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## Section A: Theory of Financial Accounting

### Question 1

- a. What are *incomplete records*?
- b. Outline **three** limitations of keeping incomplete records.
- c. State **three** reasons a business keeps incomplete records.

---

## Observation

Candidates gained reasonable marks in this question as they were able to provide some reasonable answers to the reasoning pattern of the question.

The responses expected from the few candidates who missed few marks were:

### a. ***Incomplete records***

This refers to a situation in which a business does not keep a full set of double entry records.

OR This is a system where only one side of a business transaction is recorded in an account, disregarding the double entry principle.

### (b) ***Limitations of keeping Incomplete Records:***

- (i) the business cannot extract a trial balance to check the arithmetical accuracy of ledger entries;
- (ii) the accuracy of any accounts cannot be verified;
- (iii) the business cannot make good business decisions;
- (iv) cost control will be difficult;
- (v) it can lead to the collapse of the business;
- (vi) fraud may easily be committed since there can be no check or proof of transaction;

- (vii) financial statement prepared from incomplete records will not be accepted for tax purpose;
  - (viii) it makes it difficult to ascertain profit or loss;
  - (ix) it hinders access to credit facilities;
  - (x) it makes it difficult to claim insurance when the need arises.
- (c) **Reasons for keeping Incomplete Records:**
- (i) lack of resources to operate double entry records;
  - (ii) lack of qualified personnel to operate the system;
  - (iii) the size of the business may not necessitate the implementation of a full set of accounting records;
  - (iv) the lack of awareness of the need to operate a double entry system;
  - (v) the destruction of some or all financial records as a result of natural disaster;
  - (vi) deliberate attempt on the part of accounting personnel to conceal accounting records in order to avoid detection of malpractices;
  - (vii) loss of vital documents as a result of burglary and stealing;
  - (viii) when there is no legal obligation on the part of the business to maintain proper accounting records;
  - (ix) deliberate attempt on the part of management of a business to evade tax;
  - (x) when the business just began operations;
  - (xi) it is less cumbersome or more convenient to maintain this system;
  - (xii) inability to employ qualified accounting staff;
  - (xiii) it is less expensive to keep as compared to maintaining double entry system;
  - (xiv) where the owner fears embezzlement on the part of accounting staff and therefore keeps few records.

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## Question 2

Identify the errors in the following transactions and state if they would affect the agreement of the trial balance totals:

- a. Purchase of consumables posted to purchases account:
- b. An invoice amount incorrectly posted to purchases day book.
- c. Returns outwards posted to the personal account only.
- d. The total sales of N 120,000 was recorded as N 102,000.
- e. Payment of cheque to Ige entered on the receipt side of the cash book and credited to Ige's account.

---

## Observation

There were two demands to the question; first is to identify the error and secondly to state whether the error identified would affect the trial balance totals. Candidates' response in this question showed lack of understanding for the rudiments of this questions.

The responses expected from the candidates are:

2(a) **Error of principle:** It will not affect the agreement of the trial balance totals.

2(b) **Error of original entry:** It will not affect the agreement of the trial balance totals.

2(c) **Error of single entry or partial omission:** It will affect the agreement of the trial balance totals.

2(d) **Undercasting error:** It will affect the agreement of the trial balance totals.

2(e) **Error of complete reversal:** It will not affect the agreement of the trial balance totals.

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## Question 3

List **five** users of accounting information and state their respective interest in the accounting information.

### Observation

Generally, in question 3, the candidates listed correctly the users of accounting information but some lost valuable marks in stating the areas of interests of the listed users.

Some of the suggested answers are:

#### ***Users of Accounting Information and their respective Interest***

- i. Management/Managers- Their interests are to know:
  - how the business is progressing;
  - the financial position of the business.
  - whether set targets are being achieved.
- ii. Owners/Shareholders- Their interests are to know
  - whether the business is profitable or not;
  - about the security of their investments;
  - whether the business can pay dividend;
  - whether to hold or sell their shares.
- iii. Bankers/Financial institution- They will need accounting information to:
  - assess the credit worthiness of the business;
  - evaluate the ability of the business to pay back when the facility is due.
- iv. Tax authorities- They need the information to:
  - assess the tax payable;
  - ensure that all relevant information has been captured in the financial statement.
- v. Potential investors- They need accounting information to assess the viability of the business.

- vi. Competitors- Their interest is to assess the strength and weaknesses of other similar businesses to improve their operations.
- vii. Employees- Their interest are to:
  - evaluate the security of their jobs or long-term prospect of the business;
  - assess the ability of the business to continue paying their remuneration as and when due;
  - know their efficiency as workers;
  - have a basis for collective bargaining.
- viii. Regulatory bodies- Their interest is to ensure compliance with regulatory requirements and standards.
- ix. Trade unions- Their interest is to have basis for negotiating for improved conditions of services.
- x. Customers/Debtors-Their interest are to:
  - determine the ability of the business to regularly meet their orders;
  - assess the ability of the business to offer them credit facilities.
- xi. Suppliers/Creditors- Their interest are to determine:
  - the ability of the business to pay its debt;
  - how long the business would take to pay its debt.
- xii. Financial analysts/Researchers- They need financial information for advisory and academic purposes.
- xiii. General public: They need financial information to appraise the efficiency and social responsibility of the business.

