

FINANCE & ACCOUNT

FOR

Senior Secondary School

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SS 3

**FIRST TERM NOTES ON
FINANCIAL ACCOUNTING**

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FIRST TERM

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WEEK1

What is Income Statement?

A company's income statement is a financial statement which documents and reports on such a company's financial performance over a specific accounting period. Said financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period. Known also as the profit and loss statement or statement of revenue and expense, the income statement is one of three major financial statements in every company's annual report. In other words, every public company must submit these legal documents to the Securities and Exchange Commission (SEC) and hence the *investor public*.

Please note that unlike the balance sheet, which covers one moment in time, the income statement provides performance information about a time period. It begins with sales and works down to net income and earnings per share.

How to Prepare a Company's Income Statement

To prepare an income statement, it is important to begin by calculating Net Sales and Cost of Goods Sold using the information that appears on the worksheet. Afterwards, use the rest of the numbers from the worksheet to prepare the income statement.

Finding Net Sales: Net Sales is a total of all the sales minus discounts. In order to calculate Net Sales, first look at the line items regarding sales, discounts, and any sales fees on the worksheet. For example, suppose that your worksheet lists Total Sales at N20,000 and N1,000 in discounts given to customers, to find your Net Sales, you simply subtract the discounts from your Total Sales amount. And doing this will leave you with N18,875.

Finding the Cost of Goods Sold: Cost of Goods Sold is the total amount a company spend to buy or make the goods or services that it sells. To calculate this amount for a company that buys its finished products from another company in order to sell them to customers, start with the value of the company's opening inventory, add all purchases of new inventory, and then

subtract any ending inventory (that's

**Income Statement of
Sugar&Spice Group of
CompaniesMay 2011**

Months Ended

May

*A M
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Revenues:

Net Sales

N18,875

Cost of Goods Sold

(6,500)

Gross Profit

N12,375

Operating Expenses:

Advertising

N1,500

Bank Service Charges

120

Insurance Expenses

100

Interest Expense

125

Legal & Accounting Fees

300

Office Expenses	250
Payroll Taxes Expenses	350
Postage Expenses	75
Rent Expenses	800
Salaries	3,500
Supplies	300
Telephone Expenses	200
Utilities	255
<i>Total Operating Expenses</i>	N7,875
Net Income	N4,500

inventory that's still on the store shelves or in the warehouse; it appears on the balance sheet).

The following is a basic Cost of Goods Sold calculation:

$$\text{Opening Inventory} + \text{Purchases} = \text{Goods Available for Sale}$$

$$N100 + N1,000 = N1,100$$

Goods Available for Sale – Ending Inventory = Cost of Goods Sold

N1,100 – N200 = N900

To simplify the above example for calculating Cost of Goods Sold, assume that the Opening Inventory (the inventory value at the beginning of the accounting period) and Ending Inventory (the inventory value at the end of the accounting period) values are the same.

DRAWING REMAINING AMOUNTS FROM YOUR WORKSHEET: After calculating the Net Sales and Cost of Goods Sold, use the rest of the numbers from the worksheet to prepare the business's income statement. Please note that it is advisable to show three accounting periods on an income statement, so the following example lists three months' worth of figures (but only shows actual numbers for one month).

ASSESSMENT

1. Define income statement
2. How do you prepare income statement?

WEEEEK2

Meaning of Appropriation Account

The Appropriation Account is used in accounting to denote how money has been used by a company, where the account gets reduced after spending funds on the already undertaken projects or a particular new task. In other words, it is the part of the income statement (i.e., profit and loss account) which explains how a firm's profit has been used to pay dividends, and or to increase reserves indicated in the balance sheet. It states what happens to profit, instead of how it was earned, and is usually shown separate from the main statement.

Goodwill

Goodwill is an asset attached to an established business. It is created through the years as the business builds up a reputation among its customers and is certain of their patronage. If the former customers continue to visit the place, *i.e. if goodwill is maintained*, the owner of the business can expect to make good profits year after year. But if he does not look after the interest of his customers, he may lose them, and thus, his profits will decline.

Hence, the term **goodwill** means the ability to earn profits in the future. A higher return can be expected from an established business which enjoys goodwill than a similar business which has been newly created. A new business has no goodwill.

Goodwill arises from a combination of various factors. It may arise from:

1. the favourable location of the business;
2. the personality of the proprietor;
3. the reputation for service and quality of goods or other factors.

Please note that the [good] reputation and profitability of a business is valued as goodwill.

Preliminary Expenses

Before incorporation and establishment of a company, the promoters of the company will incur so many types of expenses like statutory fees and company logo designing, in some cases rent for the office premises during the time of incorporation not after incorporation etc. These expenses are all come classified under preliminary expenses. So in simple terms, preliminary expenses are the expenses that a company incurs prior to its incorporation. Examples of such include the following- expenses incurred by founders to incorporate the company, develop the logo, register company name, etc.

Reserves

In accounting, the term *reserves* designates profits that have been appropriated for a particular purpose. *Reserves* may sometimes be set up to purchase fixed assets, pay an expected legal settlement, pay bonuses, pay off debt, pay for repairs and maintenance, etc

Dividend

A *dividend* is a payment made by a corporation to its shareholders, usually as a distribution of profits. When a corporation earns a profit or surplus, the corporation is able to re-invest the profit in the business (called retained earnings) and pay a proportion of the profit as a *dividend* to shareholders.

Bonuses

Bonuses are additional compensations given to deserving employees in addition to their normal wage. A *bonus* can be used as a reward for achieving specific goals set by the company, or for dedication to the company.

ASSESSMENT

1. Define the following terms; appropriation account, goodwill, dividend, reserves

WEEK3

Definition of Company Balance Sheet

The *Balance Sheet* is the third general purpose financial statement prepared during the accounting period. It reports a company's assets, liabilities, and equity at a single moment in time. You can think of it like a snapshot of what the business looked like on that day in time. It is essentially a picture of a company's resources, debts, and ownership on a given day.

The balance sheet can also as the statement of financial position tells about the assets, liabilities and equity of a business at a specific point of time. It is a snapshot of a business. It is an extended form of the accounting equation. The accounting equation for balance sheet is shown below-

Assets = Liabilities + Equity

Assets are the resources controlled by a business, equity is the obligation of the company to its owners and liabilities are the obligations of parties other than owners.

A balance sheet is named so because it lists all resources owned by the company and shows that it is equal to the sum of all liabilities and the equity balance.

A balance sheet has two formats: account form and report form.

An account form balance sheet is just like a T-account listing assets on the debit side and equity and liabilities on the right hand side. A report form balance sheet lists assets followed by liabilities and equity in vertical format.

The following example shows a simple balance sheet based on the post-closing trial balance of a company.

Company A

Balance Sheet

As on December January 31, 2011

ASSETS		LIABILITIES AND EQUITY	
Current Assets:		Liabilities:	
Cash	N20,430	Accounts Payable	N5,200
Accounts Receivable	5,900	Utilities Payable	3,964
Office Supplies	4,320	Unearned Revenue	1,000
Prepaid Rent	24,000	Interest Payable	150
Total Current Assets	N54,650	Notes Payable	20,000
Non-Current Assets:		Total Liabilities	
Equipment	N80,000	Common Stock	100,000
Accumulated Depreciation	-1,100	Retained Earnings	3,236
Net Non-Current Assets	N78,900		
Total Assets	N133,550	Total Liabilities and Equity	N133,550

Example Comparative balance sheet with vertical analysis:

Current assets:

2008: $(550,000 / 1,139,500) \times 100 = 48.3\%$
 2007: $(530,000 / 1,230,500) \times 100 = 43.3\%$

ASSESSMENT

1. Define balance sheet
2. Assets = Liabilities + ?

WEEK4

Meaning of Capital Market

A Capital market can be defined as a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions. In other words, a capital market is any financial market in which long-term debts and equity-backed *securities* are traded (i.e., bought and sold). These securities are typically Capital markets are defined as markets in which money is provided for periods longer than a year. Capital markets channel the wealth of savers to those who can put such wealth to long-term productive use; such as companies or even governments making long-term investments. The capital is typically overseen by financial regulators or monitors such as the Nigerian Securities and Exchange Commission (SEC).

Reasons for Regulation of the Capital Market

1. Obligations of state regulation and supervision should be clear and objectively defined. An effective system of regulation and supervision should include a clear definition of the responsibilities and goals of each organ of state regulation and supervision.

2. Regulatory agencies and supervision should be independent in their actions and accountable in the exercise of their functions and powers. Each of these regulatory agencies and oversight must have operational independence and adequate resources.

