NATIONAL OPEN UNIVERSITY OF NIGERIA
FACULTY OF MANAGEMENT SCIENCES

COURSE DEVELOPMENT

Course Code ACC757

Course Title: PRINCIPLES OF ACCOUNTING

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INTRODUCTION

Principles of Account is a 700 level second semester course. It will be available to all students to take towards the core module of their Post Graduate Diploma in Accountancy. The course is also very apt for every student in the school of financial studies. The course has been designed to prepare students who have come to do a diploma to enable them switch over to accounting as a discipline at the post graduate level. The course carries Thirty Units and the course material has been developed to reflect the local content of Nigeria. There are no compulsory pre-requisites for this course however understanding some basic accounting concepts via Introduction to Accounting and Financial Reporting.

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COURSE GUIDE

The course guide tells students briefly what the course is about, what course material will be used, and how you can work your way through the study material. It suggest some general guidelines for the amount of time you are likely to spend on each unit of the course in order to complete it successfully.

The guide also gives you some guidance on your tutor-marked assignments, which will be made available to you in the Study Centre. There are regular tutorial classes that are linked to the course. You are advised to attend these sessions.

WHAT YOU WILL LEARN IN THIS COURSE

The overall aim of this course Principles of Account is to teach you how the accounts of organizations are kept. During this course, you will learn about the Principles of Account and how accounts of organizations are prepared. Accounting is vital to the efficient management of

organizations. Since accounting is a language through which economic and financial transactions are interpreted, the course will enable you understand how accounts of organizations are maintained.
Worthy of note is that the content of this course is in compliance with the International Financial Standards as spelt out by the International Accounting Standards Board(IASB). This is to help students live up to the challenges of IFRS adoption in Nigeria since 2010 effective, 1stJanuary, 2012.

COURSE AIMS

The aims of this course are as summarized below:
(a) Teaching you the principles of account
(b)Teaching you how accounts of various organizations are prepared.

COURSE OBJECTIVES

To achieve the aims set out above, the course sets overall objectives. In addition, each unit also has specific objectives. The unit objectives are always included at the beginning of a unit; you should read them before you start working through the unit. You may want to refer to them as you progress. You should always look at the unit objectives after completing a unit. In this way, you can be sure that you have done what was required of you by the unit.
Set out below are the wider objectives of the course. By meeting these objectives, you should have achieved the aims of the course as a whole .On successful completion of the course, you should be able to:
(a) Explain the different methods for the collection of data for final accounts from incomplete records;
(b) Prepare manufacturing accounts;
(c) Prepare the accounts of non-trading organizations;
(d) Explain and prepare bill of exchange accounts;
(e) Prepare joint venture accounts;
(f) Explain consignment goods on sales or return;
(g) Prepare royalties accounts.

WORKING THROUGH THIS COURSE

To complete this course, you are required to read the study units, read set books and read other materials provided by the National Open University of Nigeria (NOUN). Each unit contains assignments which you are required to attempt and submit for assessment purposes. At the end of the course, there will be a final examination. The course should take you a total of 16 - 17 weeks to complete.

Below, you will find listed all the components of the course. What you have to do and how you should allocate your time to each unit in order to complete the course successfully on time. The list of all the components of the course is as presented.

COURSE MATERIALS

Major components of the course are:

- Course Guide
- Study Units
- Textbooks
- Assignment
- Presentation Schedule

Study units

The study units in this course are as follows:

Module 1 Manufacturing Accounts

Unit 1 Manufacturing account I
Unit 2 Manufacturing account II
Unit 3 Manufacturing account III

Module 2
Unit 1. Account for Partnership Business I
Unit 2 Account for Partnership Business II
Unit 3 Account for Partnership Business III

Module 3
Unit 1 Account of non-trading concern I
Unit 2 Account of non-trading concern 11
Unit 3 Account of non-trading concern- Peculiar items I
Unit 4 Account of non-trading concern - Peculiar item II

Module 4
Unit 1 Adjustment before preparing final accounts1
Unit 2 Adjustment Treatment in account II
Unit 3 Adjustment Treatment in account III
Unit 4: Incomplete Records

