capital
- b) Net assets
- c) Operating working capital
- d) Trade working capital
- e) None of the above

15. A debit balance in the joint venture account indicates

- a) Profit
- b) Loss
- c) Expenses
- d) Income

16. Expenses incurred by partners in a joint venture are debited to

- a) Joint venture account

- b) Partners account
- c) Joint bank account
- d) Agent account

17. Which of the following are common reasons for differences between the cash book and the bank statements?

- (i) Timing differences
- (ii) Errors
- (iii) Omissions
- (iv) Contra entries

- a) (i) and (ii)
- b) (i) and (iv)
- c) (ii), (iii) and (iv)
- d) (i), (ii) and (iii)

18. Which of the following is the correct formula for cost of sales?

- a) Opening inventory – purchases + closing inventory.
- b) Purchases – closing inventory + sales.
- c) Opening inventory – closing inventory + purchases.
- d) Opening inventory + closing inventory – purchases.

19. If an owner takes goods out of inventory for his own use, how is this dealt with?

- a) Credited to drawings at cost
- b) Credited to drawings at selling price
- c) Debited to drawings at cost
- d) Debited to drawings at selling price

20. Which of the following is not a characteristic of a debenture?

- a) Debentures entitle their owners to receive a fixed rate of dividend.
- b) Debentures are long-term loans.
- c) Debentures are usually secured on the assets of the business.
- d) A debenture issue is one way that a company can raise finance.

**SECTION B****QUESTION 1****RIGHT CHOICE ABRIDGED INCOME STATEMENT**

	<b>2014</b>	<b>2015</b>
Sales	2,500,000	3,050,000
Other Revenue	200,000	200,000
Cost of Goods sold	(350,000)	(550,000)
Distribution expenses	(200,000)	(100,000)
Other operating income	100,000	80,000
Other operating expenses	(130,000)	(260,000)
Financial income	200,000	230,000
Financial expenses	(110,000)	(210,000)
Profit before tax	2,210,000	2,440,000
Taxes	(160,000)	(250,000)
Profit for the year	2,050,000	2,190,000

**RIGHT CHOICE ABRIDGED STATEMENT OF FINANCIAL POSITION**

	<b>2014</b>	<b>2015</b>
<b>Non-current assets</b>		
Goodwill and other intangible asset	2,000,000	5,000,000
Property plant and Equipment	3,200,000	1,900,000
Investment property	1,200,000	4,200,000
Total non-current assets	6,400,000	11,100,000
<b>Current asset</b>		

Inventory	200,000	500,000
Trade and other receivables	1,200,000	1,800,000
Cash and cash equivalent	350,000	150,000
Total current assets	1,750,000	2,450,000
<b>Total assets</b>	<b>8,150,000</b>	<b>13,550,000</b>
<b>Current liabilities</b>		
Trade and other payables	500,000	400,000
Accruals and Deferred Income	250,000	120,000
Financial debt	300,000	300,000
<b>Total current liabilities</b>	<b>1,050,000</b>	<b>820,000</b>
<b>Non-current liabilities</b>		
Financial debt	1000,000	5000,000
<b>Total non-current liabilities</b>	<b>1,000,000</b>	<b>5,000,000</b>
<b>Equity</b>		
Share capital	10,650,000	19,050,000
Retained earnings	3,050,000	2,510,000
Total equity	13,700,000	21,560,000
Total liabilities and equity	15,750,000	27,380,000

**Required:**

a) Calculate the ratio below for year 2014 and 2015

- |                               |         |
|-------------------------------|---------|
| i. Current ratio              | (1mark) |
| ii. Quick Ratio               | (1mark) |
| iii. Inventory turnover ratio | (1mark) |
| iv. Net profit Margin         | (1mark) |
| v. Debt-Equity Ratio          | (1mark) |
| vi. Total Gearing ratio       | (1mark) |