3. Regulatory agencies and supervisors should have adequate powers, adequate resources, the ability to perform its functions and exercise the powers specifically authorized to consider the relevant financial institutions to the current legislation.

4. Need to clearly define what activities are allowed to carry out financial institutions, licensed and have been the object of observation.

Types of Regulation in the Capital Market

The Central Bank of Nigeria: The CBN was established in 1958 by the CBN Act to carry out the major regulatory objectives of the bank as stated in the CBN Act which are as follows- to maintain Nigeria's external reserves,

promote monetary stability and a sound financial environment, as well as act as a banker of last resort and financial adviser to the federal government.

The Securities and Exchange Commission: SEC is the main regulatory institution of the Nigerian capital market. It is supervised by the Federal Ministry of Finance. The Nigerian Stock Exchange (NSE) is privately owned and self-regulating, but the SEC maintains surveillance over it with the mandate of ensuring orderly and equitable dealings in securities, and protecting the market against insider trading abuses.

Nigerian Deposit Insurance Company: The NDIC is a parastatal under the Nigerian Ministry of Finance. The corporation is charged with protecting the banking system from instability occasioned by runs and loss of depositors' confidence. It operates under the Nigeria Deposit Insurance Corporation Act (1990). The NDIC is a member of the Financial Reporting Council of Nigeria. The NDIC complements the regulatory and supervisory role of the Central Bank of Nigeria (CBN), although it reports to the Federal Ministry of Finance. The NDIC advises the CBN in the liquidation of distressed banks and manages distressed banks' assets until they are fully liquidated.

The Requirements for enlisting in the Capital Market

1. Application for Listing will only be entertained if sponsored by a Dealing Member of The Exchange.
2. The company must be a public company, which will issue or has issued an invitation to the public to subscribe for its shares or has satisfied Council that the public is sufficiently interested in the company's shares to warrant Listing.
3. All securities for which listing is sought shall first be registered with the Securities and Exchange Commission.
4. All application and documents to be considered or approved by Council should always be submitted to The Exchange at the earliest possible date. The final prospectus for approval must be forwarded to

The Exchange at least seven working days before the date for the completion board meeting.

5. Before the grant of Listing, all applicant companies shall sign a General Undertaking that they will provide promptly certain information about their operations and that they will follow certain administrative procedures.
6. Where it is desired to increase the authorized share capital, the directors shall state, in the explanatory circular or other documents accompanying the notice of meeting, whether or not they presently have any intention of issuing all or any part thereof.
7. A company which applies for Listing shall comply with the minimum public float requirement prescribed by the Listing standard criteria chosen by the Issuer.
8. Subscriptions list must remain open for a maximum period of 28 working days.
9. A maximum of 10% of an offering will be allowed to staff of a company (or its subsidiaries or associated companies) on special application forms. Such offerings may be placed in Trust for the employees. Where a proportion of the shares in a placement or public offer is reserved for employees, the company shall provide The Exchange along with the General Undertaking a list of members of staff who have been allotted shares, the number of such shares, the capacity in which they work for the company and the number of years of service with the company.
10. All companies admitted to Listing on The Exchange shall pay a listing fee as laid down in Appendix iv and these fees are subject to review from time to time.
11. All clauses in the company's Memorandum & Articles of Association that restrict the transfer of fully paid-up shares must be expunged.
12. All Listed companies shall advertise the Notice of their annual general meetings in at least two widely read newspapers at least 21 days before the annual general meeting and such advertisement must be conspicuously placed to cover a reasonable portion of a page.
13. The subscription monies pending allotment and return of funds to subscribers shall be deposited in a designated bank account

appointed by the Issuing House and the company. All accrued interests in respect of cleared allotments shall be paid to the company to offset part of the cost of the Issue.

14. Return monies arising from an unsuccessful application or abortion of an offer/issue shall attract interest at the rate determined by the Commission.
15. These general requirements are not exhaustive and Council may add thereto or subtract therefrom as considered necessary subject to the approval of the Securities and Exchange Commission.

ASSESSMENT

1. Define capital market
2. What are the requirements for enlisting in the capital market?
3. What are the types of regulation in the capital market?

WEEK5

The Securities and Exchange Commission (SEC), Nigeria is the apex regulatory institution of the Nigerian capital market supervised by the Federal Ministry of Finance. The Commission originates from the ad hoc, non-statutory Capital Issues Committee established in 1962 as an arm of the Central Bank of Nigeria. SEC has evolved over time, having started with the establishment of the Capital Issues Committee in 1962 by the government as an essential arm of the Central Bank of Nigeria. This was purely an ad-hoc, non-statutory committee, which later metamorphosed into SEC in 1979, following a comprehensive review of the Nigerian financial system, with the promulgation of SEC Decree No. 71 of 1979. Successive reviews of this earlier enactment led to the introduction of a new legislation, the Investments and Securities Act (ISA) No 45 of 1999. The ISA No. 45 of 1999 was repealed with the promulgation of the ISA No. 25 of 2007, which gives the Commission its current power.

Functions of the Security and Exchange Commission

- **Registration:** The Commission is responsible for registering new securities and market intermediaries. They do this to ensure that only fit and proper persons/institutions are allowed to operate in the market.
- **Inspection:** SEC is also performs supervisory roles by regularly calling for information from capital market operators. It also undertakes and conducts inquiries and audits of any participant in the market whenever necessary.
- **Surveillance:** Surveillance is carried out over exchanges and trading systems to forestall breaches of market rules as well as deter and detect manipulations and trading practices which are capable of causing market disruption.

- **Investigation** of alleged breaches of the laws and regulations governing the capital market and enforcement of sanctions where appropriate.
- **Enforcement** actions are taken against market operators who are found wanting after investigation is carried out, in minor cases, an all parties meeting is convened by the Commission where it mediates between parties involved in a dispute. However, if the case is serious or where no resolution is reached or a party fails to comply with a directive given at the all parties meeting, the defaulting party will be called before the Administrative Proceedings Committee (APC), which is a quasi judicial court, with only civil jurisdiction. Appeals against decisions of the APC are usually made at the Investment and Securities Tribunal (IST). Enforcement action may be in the form of payment of fine, ban, suspension or even forwarding the case to the Nigeria Police Force (NPF), Economic and Financial Crimes Commission (EFCC) or the Attorney – General of the Federation (AGF) where allegations are found to be criminal in nature.
- **Rule making** by the Commission as developments occur. This is to ensure that the Commission meets up with international best practices.

Objectives of the Securities and Exchange Commission

- Regulating the capital market with a view to protecting investors; and
- Developing the capital market in order to enhance its “allocative” efficiency, and pave the way for a private sector led economy.

ASSESSMENT

1. What is the Security and Exchange Commission?
2. What are the functions of the SEC?
3. What are the objectives of the SEC?

WEEK 6

Introduction: History of the NSE

The Nigerian Stock Exchange (**NSE**) was established in 1960 as the Lagos Stock Exchange. In 1977, its name was changed from the Lagos Stock Exchange to the Nigerian Stock Exchange. The Nigerian Stock Exchange was founded in 1960 as the Lagos Stock Exchange, on September 15, 1960, the stock exchange council was inaugurated. Operations began officially on August 25, 1961 with 19 securities listed for trading but informal operations had commenced earlier in June, 1961.

Functions of the Nigeria Stock Exchange

- They provide open forum for people to buy and sell securities.
- They provide opportunities for businesses to raise funds
- They help to curb liquidity in the country's economy and this is done by facilitating buying and selling of all types of securities.
- They protect the public from sharp practice and shady dealings by providing guiding rules.
- They facilitate dealing in government owned securities.
- They encourage people to make savings.
- They act as medium for dissemination of information to investors and industrialists.

Operation of the Nigeria Stock Exchange

The Nigerian Stock Exchange is regulated by the Securities and Exchange Commission, which has the mandate of Surveillance over the exchange to forestall breaches of market rules and to deter and detect unfair manipulations and trading practices. The Exchange has an automated trading System. Data on listed companies' performances are published daily, weekly, monthly, quarterly and annually.

The Nigerian Stock Exchange has been operating an Automated Trading System (ATS) since April 27, 1999, with dealers trading through a network of computers connected to a server. The ATS has facility for remote trading and surveillance. Consequently, many of the dealing members trade online from their offices in Lagos and from all the thirteen branches across the country. The Exchange is in the process of establishing more branches for online real time trading. Trading on The Exchange starts at 9.30 a.m. every business day and closes at 2.30 p.m.