Module 5
Unit 1 Joint Venture Accounts
Unit 2 Consignment Account I
Unit 3 Consignment Account 11
Unit 4 Consignment Account III

Module 6
Unit 1 Bills of enhancing instruments of credit I
Unit 2: Bills of enhancing instruments of credit II
Unit 3: Bills of enhancing instruments of credit III
Unit 4. Incomplete Record 1
Unit 5. Incomplete Record 11

The first units will treat the manufacturing accounts. The next three units on Adjustment and the Treatments in account, the next two units on manufacturing accounts while the next deals with account of non-trading organization, the next five units on bills of exchange, the next three units is on joint venture account, the next seven units on consignment account and finally the last two units is on royalties account. The course is divided into 6 modules consisting of about 5 or 6 units. Each study module consist of about three to four weeks work and includes specific objectives, direction of study, reading materials commentaries and readings in set books from other sources, additional materials and summary of key issues. The units direct you to work on exercises related to the required readings. Each exercise questions is based on the materials you have covered. Together with tutor marked assignments, these exercises will assist you in achieving the stated learning objectives of the individual units and the course

TEXTBOOKS

At the end of each unit of the course, there are reference materials to which you can refer in order to increase the depth of your knowledge on the course. Please take this seriously. You are advice to acquire the following textbooks and any other that could assist you in his course.

Frank, Wood & Alan Sangster, Business Accounting 1 & 2, 13th Ed.
Pickles & Lafferty: Book Keeping & Accounts
Uche Lucy Onyekwelu-Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant)

ASSIGNMENT FILES

A number of assignments have been prepared to help you succeed in this course. They will guide you to have understanding and good grasp of the course.

PRESENTATION SCHEDULE

The presentation schedule included in your course materials also have important dates of the year for the completion of tutor-marked assignments (TMAs) and your attending to tutorials.

Remember, you are to submit all your assignments by the due date. You should guard against falling behind in your work.

ASSESSMENTS

There are two aspects to the assessment of the course: first are the tutor-marked assignments and a written examination.

In tackling the assignments, you are expected to apply information, knowledge and techniques gathered during the course. The assignments must be submitted to your tutor for formal assessment in accordance with the deadlines stated in the ***Presentation Schedule*** and the ***Assignment File***. The work you submitted to your tutor will count for 30 percent of your total course mark.

At the end of the course, you will need to sit for a final written examination of 'three hours' duration. This examination will also count for 70 percent of your total coursework.

TUTOR-MARKED ASSIGNMENTS (TMAs)

Each of the units in the course material has a tutor-marked assignment (TMA) in this course. You only need to submit five of the eight assignments. You are to answer all the TMAs and compare your answers with those of your course mates. However, you should ensure that you collect four (TMAs) from the Study Centre. It is compulsory for you to answer four (4) TMAs from the Study Centre. Each TMA is allocated a total of 10 marks. However, the best three (3) of the four marks shall be used as your continuous assessment score.

You will be able to complete your assignment from the information and materials contained in your reading, references and study units. However, it is desirable in all degree level education to demonstrate that you have read and researched more widely than the required minimum. Using other references will give you a broader viewpoint and may provide a deeper understanding of the subject.

FINAL EXAMINATION AND GRADING

The final examination for ACC757 will not be more than three hours' duration and has a value of 70 percent of the total course grade. The examination will consist of questions, which reflect the types of practice exercises and tutor-marked problems you have previously encountered. All areas of the course will be assessed.

Use the time between finishing the last unit and sitting for the examination to revise the entire course. You may find it useful to review your tutor-marked assignments and comments on them before the examination. The final examination covers information from all parts of the course.

COURSE MARKING SCHEME

Table showing the total course marking scheme is shown below:

ASSESSMENT	MARKS
Assignment 4 (TMAs)	Best three marks of the 4 TMAs @ 10 marks is 30 marks of the course = 40%
Final Examination	60% of overall course marks
Total	**100% of course marks**

COURSE OVERVIEW

This table brings together the units and the number of weeks you should spread to complete them and the assignment that follow them are taken into account.