- vii. Total Asset to debt ratio (1mark)  
viii. Debt Ratio (1mark)  
(Total = 8 marks)

iii) Interpret the calculated ratios by comparing year 2014 and 2015 (4 marks)

bi) Preference shares, just as ordinary shares are sources of raising capital for the company. Mention any two (2) features of preference share (1.5 marks)

bii). Distinctive preference shares can be categories in to eight different types. Mention any four (4) categories of preference share (1.5 marks)

(TOTAL = 15 MARKS)

2) Ade and Bola entered into a joint venture with effect from 1st Dec. 2014 to purchase and sell children toys and Christmas shoes for a month. It was agreed that any of them could go to Lagos or Aba to buy the goods, sell to customers and collect cash. Each venture was to charge his expenses against the joint venture and profit or losses were to be share as Ade 55% because of his experience and the balance to Bola. During the Joint Venture period, the following transaction took place.

- a. Ade sent #120,000 to B to finance to B's shop trip to Aba to buy toys, and shoes.
- b. Bola bought toys and shoes costing #140,000 and was to take over #10,000 worth of shoes in his possession at the end of the period.
- c. Ade organized some promotion/advertisement at a cost of #20,000. He equally sold shoes worth #980,000
- d. Ade and Bola engaged some sellers and paid wage #110,000 and #390,000 respectively.
- e. An allowance of #100,000 was made by Ade for vehicle running expenses.
- f. Both Ade and Bola paid #40,000 each for security over the shop where the goods were kept.

On 31st Dec. 2004, Bola paid # 20,000 for packaging material used for goods.

**Require:**

**Prepare a Memorandum Joint Venture Account and Joint Venture Account as it would appear in the books of each venture.**

**(15 Marks)**

**3a)** The Nigerian government has given MRS Oil Plc right to explore for oil on her shores based on a royalty of N100 per barrel production. Other terms of the arrangement are stated as follows;

The right to a minimum payment of N7,500,000 per annum.

The right for MRS Oil Plc to recoup any excess of the minimum payment over actual royalty **the year after the year of payment**. The right to recoup excess payment is **continuous**.

Production of oil (in barrels) for the first quarter of 2015 is as follows:

January	50,000
February	80,000
March	85,000

The first reporting date is January 31<sup>st</sup>, 2015.

**REQUIRED**

ai) State the main accounts that will be kept by both parties apart from bank account. Classify these accounts into their various types. **(3 marks)**

aii) Show the ledger accounts in the books of the Nigerian government. Show all workings clearly.

**(12 marks)**

b) Define the following terms:

i) Account sales (state its contents)

**(2 marks)**

ii) Short-workings

**(1.5 marks)**

iii) Minimum payment (include its importance)

**(1.5marks)**

**(TOTAL 20 MARKS)**

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**DEPARTMENT:** ACCOUNTING

**SESSION:** 2014/2015

**SEMESTER:** OMEGA

**COURSE CODE:** ACC 222

**CREDIT UNIT:** 2

**COURSE TITLE:** COST ACCOUNTING II

**INSTRUCTION:** ATTEMPT ALL QUESTIONS

**TIME:** 21/2 HOURS

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Part 1 - 20 marks

1. Under contract costing material is always
  - a. Surplus
  - b. Deficit
  - c. Enough
  - d. Not enough
2. When plant is leased under contract costing, the leasing charges of the plant is
  - a. charged directly to the contract account
  - b. charged to profit or loss account
  - c. charged to trading account
  - d. charged to balance sheet
3. Under contract costing, larger contracts are
  - a. Not accounted for
  - b. Rejected
  - c. Subdivided into smaller units
  - d. Accepted and renegotiated
4. Under contract costing, that part of the contract sum withheld by the customer until he's satisfied with work done is known as
  - a. Retained earnings
  - b. Retention
  - c. Retained fund
  - d. Rent on Motion
5. Under constructional contract costing, the personnel that certifies job done is the
  - a. Engineer
  - b. Accountant
  - c. Quantity Surveyor
  - d. Architect
6. Cost accounting provides \_\_\_\_\_ information to financial accounting
  - a. Full information
  - b. Supplementary information