In order to encourage foreign investment into Nigeria, the government has abolished legislation preventing the flow of foreign capital into the country. This has allowed foreign brokers to enlist as dealers on the Nigerian Stock Exchange, and investors of any nationality are free to invest. Nigerian companies are also allowed multiple and cross border listings on foreign markets.

Jobbers and Brokers

Jobbers and brokers both play a role in stock sales and purchases, but they're involved in different stages of the process. Brokers carry out transactions for the investors who hire them. Jobbers, on the other hand, exist to make sure that when brokers need to buy or sell shares for a client they have someone to buy from or sell to.

ASSESSMENT

1. When was the NSE established?
2. What are the functions of the NSE?

3. What is the mode of operation of the NSE?

WEEK7

What is Hire Purchase?

Hire purchase is a method of financing of the fixed asset to be purchased on future date. Under this method of financing, the purchase price is paid in installments. Ownership of the asset is transferred after the payment of the last installment.

It can also be seen as an agreement between two parties in which one party purchases an asset from other party; albeit on credit. Now because the purchasing party has no money to pay, s/he is given a credit facility whereby payment is subsequently made on a per month hire charges. However, in the meantime the vendor will have possession of asset until the buyer pays the total price of assets in the form of hire charges and then asset is transferred to its purchaser. This is standard practice, although the vendor may also transfer asset before last payment of installment on his own risk. If buyer will become defaulter, vendor has right to get his asset from hire purchaser.

Features of Hire Purchase

The main features of hire purchase finance are-

1. The hire purchaser becomes the owner of the asset after paying the last installment.
2. Every installment is treated as hire charge for using the asset.
3. Hire purchaser can use the asset right after making the agreement with the hire vendor.
4. The hire vendor has the right to repossess the asset in case of difficulties in obtaining the payment of installment.

Parties to a Hire Purchase Contracts

1. The dealer contracts a finance company to finance hire purchase deals submitted by him. For this purpose, they enter into a contract drawing out the terms, warranties that the dealer gives with each transaction and so on.
2. The customer selects the goods and expresses his desire to acquire them on hire purchase. The dealer arranges for a full set of documents to be completed to make a hire purchase agreement with a customer. The documents are generally printed by the finance company.
3. The customer then makes a cash down payment on completing the proposal form. The down payment is generally retained by the dealer as a payment on account of the price to be paid to him by the finance company.
4. The dealer then sends the documents to the finance company requesting him to purchase the goods and accept the hire purchase transactions.
5. The finance company, if it decides to accept the transactions, signs the agreement and sends a copy to the hirer, along with the instructions as to the payment of the installments the Finance company also notifies the same to the dealer and asks him to deliver the goods, if they are not already delivered.
6. The dealer delivers the goods to the hirer against acknowledgements and the property in the goods passes on to the finance company.
7. The hire makes payment of the hire installment periodically.
8. On completion of the hire term, the hirer pays the last instalment and the property in the goods passes on to him on issue of a completion certificate by the finance company.

Conditions for Hire Purchase

(1) In every hire-purchase agreement there shall be-

a) An implied warranty that the hirer shall have and enjoy quiet possession of the goods.

b) An implied condition on the part of the owner that he will have a right to sell the goods at the time when the property is to pass.

c) An implied warranty that the goods will be free from any charge or encumbrance in favour of any third party (other than a charge or encumbrance created by or with the consent of the hirer) at the time when the property is to pass.

(2) In every hire-purchase agreement there shall be an implied condition that the goods shall be of merchantable quality but no such condition shall be implied-

(a) As regards defects of which neither the owner nor the dealer could reasonably have been aware at the time that the agreement was made; or

(b) Where the hirer has examined the goods or a sample thereof, as regards defects which the examination ought to have revealed; or

(c) If the goods are second-hand goods and the agreement contains a statement to the effect that-

(i) The goods are second-hand; and

(ii) All conditions and warranties as to quality are expressly negated- and the owner proves that the hirer has acknowledged in writing that that statement was brought to his notice.

(3) Where the hirer expressly or by implication makes known to the owner or to the dealer or to any servant or agent of the owner or the dealer the particular purpose for which the goods are required there shall be implied in the hire-purchase agreement a condition that the goods shall be reasonably fit for that purpose but no such condition shall be implied if the goods are second-hand goods and the agreement contains a statement to the effect-

(a) That the goods are second-hand; and

(b) That all conditions and warranties of fitness and suitability are expressly negated and the owner proves that the hirer has acknowledged in writing that that statement was brought to his notice.

(4) Without prejudice to any other rights or remedies to which an owner may be entitled where the hirer has made known expressly or by implication to the dealer or to any servant or agent of the dealer the particular purpose for which the goods are required an owner shall be entitled to be indemnified by the dealer against any damage suffered by the owner through the operation of the provisions of the last preceding subsection.

(5) Nothing in this section shall prejudice in any way any other enactment or rule of law whereby any condition or warranty is to be implied in any hire-purchase agreement.

Advantages of Hire Purchase

(1) **Convenience in Payment:** The buyer is greatly benefited as he has to make the payment in installments. This system is greatly advantageous to the people having limited income.

(2) **Increased Volume Of Sales:** This system attracts more customers as the payment is to be made in easy installments. This leads to increased volume of sales.

(3) **Increased Profits:** Large volume of sales ensures increased profits to the seller.

(4) **Encourages Savings:** It encourages thrift among the buyers who are forced to save some portion of their income for the payment of the installments. This inculcates the habit to save among the people.

(5) **Helpful For Small Traders:** This system is a blessing for the small manufacturers and traders. They can purchase machinery and other equipment on installment basis and in turn sell to the buyer charging full price.

(6) **Earning Of Interest:** The seller gets the installment which includes original price and interest. The interest is calculated in advance and added in total installments to be paid by the buyer.

(7) **Lesser Risk:** From the point of view of seller this system is greatly beneficial as he knows that if the buyer fails to pay one installment, he can get the article back.

Disadvantages of Hire Purchase

(1) **Higher Price:** A buyer has to pay higher price for the article purchased which includes cost plus interest. The rate of interest is quite high.

(2) **Artificial Demand:** Hire purchase system creates artificial demand for the product. The buyer is tempted to purchase the products, even if he does not need or afford to buy the product.

(3) **Heavy Risk:** The seller runs a heavy risk under such system, though he has the right to take back the articles from the defaulting customers. The second hand goods fetch little price.

(4) **Difficulties in Recovery of Installments:** It has been observed that the sellers do not get the installments from the purchasers on time. They may choose wrong buyers which may put them in trouble. They have to waste time and incur extra expenditure for the recovery of the installments. This sometimes led to serious conflicts between the buyers and the sellers.

(5) **Break Up Of Families:** The system puts a great financial burden on the families which cannot afford to buy costly and luxurious items. Recent studies in western countries have revealed that thousands of happy homes and families have been broken by hire purchase buying's.

Accounting Methods for Hire Purchase Transaction

Before we proceed to the methods of accounting for hire purchase, it is important to note the following information-

a) Cash price is that price which will be paid if any asset is purchased on cash without installment.

b) Hire price = cash price + interest for risk of giving asset on installment.

c) Down payment = Payment at the beginning of deal of hire purchase.

There are four methods of accounting for hire purchase.

First Method : Cash Price Method

Under cash price method, we are deal hire purchase transactions just like normal transactions. When transactions or event happen, we record them.

Journal Entries in the books of Purchaser

a) For buying assets on hire purchase

Asset on hire purchase account Dr.

Vendor account Cr.

b) For paying the down payment to vendor

Vendor account Dr

Cash/ bank

c) When Interest is Due on unpaid installments

Interest on Hire Purchase account Dr.

Vendor Account Cr.

d) For Instalment Payment (Interest payment will be also included in it)

Vendor Account Dr

Cash / Bank account Cr

e) For transferring interest to profit and loss account

Profit and Loss account Dr.

Interest on hire purchase account Cr.

f) For depreciation charge

Depreciation account Dr.

Assets on hire purchase account Dr.

g) If Asset is returned

Hire Vendor account Dr.

Asset on hire purchase account Cr.

Creditor		Assets on Hire purchase xxxx	
a) Hire purchase creditor	XXXX	Less depreciation	
b) Instalment due	XXXX	XXXX	

		XXXXX	XXXX

In the books of Hire Vendor

a) For giving assets on hire

Hire purchaser account Dr.

H.P. Sale Cr.

b) For down payment received

Bank account Dr.

H.P. Sales Cr.

c) For Interest receivable

Hire purchaser account Dr.

Interest account Cr.

d) For installment due

Installment due account Dr.

H.P. Sales Cr.

e) For installment received

Bank account Dr.