Unit	**Title of Work**	**Week Activit y**	**Assessment (end of unit**
	Module 1		
1	Manufacturing account I	1	Assignment 1
2	Manufacturing account I1	1	Assignment 2
3	Manufacturing account I11	1	Assignment 3
	Module 2		
4	Account for Partnership Business I	1	Assignment 4
5	Account for Partnership Business I1		
6	Account for Partnership Business I11		
	Module 3		
7	Account of non-trading concern I	1	Assignment 5
8	Account of non-trading concern I1		
9	Account of non-trading concern- Peculiar items I		
10	Account of non-trading concern- Peculiar items I1	1	Assignment 6
	Module 4		
11	Adjustment before preparing final accounts1		
12	Adjustment Treatment in account II		
13	Adjustment Treatment in account III		
14	Incomplete Records		
	Module 5:		
15	Joint Venture Accounts	1	Assignment 7
	Consignment Account I		
	Consignment Account 11		
	Consignment Account III		
	Module 6		
	Bills of enhancing instruments of credit I	1	Assignment 8
	Bills of enhancing instruments of credit I1		
	Bills of enhancing instruments of credit I11		
	Revision		
	Total	**17**	

HOW TO GET THE MOST FROM THIS COURSE

In distance learning, the study units replace the university lecturer. This is one of the great advantages of distance education. You can read and work through the specially designed study materials at your own pace, and at a time and place that suits you best. Think of it as you read the lecture notes and that a lecturer might set you some readings to do.

The study unit will tell you when to read your other materials. Jut as a lecturer might give you an in-class exercise, your study units also provide assignments for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit, and how a particular unit is related with the other units and the course as a whole.

Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit, you must go back and check whether you have achieved the objectives set. If you make a habit of doing this, you will significantly improve your chances of passing the course.

The main body of the unit guides you through the required reading from other sources. This will usually be either from **Reading Section** or some other sources.

Self-tests/assignments are interspersed throughout the end of units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the examinations. You should do each of the assignments as you come to it in the study unit. There will also be numerous examples given in the study units, work through these when you come to them too.

The following is a practical strategy for working through the course. If you run into any trouble, telephone your tutor. When you need help, don't hesitate to call and ask your tutor to provide it. In summary:

(1) Read this course guide.

(2) Organise a study schedule. Refer to the course overview for more details. Note the time you are expected to spend on each unit and how the assignments relate to the unit. Important information e.g. details of your tutorials and the date of the first day of the semester is available. You need to gather together all information in one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.

(3) Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their coursework. If you get into difficulty with your schedule, please let your facilitator know before it is too late for help.

(4) Turn to unit 1 and read the introduction and the objectives for the unit.

(5) Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will always need both the study unit you are working on and one of your set books, on your desk at the same time.

(6) Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through this unit, you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.

(7) Well before the relevant due dates (about 4 weeks before the dates) access the Assignment file on the web and download your next required assignment. Keep in mind that you will learn a lot by doing the assignments carefully. They have been designed to help you meet the objectives of the course and, therefore, will help you pass the examination. Submit all assignments not later than the due dates.

(8) Review the objectives for each study unit to confirm that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult your tutor.

(9) When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to pace your study so that you keep yourself on schedule.

(10) When you have submitted an assignment to your tutor for marking, do not wait for its return before starting on the next unit. Keep to your schedule. When the assignment is returned, pay particular attention to your facilitator's comments. Consult your tutor as soon as possible if you have any questions or problems.

(11) After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives and the course objectives.

TUTORS AND TUTORIALS

There are eight (8) hours of tutorials provided in support of this course. You will be notified of the dates, times and location of these tutorials, together with the names and phone number of your tutor, as soon as you are allocated a tutorial group.

Your tutor will mark and comment on your assignments, keep a close watch on your progress and on any difficulties you might encounter as they would provide assistance to you during the course. You must mail your tutor-marked assignments to your tutor well before the due date (at least two working days are required). They will be marked by your tutor and returned to you as soon as possible. Do not hesitate to contact your tutor by telephone, e-mail, or discussion board if you need help. The following might be circumstances in which you would find help necessary. ***Contact your tutor if***:

- you do not understand any part of the study units or the assigned readings;
- you have difficulty with the tutor-marked assignments;

- you have a question or problem with an assignment or with your tutor’s comments on an assignment or with the grading of an assignment.