- c. Advanced information
  - d. Regular information
7. Cost and financial accounting usually disagrees in this area
- a. Stock valuation
  - b. Accounting policies
  - c. Method of computing depreciation
  - d. All of the above
8. When the financial and cost accounting information is being provided by one unit, it is called?
- a. Integrated accounting system
  - b. Interlocking accounting system
  - c. Joint accounting system
  - d. Combined accounting system
9. While memorandum of association is to partnership, \_\_\_\_\_ is to reconciling cost and financial accounts
- a. Memorandum of association
  - b. Memorandum reconciliation account
  - c. Memorandum of association account
  - d. Adjusted reconciliation account
10. Reconciliation of accounts only occur when the \_\_\_\_\_ accounting system is maintained
- a. Joint accounting system
  - b. Integrated accounting system
  - c. Interlocking accounting system
  - d. All of the above
11. The following are ways of classifying cost except
- a. Ability to trace
  - b. Relationship to volume
  - c. Product of an element
  - d. Relationship to production
12. .... Is a cost that remains unchanged no matter the level of activity?
- a. Fixed cost
  - b. Mixed cost



Month	Output(Std Hrs of Production)	Repairs & maintenance cost (N)
April	7,200	19,200
May	6,900	19,200
June	7,500	19,380
July	8,100	19,800
August	6,000	17,700
September	8,580	21,000

- i. Use the High and Low method of cost estimation technique to estimate the fixed and variable cost
- ii. State the cost function of the method above
- iii. Use the least square method to estimate the fixed and variable cost
- iv. Using High & Low method what should be the budget estimate for repairs and maintenance if output of 3000 standard hours is predicted for the month of October?

**(12.5marks)**

(a) An architect assesses the value of work done to be N1,200,000. The agreed retention percentage is 5%. What is the amount of the current progress payment for the contract? (2 Marks)

(b) The architect of Mr Ajala certified that the value of work done by Merciful Nigeria Ltd is N1,250,000. Mr Ali has already paid N350,000 and the agreed retention percentage is 5%. what is the amount of the current progress payment? (2 ½ Marks)

Master Builder Nig. Ltd was awarded a contract to construct a set of bungalows in Owerri. The following is the summary of the results of Master Builder over a period of three years. Compute the recognizable profit for each of the years using the cost basis.

	Year 1	Year 2	Year 3	Total
	N	N	N	N
Contract Price				40,000,000
Cost Incurred	8,000,000	12,000,000	10,000,000	30,000,000
Estimated cost to complete contract	24,000,000	10,000,000	Nil	
Architects certificate	10,000,000	30,000,000	40,000,000	
Payment received	5,000,000	20,000,000	30,000,000	

(8 Marks)

**(TOTAL = 12.5 marks)**

3. Mimi Limited manufactures different kinds of fuzzy drinks. The data for the first quarter of the year is given as follows:

Opening work in progress 1000units @ N1m

The components are subdivided as follows:

Material 0.3m

Labour 0.6m

Overhead 0.1m

The inputs during the period include

Materials 9000units N9.7m

Labour N1.4m

Overhead N1.6m

Closing work-in- progress is 1000 units and the percentage of completion is as follows

Materials 100%

Labour 10%

Overhead 40%

Mimi operates an ideal standard therefore no normal loss was allowed. The finished goods for the period were 9000units. You are required to prepare the process account. Show your statement of equivalent units and other workings clearly.

**NOTE:** In your workings, round up to three decimal. Add any difference to the value of the output in the process account to make up the total.

**(12.5marks)**

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SEMESTER: OMEGA

COURSE CODE: ACC 229

CREDIT UNIT: 1

COURSE TITLE: ACCOUNTING LABORATORY 2

INSTRUCTION: ENTER THE TRANSACTIONS USING PEACHTREE SOFTWARE

TIME: 1 HOUR

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Create a new company using your matric number. Enter the following transactions below

1. Success is sure started a furniture business with an initial capital of ₦38,000,000 made of the following on January 1<sup>st</sup> 2010.