Hire purchaser account Cr.

f) For installment not due at the year

Hire purchase stock account Dr.

Trading account Cr.

g) For stock reserve

Stock Reserve account Dr.

Hire purchase stock account Cr.

Disclosure in balance sheet

Current Assets

Hire purchase debtor XXXX

Second Method Interest Suspense Method

In this method, we open interest suspense account. All the interest which is not paid on hire purchase asset will go to interest suspense account. When interest will become due, interest account will be debit and interest suspense account will credit.

following entries will pass in the books of hire buyer

a) For transferring total interest payable on hire purchase deal

Interest suspense account Dr.

Hire purchase account Cr.

b) When interest is due

interest account Dr.

interest suspense account Cr.

all other entries will be same as first method.

Creditor		Assets on Hire purchase XXXX	
a) Hire purchase creditor	XXXX	Add balance of interest suspenses	
b) Instalment due	XXXX	Less depreciation	
		XXXX	XXXX

		XXXXX	

In the books of hire vendor

a) For transferring total interest payable to interest suspense account

hire purchaser account Dr..

interest suspense account Cr.

b) when interest is due

interest suspense account Dr.

interest account Cr.

all journal entries will be same of first method

Disclosure in the balance sheet

Current Assets

Hire purchase debtors

Less balance in interest suspense account

3rd Method : Trading Method

In this method, the hire purchase trading account is prepared in the book of vendor of asset in the form of hire purchase system.

Hire Purchase Trading Account

To Stock with customers on hire purchase price (opening)		By Hire purchase sales	
To Goods sold on hire purchase account		- cash received from customers	
To stock reserve on closing stock		- instalment due but received	
		By Stock Reserves	
		By Stock with customers at hire price at end	

4th Method : Stock and Debtor Method

In this method, hire purchase stock, hire purchase debtor and hire purchase adjustment account are maintained. Following entries will pass in the books of vendor

a) When goods are sold on hire purchase

hire purchase stock account Dr. (Hire purchase price)

stock account Cr. (Actual cost of sale of goods)

hire purchase adjustment account Cr. (difference between hire purchase price and actual cost)

b)When installments become due for payment

hire purchase debtors account Dr.

hire purchase stock account Cr.

c) When cash is received

Cash account Dr.

Hire purchase debtor account Cr.

d) stock reserve account on opening stock

stock reserve account Dr.

hire purchase adjustment account Cr.

e) Stock reserve on closing stock

Hire purchase adjustment account Dr.

Stock reserve account Cr.

ASSESSMENT

1. Define Hire Purchase
2. What are the features of Hire purchase?
3. What are the conditions for a Hire purchase agreement?
4. List 5 advantages of Hire purchase
5. List 5 disadvantages of Hire purchase
6. What are the accounting methods for Hire purchase?

WEEK 8

Meaning of Consignment Accounts

Consignment accounts are concerned with goods sent to an agent who will sell the goods on behalf of his principal. In many cases the goods are consigned to an agent abroad. It can therefore be generally defined as the act of sending a quantity of goods by the manufacturers and producers of one country or place to their agents in another at the risk of the principals for the purpose of sale. Goods so sent are known as “consignment”. The sender of the goods is called the **consignor**. Generally the manufacturers or producers are consignors. The person to whom goods are forwarded for the purpose of sale is known as the **consignee**.

The consignment can be classified as: *Outward Consignment* and *Inward Consignment*. It is called “outward” when the dispatch of a quantity of goods from one country to another is made for the purpose of sale and is called “inward” when the receipt of the quantity of goods is made for the purpose of sale.

Further Explanation

Goods sent on consignment do not become the property of the consignee. He has not bought them. The ownership remains with the sender or the consignor. If the goods are destroyed, the receiver (consignee) is not responsible. The loss will fall on the consignor. The consignee tries to sell the goods according to the instructions of the consignor. When the goods have been sold, he will deduct his expenses, commission, etc., from the sale proceeds and the balance is remitted to the consignor. The relationship between the consignor and the consignee is that of principle and agent. The consignee is the agent. The consignee acts entirely on behalf of the consignor. The consignee is entitled to his remuneration which is generally fixed on the basis of a commission of

sales. The expenses incurred by the consignee must also be reimbursed by the principal. It is important to remember that the consignee does not buy the goods; he merely receives the possession of the goods.

Proforma Invoice

Since the goods are not sold to the agent, a proforma invoice is used when the goods are sent to him{pro forma means “for form sake”.

1. This document does not make a charge, but communicates information.
2. It will inform the agent of the price at which he is expected to sell the goods.

Agents Commission

The agent usually receives remuneration for his services in the form of a commission.

1. A flat rate based on a percentage on the gross sales figure
2. When the agent accepts responsibility for any bad debts resulting from sales made on credit it is usual to give him an additional commission del credere commission.

Entries in the Book of the Consignor

First open two accounts-

1. Goods sent on consignment account
2. Consignment to Do & Do{the consignee}

Note: The amount taken to this account is at cost price.

Example:

On February 12, 19...the iced cold Refrigerators Ltd. sent on consignment 50 refrigerator costing #40 each to A.W.Shola of Nigeria. The entries in the consignor's book will be as follows

Goods sent on consignment

Feb. 12 Consignment to A. W. Shola #2,000

Consignment to A.W. Shola Nigeria

	Feb.12	Goods	sent	on
consignment	#2,000			

The "Goods sent on consignment Account" will ultimately be closed by transfer to the Trading Account where the amount involved will be deducted from the purchases figure.

ASSESSMENT

What is your understanding of 'consignment accounts' and what is a proforma invoice?

WEEK 9

Definition of Joint Venture

A joint venture is simply a venture undertaken jointly by two or more persons with a view to gain profit. It is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity.

A Joint Venture can also be defined as

a contractual business undertaking between two or more parties. It is similar to

a business partnership, with one key difference: a partnership generally involves an ongoing, long-

term business relationship, whereas a joint venture is based on

a single business transaction. Individuals or companies choose to enter joint ventures in order to share strengths, minimize risks, and increase competitive advantages in the marketplace. Joint ventures can be distinct business units (a new business entity may be created for the joint venture) or collaborations between businesses. In a collaboration, for example, a high-technology firm may contract with a manufacturer to bring its idea for a product to market; the former provides the know-how, the latter the means.

Differences between Joint Venture and Partnership

- A joint venture involves two or more companies joining together in business, whereas in a partnership, it is individuals who join together for a combined venture.
- A joint venture can be described as a contractual arrangement between two companies that aims to undertake a specific task. Whereas, a partnership involves an agreement between two parties wherein they agree to share the profits as well as any loss incurred.

- In a partnership, persons involved are co-owners of a business venture and their aim is making a profit. But in a joint venture, it is not just profit that binds the parties together. Joint ventures can be formed for specific purposes. Normally the companies engage in joint ventures for undertaking certain ventures like research and development which will be expensive in nature and impossible to take the same individually.
- A partnership will last for many years until the parties involved have no differences. While a joint venture company will last for only a limited period until their goal is achieved.
- The members in a partnership can claim a capital cost allowance as per the partnership rules. Whereas, joint ventures can use as much or as little of the capital cost allowance.
- In a partnership, members cannot act according to their wishes because they do not have any individual identity. However, a member of a joint venture can retain the identity of his/her firm or property.
- Although a joint venture is very similar to a partnership, a joint venture is generally more limited in scope and duration.
- A joint venture is generally considered to be a partnership for a single transaction. Similarly, a joint venture is a less formal relationship than a partnership.
- The rights and liabilities of joint venturers are governed by the principles applicable to partnerships.
- Joint venturers can be held jointly and severally liable for one another's wrongful acts, but a joint venture must have the elements of a partnership. Whereas, if a criminal act is committed through a partnership, the culpable members of the partnership are held criminally responsible, rather than the partnership itself

Main Characteristics of Joint Venture

1. The profit sharing ratios must be clearly defined.
2. The capital activities and scope of the venture must be laid down
3. Sometimes one venture is allowed credit for use of his office, or for services provided, this must be agreed to by all parties.

Account Procedure

Each venture opens an account to record all matters which concern the particular venture. This account is called “joint venture with XYZ” (the name of the other party to the venture)

If cash is paid out: Debit joint venture account and credit cash

If cash is received from sales or even from other party: Credit joint venture account and debit cash. Any charges agreed upon e.g commission debit joint venture account and credit the account of the person who is to receive the commission

At the close of the venture ,or end of the year whichever is earlier. The joint accounts of each venture are combined in a “memorandum joint venture account” on which the profit or loss on the venture is ascertained. Note that this account does not form part of the double-entry records in any set of books been prepared purely for the purpose of ascertaining the profit or loss.