You should try your possible best to attend the tutorials. This is the only chance to have face-to-face contact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study during such contact. To gain the maximum benefit from course tutorials, prepare a question list before attending them. You will learn a lot from participating in discussions actively.

SUMMARY

As earlier stated, the course ACC757, principles of Accounts is designed to teach you how the accounts of organizations are kept. During this course, you will learn about the Principles of Account and how accounts of organizations are prepared. Accounting is vital to the efficient management of organizations. Since accounting is a language through which economic and financial transactions are interpreted, the course will enable you understand how accounts of organizations are maintained.

We hope you enjoy your acquaintances with the National Open University of Nigeria (NOUN) and wish you every success in the future.

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UNIT 1 MANUFACTURING ACCOUNTS 1

1.0 CONTENT

1.0 Introduction
2.0 Objective
3.0 Main Content
- 3.1 Manufacturing Accounts
- 3.2 Definition of Terms
- 3.3 Demonstration Question 1& Solution
- 3.4 Demonstration Question 2 & Solution

4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Reading

1.0 INTRODUCTION:

Manufacturing Account is prepared by organizations that produce goods. The account sums up the costs that were incurred in the production of goods. These costs are basically the cost of buying raw materials,paying for the labour (wages) of workers andoverheads incured.Manufacturing account assists business organizations in ascertaining both the cost of production thereby creating a very objective basis for fixing selling prices of the goods they have produced. The prices determined through the manufacturing (Cost of goods produced) is transferred to the Income Statement or Profit or Loss Account.

2.0 Objectives:

At the end of this unit, you should be able to:

- Define manufacturing account
- Understand the terms used in manufacturing accounts
- Prepare a manufacturing account showing theprime cost and cost of goods produced;
- Prepare the Manufacturing Accounts, Income Statement and Statement of Financial Position of a manufacturing concern.

1.1 The manufacturing account is an account format with debit and credit side. The expenses incurred in production (raw materials, labour and factory overheads) are posted to the debit side while the credit side is balanced up with the total cost of production. Manufacturing account is therefore prepared to show the total cost incurred in the production of goods by a business concern in a given period.

1.2 Terminologies in Manufacturing Accounts

- Direct Raw Material Cost: This is the cost expended in the purchase or procurement of raw materials within the financial year. What makes up the raw materials for production varies from one manufacturing organisation to another. For a bakery, the raw materials wcould be cost of butter, flour, groundnut oil, sugar, yeast and so on, while for a brewery industry it will be cost of malt, water, yeast, wheat, preservatives and so on. For building project, the direct raw material constitutes of the cement, sand, water and so on. Therefore, the aggregate cost of acquiring the above listed materials constitutes the direct material cost.
- **Carriage Inwards:** These are the expenses made on the transporting of raw materials to the factory premises, location or warehouse.
- **Closing Stock of Raw Materials:** These are the raw materials that have not been utilised for the production and have not undergone any processes of production. They are raw at the end of the accounting year. Though they were bought for production but they remain unused at the end of the financial year. The value at cost is therefore deducted from the total cost of raw material available for production.
- **Direct Wages:** These are the wages paid to factory workers like bakers, mixers, block moulders, factory attendants and so on.

- **Factory Direct Overhead/Expenses:** These are those expenses directly traceable to the production like cost of water,lighting expenses, rent, repairs and maintainance, depreciation plant and machinery used in production.

1. Posting to the Manufacturing Accounts: the following should guide your postings to the manufacturing accounts**:**

2.1The Accounting Entries for posting in Manufacturing Accounts:

Dr.Cost of Opening Raw Materials,which is raw materials as at 1st January or beginning of production year.

Dr. TheCost of Raw Materials bought for the year’s production activities.

Dr. Direct Labour (wages paid to factory workers such aswages paid to bread bakers).

Dr. Factory overheads

Dr. TheOpening Work-in-Progress.

Cr. The Closing Work-in-Progress.

Format of Manufacturing Account

For the Year Ended, Date........