Loan from Barclays Bank:            ₦ 30,000,000  
Loan from Best Friends                ₦ 8,000,000

The beginning balance for January 2015 is as shown below:

Details	Debit	Credit
Loose Tools	4,000,000	
Barclays Bank Loan		30,000,000
Best friends Loan		8,000,000
Furniture Preservation spraying machine	20,000,000	
Short term Creditor		5,000,000
Debtor	9,000,000	
Delivery Truck	10,000,000	
Accrued expenses		15,000,000
Savings at Prezi Bank	10,000,000	
Savings at Sway Bank	5,000,000	

The following transactions took place during the year 2015

**19/02/15:** Sold the following to Mirabel enterprise, full payment was received and lodge in sway bank a/c.

13 Mahogany Center Table  
16 Tempered Glass side stools  
20 Holland Swivel office Chairs

**28/01/15:** Purchased the following goods from Whitesand ltd and paid in full using prezi bank cheque

2 Lilac leathersitting settees

3 Bakerville knitted settees

04/03/15: Purchased the Following fixed asset and paid using Prezi bank cheque

Sets of glass reflectors N1,600,000.  
CEO official car N2,200,000

24/06/15: Withdraw 4,000,000 from Prezi Bank a/c and deposited into Hermann bank a/c (a new bank account)

4/09/15: Paid back Best Friends loan to the tune of N 2,000,000 using Hermann Bank cheque

29/12/15: fully pay for the following expenses using Prezi bank cheque

Warehouse workers wages N 1,010,000  
Electricity bill N 1,000,000  
Delivery Truck Servicing N 400,000  
Warehouse Fumigation N500,000

**Additional information:**

1. Products list

Product ID	Description	Cost price per unit	Selling price per unit
C 02	Mahogany Center Table	9,000	15,000
T 03	Holland Swiveloffice Chairs	8,500	11,500
Z 04	Tempered Glass side stools	3,500	6,000
H 05	Lilac leathersitting settees	150,000	300,000
B 07	Bakerville knitted settees	100,000	500,000

2. Supplier list

Supplier ID	Name
S 01	Whitesand ltd

3. Customers list

Customer ID	Name
C 01	Mirabel enterprise

**Required to:**

Create a company; enter the transaction above for twelve months ended December 2015.

Print: a) General ledger Trial Balance (50MARKS)  
b) Income Statement (20MARKS)

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## MARKING GUIDE

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### QUESTION 1

$$1. \text{ Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Year 2014: } 1,750,000/1,050,000 = 1.67$$

$$\text{Year 2015 } 2450,000/820,000 = 2.99$$

Current Ratio: is a relationship of current assets to current liabilities. Current Assets are the assets that are either in the form of cash or cash equivalents or can be converted into cash or cash equivalents in a short time (say, within a year's time) and Current Liabilities are repayable in a short time.

$$2. \text{ Quick Ratio or Acid Test Ratio} = \frac{\text{Current assets - stock}}{\text{Current Liabilities}}$$

$$\text{Year 2014: } 1750,000-200,000/1050,000 = 1.48$$

*Year 2015*                     $2,450,000-500,000/820,000 = 2.38$

Quick Ratio or Acid Test Ratio: is a relationship of liquid assets with current liabilities and is computed to assess the short- term liquidity of the enterprise in its correct form. Liquid assets are the assets, which are either in the form of cash or cash equivalent or can be converted into cash within a very short period. Liquid assets include cash, bills receivable, marketable securities and debtors (excluding bad and Doubtful debts), etc. Stock is excluded from liquid assets as it may take some time before it is converted into cash. Similarly prepaid expenses do not provide cash at all and are thus excluded from liquid assets.

$$3. \text{ Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

*Year 2014:*                     $350,000/200,000 = 1.75$

*Year 2015*                     $550,000/350,000 = 1.67$

Inventory Turnover Ratio: it measures the number of times inventory “turned over” or was converted to sales during a time period. It is a good indication of purchasing and production efficiency.

$$4. \text{ Net profit margin} = \frac{\text{Net profit after tax}}{\text{Sales}}$$