The profit having been found: Debit venture account and credit profit and loss account

In the event of loss: Credit joint venture and debit profit and loss account.

When all these entries have been made, the balances remaining on the various joint venture account show the indebtedness of one venture to another.

ASSESSMENTS

1. Define joint ventures
2. What is the difference between joint ventures and partnerships?
3. What are the main characteristics of joint ventures?

SS 3

**SECOND TERM NOTES ON
FINANCIAL ACCOUNTING**

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YEAR ADJUSTMENTS**

WEEK 1

TOPIC: CONTRACT ACCOUNT

Contract Accounts are prepared for every contract even as all costs/expenses relating to such [particular] contract are charged to said account. Also, all indirect expenses such as office and administrative expenses, repairs and storeroom expenses are charged to contract account on an equitable basis.

TERMS IN CONSTRUCTION CONTRACT

1. **Mobilization Fee:** This is the amount paid to a contractor to enable him begin the contract work
2. **Retention Fee:** This is the amount of money the customer is allowed to withhold for a specified period of time after the completion of the contract. It is usually 10% of the value of contract.
3. **Work in Progress:** This is the accumulated certifiable cost relating to contract that is yet to be completed.
4. **Estimated cost to completion:** This is the estimated cost that will be incurred in other to complete the contract work.
5. **National Profit:** This is the total expected profit from the contract. It is calculated by subtracting the total contract cost from the total contract value.

CALCULATION OF PERCENTAGE OF WORK COMPLETED

	N	N
Contract Value		XX
Cost Incurred to Date	x	
Estimated Cost to Completion	x	
Rectification Cost	x	<u>(x)</u>
Estimated Profit		<u>x</u>

Profit will be recognize using any of the following method

- 1)
$$\frac{\text{Cost incurred to Date} \times \text{Estimated Total Point}}{\text{Estimated Total Cost}}$$
- 2)
$$\frac{\text{Value of work certified to Date} \times \text{Estimated Total Profit}}{\text{Total Contract Price}}$$

Preparation of Contract Account

- a) Open a contract account
- b) Debit all contract direct cost
- c) Credit items transferred from the contract
- d) Debit head office overhead charged to contract
- e) Credit Contract price
- f) Transfer profit or loss to the P & L account

Case Study

Oluyole Enterprises has a federal Ministry of Education contract for the construction of a digital library at university of Ibadan. The contract runs

from June, 2014 to December, 2016. The Contract price is N250 million and the budgeted cost has been N185 million.

As at 31st December 2015, the following transactions are in the book of the company regarding the contract.

	N000
Material issued from Store	25,220
Direct Material purchased	28,180
Material returned from site	4,500
Wages for site workers	40,000
Plant Purchased for contract	15,000
Plant Hire for Contract	20,000
Site Supervisory Salary	7,100
Share Sub of Area Office Expenses	10,500
Payment to Sub Contractor	5,000

Additional information:

	N000
1. Sub Contractor accrued	1,000
2. Accrued wages	790
3. Cost of work not yet certified	9,210
4. Cash received	130,500
5. Retention	14,500
6. Value of Material on site	4,700
7. Depreciation is 20% regardless sale of purchase Required	
8. Value of Work Certified	145,000

Required: PREPARE CONTRACT ACCOUNT

DR	CONTRACT ACCOUNT		
	N 000		N 000
Material Issued	25,220	Material returned	4,500
Wages paid to site workers	40,000	Material on site c/f	4,700
Wages accrued	790	Cost to date c/f	131,590
Payment to sub contractor	5,000		
Direct Materials	28,180		
Depreciation: Plant	3,000		
Plant hire charge	20,000		
Share of office expenses	10,500		
Site supervisor salary	7,000		
	140,790		140,790
Cost to date b/f	131,590	Value of work certified	145,000
Profit taken	13,572	Cost of work certified	9,210
Profit provisions	9,048		
	154,210		154,210

$$\begin{aligned} \text{National Profit} &= \text{N } 154,210,000 - \text{N } 131,590,000 \\ &= \text{N } 22,620,000 \end{aligned}$$

$$\begin{aligned} \text{Profit taken} &= \frac{2}{3} \times \text{National Profit} \times \frac{\text{Cash received}}{\text{Value certified}} \\ &= \frac{2}{3} \times \text{N } 22,620,000 \times \frac{130,500,000}{145,000,000} \end{aligned}$$

$$\begin{aligned} \text{Profit Provisions} &= \text{N } 22,620,000 - \text{N } 13,572,000 \\ &= 9,048,000 \end{aligned}$$

$$\text{Depreciation} = \frac{20}{100} \times 15,000,000 = \text{N } 3,000,000$$

ASSESSMENT

1. Contract Accounts are prepared for
 - (a) some contracts
 - (b) all contracts
 - (c) only sales contracts
 - (b) only procurement accounts
2. ____ is the amount paid to a contractor to enable him begin the contract work
 - (a) mobilisation fee
 - (b) retention fee

- (c) work in progress
 - (d) national cost
3. The amount of money the customer is allowed to withhold for a specified period of time after the completion of the contract is
- (a) mobilisation fee
 - (b) retention fee
 - (c) work in progress
 - (d) national cost
4. _____ is calculated by subtracting the total contract cost from the total contract value.
- (a) mobilisation fee
 - (b) retention fee
 - (c) work in progress
 - (d) national cost
5. The accumulated certifiable cost relating to contract that is yet to be completed is called
- (a) mobilisation fee
 - (b) retention fee
 - (c) work in progress
 - (d) national cost

ANSWERS

- 1. b
- 2. a
- 3. b
- 4. d
- 5. c

WEEK 2

TOPIC: ACCOUNTING RATIO

Accounting Ratio by definition expresses the relationship between items in a set of financial statement. Take for instance, *a working capital ratio* expresses the relationship between the *current asset* and *current liabilities* in the same financial statement. In this sense therefore, it can be seen that an *accounting ratio* compares two aspects of a financial statement, specifically the relationship (or *ratio*) of current assets to current liabilities. The *ratios* can then be used to evaluate the financial condition of a company, including the company's strengths and weaknesses.

Classification of Accounting Ratio

1) Liquidity Ratio: This measures the ability of a firm to meet its obligation as at when due. Five of the common liquidity ratios are as follows-

- 1) Current or working capital Ratio = $\frac{\text{Current Asset}}{\text{Current Liabilities}}$
- 2) Acid Test Ratio = $\frac{\text{Current Asset} - \text{Closing Stock}}{\text{Current Liabilities}}$
- 3) Stock Turnover = $\frac{\text{Cost of Goods sold}}{\text{Average Stock}}$
- 4) Average Stock = $\frac{\text{Opening Stock} + \text{Closing stock}}{2}$
- 5) Debtor Collection Period = $\frac{\text{Debtor}}{\text{Credits Sales}} \times 365 \text{ days}$
- 6) Creditors Payment Period = $\frac{\text{Creditor (Trade)}}{\text{Credit Purchases}} \times 365 \text{ days}$

2) **Profitability Ratio:** This ratio measures the performance of the organization. It tells how effective and efficient the management of an organization is at managing resources. The following are the major profitability Ratios-

- i. Net Profit Percentage = $\frac{\text{Net Profit}}{\text{Sales}} \times \frac{100}{1}$
- ii. Gross Profit Percentage = $\frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1}$
- iii. Return on Capital Employed = $\frac{\text{Profit}}{\text{Capital Employed}} \times \frac{100}{1}$
- iv. Asset Turnover Ratio = $\frac{\text{Sales}}{\text{Capital Employed}}$

3) **Investment/Shares Holder Ratio:** This is ratios used to measure the returns which investors received on their investment. They are as follows-

- i) Earnings Per Share = $\frac{\text{Profit after tax – preference dividend}}{\text{No of Equity Shares}}$
- ii) Price Earnings Ratio = $\frac{\text{Market Value per Share}}{\text{Earnings per Share}}$
- iii) Dividends = $\frac{\text{Dividend per Share} \times 100}{\text{Market value per share}}$
- iv) Dividend Cover = $\frac{\text{EPS}}{\text{DPS}}$

COMPREHENSIVE QUESTION ON RATIO

The following is the summary account of Zik enterprises as at 31st December 2015

DR		Trading Profit and Loss Account	
	₦ 000		₦ 000
Opening Stock	18,000	Sales	480,000
Purchases	404,000		Z
Cost of Goods available	422,000		
Closing Stock	122,000		
Cost Of Goods Sold	400,000		
Gross Profit	80,000		
	480,000		480,000
Expenses		Gross Profit b/d	<u>80,000</u>