	₦	₦				₦
Opening Raw Materials		xx				
Add: Purchases of Raw Materials		xx				
Carriage Inward on RawMaterials		xx			Production Cost	Xx
Raw Materials Available for Production		xx				
Less: Closing Raw Materials		xx				
Cost of Raw Material used for Production		xx				
Add: Direct Wages(Labour)		xx				
Expenses		xx				
Factory Direct Overhead		xx				

Prime Cost		**xxx**		
FactoryOverhead:				
Lightning	Xx			
Wages	Xx			
Depreciation	Xx			
Rent	Xx			
Rates	Xx			
Fuel and Gas	Xx			
Factory General Expenses	Xx			
Royalties	Xx			
Transport	Xx			
Lubricants	Xx			
Repairs and Maintenance of Factory Equipment	Xx			
Production cost transferred to trading accounts		xxx		Xxx

In summary:

Step 1: Debit the Manufacturing Account with: All Direct Production expenses (Direct Materials, Direct Labour and any other direct expenses)

Step 2: Debit Manufacturing Account with Factory Overheads (Salaries, Factory Heating, Insurance, Depreciation etc.

Step 3: Debit the Manufacturing Account with the opening Work- in-Progress

Step 4: Credit the manufacturing Account with closing Work- in- Progress.

Format of Manufacturing Account:

ABC Agencies

Manufacturing Account

for the Year Ended, Date........

	₦	₦		₦
Opening Raw Materials		xx		

Add: Purchases of Raw Materials		xx		
Carriage Inward on RawMaterials		xx	Production Cost	Xx
Raw Materials Avail. for Production		xx		
Less: Closing Raw Materials		xx		
Cost of Raw Material used for Production		xx		
Add: Direct Wages(Labour)		xx		
Expenses		xx		
Factory Direct Overhead		xx		
Prime Cost		**xxx**		
FactoryOverhead				
Lightning	xx			
Wages	xx			
Depreciation	xx			
Rent	xx			
Rates	xx			
Fuel and Gas	xx			
Factory General Expenses	xx			
Royalties	xx			
Transport	xx			
Lubricants	xx			
Repairs and Maintenance of Factory Equipment.	xx			
Production cost		**xxx**		**Xxx**

transferred to trading accounts				

2.2Accounting Treatment for Work- in- Progress:

Work in progress also known as semi-finished goods are goods which have not been fully processed. The opening semi-finished goods are referred to as opening work-in-progress. Often than not, unfinished goods emerge from the process at the end of the production period. These sets of goods are known as closing work in progress.

To account for work–in- progress in the manufacturing account.Thus:

	₦
Total Production Cost	Xx
Add: Opening Work- in-Progress	Xx
	Xx
Less: Closing Work- in-Progress	Xx
Total cost of production transferred to trading account	Xxx

2.3 Preparation of Accounts of a Manufacturing Accounts

Illustration 1:

Vanice Wears Company Limited is a company involved in the manufacture andsales of children wears. Below is the company’s trial balance as at 31st December, 2x15.

	₦
Opening Inventory of Raw Materials	611,875
Closing Inventory of Raw Materials	815,525
Purchases of Raw Materials	3,234,125
Carriage Inwards on Raw Materials	36,125
Manufacturing Wages (Direct)	376,250
Rent	365,000
Depreciation of Plants & Equipment	41,600
GeneralExpenses(Indirect)	14,000

Factory Lighting	66,000

Required:

Prepare a Manufacturing Account for Vanice Wears Company Limited as at 31st December, 2015.

Solution

Vanice Wears Company Limited

Manufacturing Account for the Year ended 31st December, 2x15

	₦		₦
Opening inventory of Raw Materials	611,875	Production cost Transferred to Income Statement	3,929,450
Purchase of Raw Materials	3,234,125		
Cost of Raw Materials available for production	3,846,000		
Add: Carriage Inwards	36,125		
	3,882,125		
Less: Closing Stock of Raw Materials	815,525		
Cost of Raw Materials used for Production	3,066,600		
Add: Direct Wages	376,250		
Factory Lighting	66,000		
Prime Cost	3,508,850		
Add: Factory Overhead			
Rent	365,000		

Depreciation (Property,Plant and Equipment)	41,600		
Indirect General Expenses	14,000		
Total Indirect Overhead	420,600		
Cost of Production	**3,929,450**		**3,929,450**

Note* That the sum of ₦3,929,450 is the cost of finished goods and will be transfered to Income Statements where it will be added to the inventory of finished goods.