*Year 2014:*                     $2050,000/2500,000 = 0.82$

*Year 2015*                     $2190,000/3050,000 = 0.72$

$$5. \text{ Debt- equity Ratio} = \frac{\text{Debt (long-term loans)}}{\text{Equity (shareholders' Funds)}}$$

*Year 2014:*                     $1000,000/13700,000 = 0.07$

*Year 2015*                     $5000,000/21560,000 = 0.23$

Debt-Equity Ratio/ Equity Gearing Ratio : It is computed to ascertain the soundness of the long-term financial position of the firm. This ratio expresses the relationship between debt (external equities) and the equity (internal equities). Debt means long term loans, i.e., debentures, long-term loans from financial institution. Equity means shareholders’ funds, i.e., preference share capital, equity share capital, reserves.

$$6. \text{ Total gearing ratio} = \frac{\text{Debt (long-term loans)}}{\text{Total capital (Equity and debt capital)}}$$

$$\text{Year 2014:} \quad 1000,000/15750,000 = 0.06$$

$$\text{Year 2015} \quad 5000,000/27380,000 = 0.18$$

$$7. \text{ Total Assets to Debt Ratio} = \frac{\text{Total assets}}{\text{Long Term Debts}}$$

$$\text{Year 2014:} \quad 8150,000/1000,000 = 8.15$$

$$\text{Year 2015} \quad 13550,000/5000,000 = 2.71$$

Total Assets to Debt Ratio: Total Assets includes fixed as well as current assets. Long term Debts refer to debts that will mature after one year. It includes debentures, bonds, and loans. It measures the safety margin available to the providers of long- term debts. A higher ratio represents higher security to lenders for extending long-term loans to the business. On the other hand, a low ratio represents a risky financial position as it means that the business depends heavily on outside loans for its existence. In other words, investment by the proprietors is low.

$$8. \text{ Debt ratio} = \frac{\text{Total Liabilities}}{\text{Total assets}}$$

$$\text{Year 2014:} \quad 2050,000/8150,000 = 0.25$$

$$\text{Year 2015} \quad 5820,000/13550,000 = 0.43$$

## QUESTION 1b

*1bi). The Features of preference shares are:*

- Fixed rate of dividend
- Preferential right in redemption of capital in case of winding up
- Preferential payment of dividend
- Absence of voting rights

**1bii) Categories of preference shares**

**1. Redeemable Preference Shares:** share capital is repayable to the holders after a specific period of time.

2. ***Irredeemable Preference Shares:*** share capital do not carry the agreement of redemption.
3. ***Convertible Preference Shares:*** Holders enjoy the right to get shares converted into equity shares
4. ***Non-convertible Preference Shares:*** Holders do not enjoy the right to get the shares converted into equity shares.
5. ***Participating Preference Shares:*** Holders enjoy the right to participate in the surplus profits, if any, after the equity shareholders have been paid
6. ***Non-participating Preference Shares:*** Holders enjoy a fixed rate of dividend without any right to get additional dividend.
7. ***Cumulative Preference Shares:*** Holders are entitled to get dividend out of future profit if current year's profit is insufficient.
8. ***Non-cumulative Preference:*** Holders dividend does not accumulate. When there is no sufficient profit, holders gets no dividend. As such the dividend will be lapsed and there will be no arrear dividend

### SOLUTION 3

**Account sales:** This is the statement of returns a consignee sends to the consignor. This is because he is acting on behalf of the consignor.

The content of account sales includes the sales of the consignee, his expenses, commissions due to the consignee and the balance due to the consignor.

**Short workings :** This is the amount by which the minimum rent/payment exceeds the royalties paid.

**Minimum payment:** This is the periodic minimum amount payable by a lessee to the lessor. The main essence of minimum rent is to reimburse the lessor in the case of inactivity by the lessee.