Administrative Expenses	40,000		
Net Profit	40,000		
	80,000		80,000

BALANCE SHEET

EQUITY	₦ 000	FIXED ASSET	₦ 000
Share Capital	200,000	Motor Van	190,000
Reserve	50,000	Current Asset	
Current Liabilities		Stock	22,000
Creditors	40,000	Debtors	60,000
		Cash	18,000
	290,000		290,000

Required; Prepare 5 relevant accounting ratios;

Open with ▾

$$\begin{aligned} \text{a. Gross Profit on Sales} &= \frac{\text{Gross Profit}}{\text{Sales}} \times 100 \\ &= \frac{80,000}{480,000} \times 100 \\ &= 16.67\% \\ \\ \text{b. Stock turnover} &= \frac{\text{Cost of Sales}}{\text{Average Stock}} \\ \\ \text{Average Stock} &= \frac{18,000 + 22,000}{2} = 20,000 \\ \\ \text{Therefore, Stock turnover} &= \frac{400,000}{20,000} = 20 \text{ times} \\ \\ \text{c. Working capital Ratio} &= \text{Current asset} : \text{current liabilities} \\ &= \text{₦ } 100,000 : \text{₦ } 40,000 \\ &= 2.5 : 1 \\ \\ \text{d. Net Profit on Sales} &= \frac{\text{Net Profit}}{\text{Sales}} \times 100 \\ &= \frac{40,000}{480,000} \times 100 \\ \\ \text{e. Return on Capital employed} &= \frac{\text{Profit}}{\text{Capital Employed}} \times 100 \\ &= \frac{40,000}{250,000} \times 100 \end{aligned}$$

ASSESSMENT

1. If cost of goods sold is \$8000, gross margin is \$5000 then revenue will be
 - (a) \$13,000
 - (b) -\$13000
 - (c) \$3,000
 - (d) -\$3000

- Oliver Incorporated has a current ratio equal to 1.6 and a quick ratio equal to 1.2. The company has N2 million in sales and its current liabilities are N1 million. what is the value of company's current assets?
 - (a) 1,600,000
 - (b) 1,200,000
 - (c) 3,200,000
 - (d) 2,400,000
- Which of the following statements (in general) is CORRECT?
 - (a) A low receivables turnover is desirable
 - (b) The lower the total debt-to-equity ratio, the lower the financial risk for a firm
 - (c) An increase in net profit margin with no change in sales or assets means a weaker ROI
 - (d) The higher the tax rate for a firm, the lower the interest coverage ratio
- Fixed cost is divided by break-even revenues to calculate
 - (a) cost margin
 - (b) fixed margin
 - (c) revenue margin
 - (d) contribution margin

ANSWERS

1. a
2. a
3. b
4. d

WEEK 3

TOPIC: DEPARTMENTAL ACCOUNT

An organization may separate the activities of an organization into smaller units. It will therefore want to ascertain the performance of each business unit. Departmental account can therefore be defined as that account that measure the performance of units of a business. Example will be a five star hotel that has a 'Bar and Kitchen' department and lodging department.

Treatment of Common Expenses

There are some expenses that are not traceable to a particular department. For example IBEDC will bring electricity bill for the whole premiere hotel, premier hotel will now have to apportion that electricity bill between its 'kitchen and bar dept' and it lodging department. Methods of apportioning expenses are as follows-

Expenses	Basis of Apportionment
Rent/ Rates	According to floor area occupied
Lightening/ Heating	According to floor area occupied
Selling Expenses	Delivery vehicle expenses, According to turnover
Administrative Expenses	According to number of employee in each Dept.

Reason for Department Account

- 1) To compare the performance of the various departments within an establishment.
- 2) It can serve as a basis for compensating departmental managers.
- 3) It is used for evaluating the progress of each of the departments.
- 4) Action can be taken to improve or eliminate department making loss.

5) The contribution on to profit of each dept can be ascertained.

Inter-Departmental Transfer

It is expected that goods and services be transferred from one department to another within same organization. This transfer may be cost or at cost plus mark up. The accounting entry will be-

(i) Deducted from the goods available for sale of the transferring department

(ii) Added to goods available for sale of the receiving department

Preparation of Department Account

Illustration: The following trial balance for the year ended 31 st December 2016. This is extracted from the book of *Eleyele Limited*.

	DR	CR
	N 000	N 000
Capital		64,000
Drawings	33,500	
Freehold premises at Cost	56,000	
Motor Vehicle	56,000	
Fixtures and Fittings	31,600	
Depreciation: Fixtures & Fitting		7,600
Bank		3,600
Stock of Goods: A	5,710	
B	7,650	
Debtors	18,200	
Insurance	764	
Cash in Hand	576	
Wages: A	7600	
B	3000	
Sales: A		320,018
B		280,762

Creditors purchases: A	240,000	5,060
B	221,800	
Office Expenses	3,600	
Salaries	40,000	
Rates	2,600	
Advertising	640	
Loan Interest		640
Carriage Inwards		
A	300	
B	100	
Loan Account		50,800
	731,840	731,840

Additional Information:

- 1) Closing Stock A = ₦ 15,006
 B = ₦ 11,416
- 2) Outstanding Expenses:
 - Salaries ₦ 560
 - Insurance ₦ 364
- 3) Common expenses are shared using the following basis:
 - Floor Area: A = $\frac{4}{5}$ B = $\frac{1}{5}$: Insurance and Rates.
 - Turnover: Office expenses salaries & Advertising
- 4) All other expenses to be equally allocated
- 5) Depreciation is 10% on fixtures and fittings
- 6) Rates of 200 were prepaid

Solution:**Area Basis**

1. Insurance = ₦ 764 + 364 = ₦ 1,128
Department A = $\frac{4}{5} \times \text{₦ } 1128 = \text{₦ } 902$
Department B = $\frac{1}{5} \times \text{₦ } 1128 = \text{₦ } 226$
2. Rates = ₦ 2,600 – ₦ 200 = ₦ 2,400
Department A = $\frac{4}{5} \times 2400 = \text{₦ } 1,920$
Department B = $\frac{1}{5} \times 2400 = \text{₦ } 480$

Turnover Basis:

3. Office Expenses = ₦ 3,600
Department A = $\frac{320,018}{600,780} \times 3600 = \text{₦ } 1,918$
Department B = $\frac{280,762}{600,780} \times 3600 = \text{₦ } 1,682$

4. Salaries = N 40,000 + N 560 = N 40,560

5. Department A = $\frac{320,018}{600,780} \times \frac{40,560}{1} = \text{N } 21,605$

Department B = $\frac{280,762}{600,780} \times \frac{40,560}{1} = \text{N } 18,955$

6. Advertising = N2,200

Department A = $\frac{320,018}{600,780} \times 2,200 = \text{N } 1,172$

Department B = $\frac{280,762}{600,780} \times \frac{2,200}{1} = \text{N } 1,028$

Other Expenses

7. Loan Interest = N 640

Department A = $\frac{1}{2} \times 640 = \text{N } 320$

Department B = $\frac{1}{2} \times 640 = \text{N } 320$

8. Depreciation for the year: $10\% \times 31,600 = 3,160$

Department A = $\frac{1}{2} \times 3,160 = 1,580$

Department B = $\frac{1}{2} \times 3,160 = 1,580$

**DEPARTMENT, TRADING PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED
31ST DECEMBER 2015**

	A N	B N	Total N		A N	B N	Total N
Opening Stock	5,710	7650	13,360	Sales	320,018	280,762	600,780
Purchases	240,000	221,800	461,800				
Carriage Inwards	300	100	400				
	264,010	229,550	475,560				
Closing Stock	(15,000)	(11,416)	(26,442)				
	231,004	218,134	449,138				
Wages	7,600	3,000	10,600				
	238,604	221,184	459,738				
Gross Profit	81,414	59,628	41,042				
	320,018	280,762	600,780		320,018	280,762	600,780
Expenses				Gross Profit b/d	81,414	59,628	141,042
Salaries	21,605	18,955	40,560				
Office Expenses	1,918	1,682	3,600				
Rates	1,920	480	2,400				
Advertising	1,172	1,028	2,200				
Loan Interest	320	320	640				
Insurance	902	226	1,128				
Dep.: F and F	1,580	1,580	3,160				
Net Profit	51,997	35,357	87,354				
	81,414	59,628	141,042		81,414	59,628	141,042