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## Question 4

- (a) Explain accounting ratio giving **one** example of liquidity ratio.
- (b) State **three** uses of accounting ratio.
- (c) Outline **three** limitations of accounting ratios.

## Observation

Their attempts in 4(a) were just fair as only few candidates could explain accounting ratio and identify one example of liquidity ratio. However, in 4(b), candidates failed to point out clearly the uses of accounting ratios and in question 4(c) majority of the candidates that attempted the question scored good marks.

Some of the suggested answers are:

4(a) **Accounting Ratio:** is the quantitative relationship between two or more accounting values in the financial statement.

OR

Is the quantitative relationship between two or more figures from financial statements.

OR They are mathematical measures of the relationship between two or more figures extracted from financial statements.

OR They are comparisons of figures derived from financial statements for decision making purposes.

### **Examples of Liquidity Ratio:**

1. Current ratio or working capital ratio;
2. Quick ratio or acid test ratio.

**4(b) Uses of Accounting Ratios:**

*Accounting ratios are used:*

1. to shows trends of business activities over a period of time;
2. in forecasting;
3. in inter-company comparisons;
4. in intra-company comparisons;
5. for interpreting the financial statements;
6. to measure the ability of the business to meet its financial obligations;
7. to determine the profitability of the business;
8. to ascertain the liquidity position of an entity;
9. to assess the value or worth of a business;
10. to measure the gearing of a firm;
11. to determine the credit worthiness of a business;
12. to determine slow and fast-moving inventories;
13. to identify the problem areas of a firm's finances;
14. to assess the efficiency of management;
15. to provide information for planning the activities of an entity;
16. to provide information for control purposes;
17. to provide information about the solvency of a firm;
18. to provide information for control purposes.

**4(c) Limitations of Accounting Ratios**

1. Accounting ratios deals in quantitative information only.
2. Accounting ratios can be easily manipulated.
3. It is not a good indicator for future planning because ratios are computed based on past data.
4. The use of different accounting policies and methods by firms makes comparison difficult.
5. Some firms window-dress their financial statements resulting in misleading information to users.
6. The use of different definitions to certain terms makes it difficult to use ratios to take decisions.
7. Using ratios as a basis of comparison between firms becomes unfair as firms operate under different conditions.
8. Inflation renders accounting ratios ineffective because of the frequent price level changes.
9. Financial statements may be prepared several months before their use, by which time values therein might have changed.
10. Summarized nature of accounting information may lead to omissions of vital information rendering the use of the ratios derived from such deficiencies misleading.
11. Changes in accounting standards bring about distortions in financial reporting, making comparison difficult.

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## Question 5

In this question, candidates were required to prepare:

- (a) Correct the errors through journal entries;
- (b) Prepare Trading, Profit and Loss Account.

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## Observation

The requirement in 5 (a) aspect of this question is simple journal entries with no narration. In the journal entry, debit entry comes first before credit entry. Most candidates reversed the entry and had no mark for that lack of understanding of the accounting principle. While in question 5 (b), candidates were required to prepare trading, profit and loss account utilizing the correction made in the journal for example the purchases increased to Le 102,000 because of the undercast corrected from the day book.

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## Question 6

In this question, candidates were required to compute:

- (a) The total revenue for the country;
- (b) Revenue for the Federal/Central government;
- (c) Revenue for the Regions/ States **collectively** and **individually**.

---

## Observation

Majority of the candidates attempted this question and the performance was excellent with many of them scoring high marks in the question 6 (a) and 6 (b). However, some candidates had figure shortage of one or two zeros placement for example recording twenty million (20,000,000) as 2,000,000

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## Question 7

In this question, candidates were required to prepare the firm's:

- (a) Realization Account;
- (b) Partners' Capital Accounts in *columnar form*.

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## Observation

Majority of the candidates avoided this question but those who attempted this question performed poorly. Only few candidates scored pass marks while majority of them prepared partners' capital accounts separately as against the requirement of question 7 (b).

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## Question 8

In this question, candidates were required to prepare Manufacturing, Trading, Profit and Loss Account.

## Observation

The performance of candidates who attempted this question was generally commendable and this showed that most of the candidates had mastery of this topic area. The overall highest score for those who attempted was gained in this question.

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## Question 9

In this question, candidates were required to prepare the following Ledger Accounts:

- (a) Share Application Account;
- (b) Allotment account;
- (c) First and Final Call account;
- (d) Bank account;
- (e) Ordinary Share Capital account;

---

## Observation

The candidates were required to prepare ledger accounts for the procurement of company's capital. Few candidates attempted this question and performed averagely. However, the candidates' difficulty from their response was from wrong narration, omission of narration and incomplete placement of zeros in the figures made candidates.

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