### The books of MRS Oil Plc

Three major accounts would be kept by this company which are:

- i. Royalty payable account - **expense account**
- ii. Nigerian Government account- **liability account**
- iii. Shortworkings recoverable account - **asset account**

## The books of Nigerian Government

Three major accounts would be kept by this company which are:

Royalty receivable account - **Income account**

MRS Oil Plc account - **Asset account**

Shortworkings allowable account - **liability account**

## ACCOUNT ENTRIES BY THE NIGERIAN GOVERNMENT

### PRELIMINARY WORKINGS

PERIOD	BARRELS	ACTUAL ROYALTY(N)	MIN PAYMENT (N)	SHORTWORKINGS (N)	SHORTWRKINGS RECOUPED(N)	SHRTWRKINS LAPSE(N)	AMOUNT PAID(N)
1	50,000.00	5,000,000.00	7,500,000	2,500,000	-	-	7,500,000
2	80,000.00	8,000,000.00	7,500,000	-	500,000	-	7,500,000
3	85,000.00	8,500,000.00	7,500,000	-	2,000,000.00	-	6,500,000

### Royalty Receivable Account

		N			N
31/1/2015	Income statement	<u>5,000,000</u>	31/1/2015	MRS Oil	<u>5,000,000</u>
28/2/2015	Income statement	<u>8,000,000</u>	28/2/2015	MRS Oil	<u>8,000,000</u>

31/3/2015	Income statement	<u>8,500,000</u>	31/3/2015 MRS Oil	<u>8,500,000</u>
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MRS Oil Account (Lessee)

		N			N
31/1/2015	Royalty receivable	5,000,000	31/1/2015 Bank	7,500,000	
31/1/2015	Shork workings allw	<u>2,500,000</u>			
		<u>7,500,000</u>			<u>7,500,000</u>
28/2/2015	Royalty receivable	8,000,000	28/2/2015 Bank	7,500,000	
			28/2/2015 Shrkworkgs allw	<u>500,000</u>	
		<u>8,000,000</u>			<u>8,000,000</u>
31/3/2015	Royalty receivable	8,500,000	28/2/2015 Bank	6,500,000	
			28/2/2015 Shrkworkgs allw	<u>2,000,000</u>	
		<u>8,500,000</u>			<u>8,500,000</u>
		Short workings allowable Account			
		N			N
31/1/2015	Bal c/d	<u>2,500,000</u>	31/1/2015 MRS	<u>2,500,000</u>	
28/2/2015	MRS	500,000	1/2/2015 Bal b/d	2,500,000	
28/2/2015	Bal c/d	<u>2,000,000</u>			
		<u>2,500,000</u>			<u>2,500,000</u>
1/3/2015	Bal b/d	<u>2,000,000</u>	31/3/2015 MRS	<u>2,000,000</u>	

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## ANSWERS

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

## SOLUTION TO PART II

No 1

a) The requirements for Effective Systems of Budgetary Control include the following:

1. Clearly defined organizational chart.
2. Adequate accounting records and procedures.
3. Continuous education and training in the development and use of budgets.
4. Continuous revision budgets.
5. Identification of the principal key factors.
6. Writing up of budget manual.
7. Formation of budget committee and appointment of a budget officer.
8. Establishment of medium and long term goals and objectives

**Any 6 points = 6marks**

b) The of benefits of budgetary control are as follows:

1. It compels management to plan.
2. It communicates plan of action to those affected by the budget.
3. It helps in coordinating the efforts and activities of the different segments of the organisation.
4. It makes possible the comparison of actual result with plan by establishing a system of budgetary control.
5. It motivates employees.
6. It helps in evaluating performance

**1 mark each = 6 marks**

c) Principal budget factor means a limiting budget factor or key factor.  $\frac{1}{2}$  mark

## QUESTION 2

### SANS LIMITED

	Activity Level	Cost (N)
High	8,580	21,000
Low	6,000	17,700
Difference	2,580	3,300

Variable cost per unit (VC/U) =  $3,300/2,580$

= 1.279; (1.3/unit approx)