BALANCE SHEET AS AT 31ST DECEMBER, 2015

	N		N
Capital	64,000	Fixed Assets	
Net Profit	87,354	Freehold Premises	56,000
	151,354	Motor Vehicle	56,000
Less Drawings	133,500	Fixtures and Fittings	31,600
	117,854	Depreciation	10,760
		Total fixed Assets	132,840
Current Liabilities		Current Assets	
Creditors	5,060	Stock A	15,006
Bank	3,600	B	11,416
Loan	50,800	Cash in Hand	576
Account Salaries	560	Debtors	18,200
Insurance	364	Rates Prepaid	200
	60,384		
	178,238		178,238

ASSESSMENT

1. Department which provides assisting services to internal departments is classified as
 - (a) supply department
 - (b) support department
 - (c) production department
 - (d) allocation base department
2. Department which directly adds value to product or service is known as
 - (a) production department
 - (b) operating department
 - (c) allocation base department
 - (d) both a and b
3. Approaches to allocate costs of support department do not include
 - (a) sales mix allocation method
 - (b) dual-rate cost-allocation method
 - (c) single rate cost allocation method
 - (d) both b and c
4. Which of the following is a valid reason for a closure of a department?
 - (a) Negative contribution
 - (b) Lower profits
 - (c) Losses made by department
 - (d) falling contribution
5. Which of the following would not be included as an indirect manufacturing cost?
 - (a) Factory power

- (b) Supervisor's wages
- (c) Administration wages
- (d) Depreciation of equipment

ANSWERS

1. b
2. d
3. d
4. a
5. c

WEEK 4

TOPIC: BRANCH ACCOUNT

Introduction to Branch Account

A branch can be defined as a small part of a business enterprise which operates with some degree of independence. In view of this, a branch account takes into consideration the entries of transactions in the books of an organization with different branches. Please note that the system of accounting employed in Branch Account depends on the *nature of trade, location* and *degree* of control exercised by the Head Office. However, the Head Office must be duly furnished with the transactions of the business through the presentation of financial result.

Division of Branch Accounting

There are two divisions of branch accounting—the foreign branch or Head Office where the parent company keeps the account and the local branch where the branches keep separate accounts. These two scenarios work in such a way that the Head Office does all the buying and the branch simply does the selling. The accounting for the branches is carried out by the Head Office, a common practice especially in large-retail chain stores where the branches receive goods from the Head Office at a selling price and the branches, (as a matter of necessity) produce the stock or cash to cover the value of goods received.

Pricing Method

At cost price: The head office can charge goods out to the branches at cost price, this method is good when the goods are of perishable nature or there are difficulties in determining the selling price, the exact result of operation can be ascertained when the cost price is used. It is disadvantageous because the check imposed by selling price system is not available.

At cost plus a percentage: This is the most effective method of charging goods to the branch; under this pricing method, the goods will be charged to the branches at cost plus a fixed percentage. This method can provide a reasonably reliable check upon the cash and stock at the branch and the profit will be disclosed by the accounts profit and loss account. Some items like cash sales, credit sales, cash remitted, sundry expenses from taking, cash in transit must be shown at the same figures under the two columns.

At selling price method: Goods can also be charge to the branch at the selling price, the price will be fixed by the head office. The method is usually adopted when the goods are sold at specific price, this method is not good for perishable goods. The advantage is that the head office can keep an effective check on the stock issued to the branch.

REASONS FOR BRANCH ACCOUNT

- i) To ascertain the profit and loss of the branch*
- ii) To prevent or detect any form of malpractices*
- iii) To prevent wastage*
- iv) To ascertain the financial performance of the branch*
- v) To ascertain the financial position of the branch.*

Accounting Entries Needed for Branch Account

1) **Branch Memorandum Account:** The idea of memorandum account is to ensure the movement of stock between head office are accounted for with the difference being the gross profit. It has two columns: one for entries at invoiced price while the other for entries at cost price.

2) **Branch Debtor Account:** This is just like a normal debtor account where all transaction that increases the debt of debtors will be debited while the transactions that decrease the debt of debtors will be credited.

3) **Branch P & L Account:** This is the account where the net profit of the branch is ascertained. All expenses incurred by the branch are subtracted from gross profit.

4) **Branch Adjustment/Mark up Account:** This where the profit element of transactions between head office and branch are taken to in other to ascertain the branch gross profit.

Illustration

Spices limited with head office in Ibadan have a branch in Kano. All purchases are done by the head office and goods sent to kano at cost plus 20%. All sales by branch are on credit and cash received by branch are remitted to head office. The following transactions occurred during the year ended 31 st December, 2015.

Opening Balance	N
Branch Stock Account (involved)	32,400
Branch Adjustment Account	5,400
Branch Debtors Account	23,175
Transactions during the year	
Goods sent to branch (invoiced price)	292,140
Branch sales	304,020
Discount allowed	12,735
Return from branch H/O (invoiced price)	5,778
Return from customer to branch	3,186
Cash received from debtor	295,632
Branch expenses	36,243
Branch closing stock (invoiced price)	17,658

Required:

Prepare Relevant Accounts

Workings

Since all items are on selling price, we need their cost price component.

1) Mark – up to margin:

$$= \frac{20}{100} = \frac{20}{100 + 20} = \frac{20}{120} = \frac{1}{6}$$

2) Profit on Opening Stock = $\frac{1}{6} \times 32,400 = \text{N}5,400$

Cost Price of Opening Stock = $\frac{5}{6} \times 32,400 = \text{N} 27,000$

3) Profit on goods sent to branch = $\frac{1}{6} \times 292,140 = \text{N} 48,600$

Cost Price = $\frac{5}{6} \times 292,140 = \text{N} 243,450$

4) Return from Branch to Head Office = $\frac{1}{6} \times 5,778 = \text{N} 963$

Cost Price = $\frac{5}{6} \times 5,778 = \text{N} 4,815$

5) Profit on Closing Stock = $\frac{1}{6} \times 17,658 = \text{N} 2,943$

Cost price = $\frac{5}{6} \times 17,658 = \text{N} 14,715$

Dr**Branch Memorandum Account****Cr**

	Invoice N	Cost N		Invoice N	Cost N
Bal b/f	32,400	27,000	Return to head office	5,778	4,815
Goods sent to Branch	292,140	243,450	Sales	304,020	304,020
Return from Customer	3,186	3,186	Deficiency	270	-----
Gross Profit	-----	49,914	Bal c/d	17,658	14,715
	327,726	323,550		327,726	323,550

DR**Goods Sent to Branch Account****CR**

	N		N
Return to head office	4,815	Branch Stock	243,450
Trading Account	238,635		
	243,450		243,450

DR**Branch Mark Up / Adjustment Account****CR**

	N		N
Unrealized Profit on Return	963	Opening stock unrealized profit	5,400
Deficiency	270	Unrealized profit on goods sent	48,690
Unrealized Profit Closing Stock	2,943		
Gross Profit	49,914		
	54,090		54,090

DR**Branch P & L Account****CR**

	N		N
Discount allowed	12,735	Gross Profit	49,914
Branch expenses	36,243		
Net Profit	936		
	49,914		49,914

DR**Branch Debtor Account****CR**

	N		N
Balance b/f	23,175	Return by customer	3,186
Sales	304,020	Cash from Debtor	295,632
		Discount allowed	12,735
		Bal c/d	15,642
	327,195		327,195

ASSESSMENT

1. What is a branch account?
2. Write short notes on the following
 - i. Branch Memorandum Account
 - ii Branch Debit Account
 - iii. Branch Adjustment Account
3. Enumerate five (5) reasons for branch accounts

WEEK 5

TOPIC: Public Sector Accounting

Public Sector Accounting can be defined as the process of recording, summarizing and presenting financial transaction of government and its parastatals showing the detailed revenue and expenditure of government. In other words, it is an accounting method used in central and local governments and other nonprofit pursuant public sector entities.

Basis for Preparing Public Sector Accounting

1) **Cash Basis:** cash basis is the generally acceptable basis for preparing public sector account but some government parastatals are allowed to use accrual basis. Cash basis recognizes income only when they are received regardless whether goods or services has been supplied and recognizes expenses once payment has been made regardless whether benefit has been received or not.

2) **Accrual Basis:** This recognizes income as soon as goods are services are supplied and expenses as soon as benefit received.

Sources of Government Revenue

1) **Tax Revenue:** These are levies placed on income of private individual and profit of firms.

2) **Internally Generated Revenue:** These are monies generated by government agencies as a result of the operation they under take e.g. issuing of drivers license, international passport e.t.c.

3) **Grants:** These are donations received from foreign government and agencies. E.g. UNICEF, UNESCO, WHO, e.t.c.

4) **Loans:** Government can raise revenue through both local and international borrowings.

5) **Selling of government assets:** Some unproductive government asset can be sold off to raise revenue.

Capital and Recurrent Expenditure

1) **Recurrent/Revenue Expenditure:** These are expenditures that are incurred by government in the day to day running of various government departments and agencies. Examples are: Salaries, general admin expenses e.t.c.

2) **Capital/Development Expenditure:** These are expenditures made to acquire physical and durable assets e.g. vehicle, new building e.t.c.

Types of Fund

1) **CRF:** Consolidated Revenue Fund is the fund of the federal government where all generated revenue from the federal government activities will be paid into and authorized expenditure will be paid from.

2) **Federation Account Fund:** This is a fund set up by the constitution of Nigeria from which fund will be distributed to federal, state and local government

3) **Contingency Fund:** This is the fund that caters for unforeseen circumstances i.e. those expenditures that were not expected during the preparation of budget.

4) **Internally Generated Fund:** This is where monies generated from operation of government agencies are paid to.

5) **Capital Project/Development Fund:** This fund is established to cater for the purchase of capital project and acquisition of capital assets.

Terms in Government Accounting

- i) **Vote Book:** This is a book that records all expenditures and liability incurred.
- ii) **Below the line expenditures:** These are expenditures that were not budgeted for but were incurred.
- iii) **Virement:** This authorizes the transfer of fund from one head (surplus) to another head (Deficit)
- iv) **Warrant:** This is the authorization of money to be released for spending for government agency and department.

Head and Sub-Head

- 1) **Head:** This is process of coding expenditure/income in government agencies.
- 2) **Sub-Head:** This is a Sub-classification/coding of an expenditure or income.

Differences between Public/government Sector and Private Sector

Government Sector	Private Sector
The cost of noncurrent asset are written off in a year	The cost of noncurrent asset are spread over its estimated useful life
Revenue is derives from tax, royalty e.t.c	Revenue is derived from investment etc.
It uses cash basis of accounting	It uses accrual basis of accounting
It reports to general public	They reports to shareholders
Accounting procedure is based on	Accounting procedure is based on

ASSESSMENT

1. The accounting method used in central and local governments and other nonprofit pursuant public sector entities is
 - (a) private sector accounting
 - (b) public sector accounting
 - (c) general sector accounting
2. the generally acceptable basis for preparing public sector account is
 - (a) cash basis
 - (b) debit basis
 - (c) accrual basis
3. The recognition of income as soon as goods are services are supplied and expenses as soon as benefit received is
 - (a) cash basis
 - (b) debit basis
 - (c) accrual basis
4. CRF means
 - (a) Consolidated Revenue Fund
 - (b) Consolidated Return Fund
 - (c) Consolidated Receipt Fund
5. A _____ is the authorization of money to be released for spending for government agency and department
 - (a) vote book
 - (b) virement
 - (c) warrant

ANSWERS

1. b
2. a
3. c
4. a
5. c

WEEK 6

TOPIC: PERSONNEL COST BUDGET

Personnel Costs has to do with the total remuneration (albeit in cash or in kind), payable to *employees* by their *employers* in return for work done during the reference period. In this light therefore, *Personnel Cost Budget* refers to the process of computing what a firm expects to pay its staff over a period of time; usually a year.

Illustration

The following is the Personnel Cost Budget of Soka Enterprises Nigeria Limited as summarized below-

Post	GL	No in Post	Rate
Permanent Secretary	17	1	50,000 x 4,000 = 70,000
Directors	16	3	40,000 x 3,000 = 60,000
Duet Accountants	14	4	30,000 x 3,000 = 55,000
Supervisors	09	10	25,000 x 2,000 = 48,000
Executive Officers	06	4	20,000 x 1,500 = 40,000
Clerk	02	4	15,000 x 1,000 = 30,000

Additional information

Grade Level	Housing	Transport	Hazard
12 and above	100,000	20,000	10,000
07 – 11	80,000	15,000	10,000
05 – 06	60,000	10,000	10,000
Below 05	40,000	5,000	10,000

All Staff are on Step 1

Workings

Permanent Salary	GL 17	N
Basic Salary	50,000 x 1	50,000
Housing	100,000 x 1	100,000
Transport	20,000 x 1	20,000
Hazard	10,000 x 1	10,000
		180,000

Directors	GL 16	3 Employees	N
Basic Salary	40,000 x 3		120,000
Housing	100,000 x 3		300,000
Transport	20,000 x 3		60,000
Hazard	10,000 x 3		30,000
			510,000

Chief Accountants	GL 14	4 Employees	N
Basic Salary	30,000 x 4		120,000
Housing	100,000 x 4		400,000
Transport	20,000 x 4		80,000
Hazard	10,000 x 4		40,000
			640,000

Supervisors	GL 10	10 Employees	N
Basic Salary	25,000 x 10		250,000
Housing	80,000 x 10		800,000
Transport	15,000 x 10		150,000
Hazard	10,000 x 10		100,000
			1,300,000

Executive Officers	GL 06	4 Employees	N
Basic Salary	20,000 x 4		80,000
Housing	60,000 x 4		240,000
Transport	10,000 x 4		40,000
Hazard	10,000 x 4		40,000
			400,000

Clerk	GL 02	4 Employees	N
Basic Salary	15,000 x 4		60,000
Housing	40,000 x 4		160,000
Transport	5,000 x 4		20,000
Hazard	10,000 x 4		40,000
			280,000

Personal Cost Budget

Post	Grade	No. of Employees	Basic N	Transport N	Housing N	Hazard N	Total N
Permanent Secretary	17	1	50,000	20,000	100,000	10,000	180,000
Directors	16	3	120,000	60,000	30,000	30,000	510,000
Chief Accountant	14	4	120,000	80,000	40,000	40,000	640,000
Supervisors	09	10	250,000	150,000	100,000	100,000	1,300,000
Exe. Officers	06	4	80,000	40,000	40,000	40,000	400,000
Clerk	02	4	60,000	20,000	40,000	40,000	280,000
			680,000	370,000	350,000	260,000	3,310,000

ASSESSMENT

- _____ is the total remuneration (albeit in cash or in kind), payable to *employees* by their *employers* in return for work done over a period of time
 - recruiting cost
 - personnel cost
 - staff cost
- The process of computing what a firm expects to pay its staff over a period of time is called
 - recruiting cost budgeting
 - personnel cost budgeting
 - staff cost budgeting
- The money a worker receive for work done is called
 - labour

(b) wage

(c) payback

ANSWERS

1. b

2. b

3. b

WEEK 7

Introduction

Business organizations prepare final accounts with the purpose of ascertaining the profit earned or loss suffered during the year. This also enables them understand the financial position of their businesses at the end of the year. Typically, final accounts are prepared after checking the accuracy of the books of accounts by preparing what is called Trial Balance. Examples of Final Accounts include the following-

1. **Trading Account:** Trading account is prepared for calculating the gross profit or gross loss arising or incurred as a result of the trading activities of a business. In other words, it is prepared to show the result of manufacturing, buying and selling of goods. If the amount of sales exceeds the amount of purchases and the expenses directly connected with such purchases, the difference is termed as gross profit.
2. **Profit and Loss Account:** A Profit and Loss Account is prepared to contain all the items of losses and gains pertaining to a specific accounting period. It is important to bear in mind that trading account only discloses the gross profit earned as a result of buying and selling of goods. However, business organizations have to incur a number of expenses which are not taken to trading account. Hence, a businessman is more interested in knowing the net profit earned or net loss incurred during the year. And this is why a profit and loss account is needed.
3. **Balance Sheet:** After ascertaining the net profit or loss of the business enterprise, the businessman would also like to know the exact financial position of his business. For this purpose a statement is prepared which contains all the Assets and Liabilities of the business enterprise. The statement so prepared is called a Balance Sheet because it is a sheet of balances of ledger accounts which are still open after the transfer of all nominal accounts to the Trading and Profit & Loss Account.

Balances of all the personal and real accounts are grouped as assets and liabilities. Liabilities are shown on the left hand side of the Balance Sheet and assets on the right hand side.

End of Year Adjustments

ADJUSTMENT IN FINAL ACCOUNTS

Final Accounts: The trading and profit & loss account and balance sheet prepared at the end of a year is known as Final accounts.

Adjustments: The transactions which have not yet been journalised, appended to the trial balance are what we call adjustments.

Various Adjustment in Final Accounts:

- **Expenses owing**
- **Prepaid expense**
- **Accrued income**
- **Income received in advance**
- **Depreciation**
- **Bad debt**
- **Goods drawings by the owner for his personal use**

First task is to find out the two accounts involved.