#### 1. Solving for Fixed cost

$$y = a + bx$$

$$21,000 = a + 8,580 (1.3)$$

$$21,000 = a + 11,154$$

$$a = 21,000 - 11,154$$

$$a = N9,846$$

#### 2. Cost function for (1) above

$$y = a + bx$$

$$y = 9,846 + b (1.3)$$

### 3. Using Least Square Method

$$b = \frac{n\sum xy - \sum x \sum y}{n\sum x^2 - (\sum x)^2}$$

Activity Level (X)	Cost (y)	X <sup>2</sup>	XY
7.2	19.2	51.84	138.24
6.9	19.2	47.61	132.48
7.5	19.38	56.25	145.35
8.1	19.8	65.61	160.38
6.0	17.7	36	106.2
8.58	21	73.6	180.18
44.28	116.28	330.91	862.83

a)

$$= \frac{6(862.83) - (44.28)(116.28)}{6(330.91) - (44.28)^2}$$

$$= \frac{5,176.98 - 5,148.8784}{1,985.46 - 1,960.7184}$$

$$= \frac{28.1016}{24.7416}$$

$$= 1.1358 = 1.14$$

b)  $y = a + bx$

$$116.28 = a + 44.28(1.14)$$

$$116.28 = a + 50.4792$$

$$a = 116.28 - 50.4792$$

$$a = 65.8$$

c) The total cost for an output of 3000 standard hours predicted for the month of October

$$y = a + bx$$

$$y = 9846 + b(1.3)$$

$$y = 9846 + 3900$$

$$y = 13,746$$

### QUESTION 3

#### Solution

1. Current Progress Payment = Value Certified - Retention - Payments already made.

$$= \text{N}1,200,000 - 5\%(1,200,000)$$

$$= \text{N}1,200,000 - 60,000$$

$$= \text{N}1,140,000 \quad \checkmark$$

(2 Marks)

2. Current payment = value certified - retention - payments already made

$$= \text{N}1,250,000 - 5\%(1,250,000) - 350,000$$

$$= \text{N}1,250,000 - 62,500 - 350,000$$

$$= \text{N}837,500 \quad (2 \text{ Marks})$$

3.

	Year 1	Year 2	Year 3	Total
	₦	₦	₦	₦
Contract Price				40,000,000
Cost Incurred	8,000,000	12,000,000	10,000,000	30,000,000
Estimated cost to complete contract	24,000,000	10,000,000	Nil	
Architects certificate	10,000,000	30,000,000	40,000,000	
Payment received	5,000,000	20,000,000	30,000,000	

Solution:

Step I: Calculation of estimated contract profits

	Year 1	Year 2	Year 3
	₦	₦	₦
Contract price	40,000,000	40,000,000	40,000,000
Less: cost to date	(8,000,000)	(20,000,000)	(30,000,000)
Estimated cost to complete contract	<u>(24,000,000)</u>	<u>(10,000,000)</u>	<u>- .</u>



No 4

Mimi Ltd

Process Account

	Units	CPU(N)	TOTAL(N)		Units	CPU(N)	TOTAL(N)
Opening WIP	1000		1,000,000	Output	9000	1400.631	12,605,682
Material	9000		9,700,000	Closing WIP	1000		1,094,318
Labour			1,400,000				
Overhead			1,600,000				
	<u>10,000</u>		<u>13,700,000</u>		<u>10,000</u>		<u>13,700,000</u>
	=====		=====		=====		=====

STATEMENT OF EQUIVALENT UNITS

	Total	Material	Labour	Overhead
Completed units	9000	9000	9000	9000
CWIP	<u>1000</u>	<u>1000</u>	<u>100</u>	<u>400</u>
	<u>10,000</u>	<u>10000</u>	<u>9100</u>	<u>9400</u>
Cpu		<u>9.7m+0.3m</u>	<u>1.4m + 0.6m</u>	<u>1.6m + 0.1m</u>
		10000	9100	9400
		N1000	N219.780	N180.851

Total cost per unit = N1400.631

VALUATION OF CLOSING WORK-IN-PROGRESS

Material	N1000 * 1000units	= N1000000
Labour	N219.780 * 100units	= N21978
Overhead	N180.851 * 400units	= N72340
<b>TOTAL</b>		<b>N1,094,318</b>