Using the Vertical Format:

Vanice Wears Company Limited Manufacturing Account for the Year ended 31st December, 2015

₦₦

Opening inventory of Raw Materials 611,875

Purchases of Raw Materials 3,234,125

Carriage Inwards 36,125

3,270, 250

Cost of Raw Materials Available

for Production 3,882,125

Closing inventory of

Raw Materials (815,525)

Cost of raw materials consumed in

Production 3,066,600

Add: Direct Wages 376,250

3,442,850

Add: Direct Expenses

Factory Lighting		66,000	
Prime Cost		3,508,850	
Add:Indirect Overhead			
Rent		365,000	
Depreciation:			
Plant and Equipment	41,600		
General Expenses	14,000	420,600	
			3,929,450
Add: Opening Work- in- Progress		600,000	
Less: Closing Work-in-Progress		(487,750)	112,250
Total Production Cost			**5,672,750**

Illustration 2

DPV Company produces paints. The company also markets the product. The company has presented you with its trial balance at the end of 31st December, 2015. Thus:

	Dr	**Cr**
	₦	**₦**
Opening Inventory 1/1/15:		
Finished Goods	77,800	
Work-in-Progress	27,000	
Raw Materials	42,000	
Purchase of Raw Materials	740,000	
Carriage Inward (Raw Materials)	7,000	
Capital Account 1/1/15		593,600
Office Equipment (@ cost ₦40,000)	24,000	
Drawings	40,000	
Factory Direct Labour Cost	374,000	

Property, Plant and Equipment (Cost ₦560,000)	460,000	
Factory Indirect Wages	290,000	
Lighting	15,000	
Factory heating	27,400	
Office Salaries	88,000	
Sales Commission	83,000	
Discount Allowed	9,600	
Sales		2,000,000
Insurance premium	8,400	
Office General Expenses	26,800	
Bank Charges and Interests	4,600	
Carriage Outwards	11,800	
Trade Receivables	284,600	
Trade Payables		250,000
Factory General Expenses	62,000	
Rent and Rates	24,000	
Bank	113,600	
Cash	3,000	
Profit or Loss c/d	21,600	
	2,843,600	**2,843,600**

Additional information:

1. Closing inventories of Raw Materials=₦48,000; Work-in-Progress ₦30,000 and Finished Goods =₦80,000.
2. The depreciation on Property, Plant and Equipment is 10% of cost of acquisition.
3. The expenses on rent, insurance and electricity are to be allocated on the ratio of 2:1 for the factory and office respectively.

You are required to prepare manufacturing account and income statement for the company for the year ended 31st December, 2015

DPV Company
Manufacturing Account
For the Year Ended 31st December, 2015

	₦	₦
Opening Raw Materials		42,000
Add: Purchases of Raw Materials		740,000
Carriage inwards		7,000
		789,000
Less: Closing Inventories of Raw Materials		(48,000)
Cost of Raw Materials consumed		741,000
Add: Direct Labour Cost		374,000
Prime Cost		1,115,000
Add Indirect Manufacturing Costs:		
Factory General Expenses	62,000	
Lighting (2/3 x 15,000/1)	10,000	
Factory Heating	27,400	
Rents & Rates (2/3 x 24,000/1)	16,000	
Insurance Premium (2/3 x 8,400/1)	5,600	
Depreciation: Plant & Machinery	56,000	
Indirect Wages		467,000
	290,000	1,582,000
Add: Opening Work-in-Progress	27,000	
Less: Closing Work –in-Progress	30,000	
		(3,000)
Cost of Finished Goods		1,579,000

DPV Company

Income Statement for the Year Ended 31st December,2015

	₦	₦	
Sales		2,000,000	
Less: Cost of Sales			
Opening Finished Goods	77,800		
Add: Cost of Goods Produced	1,579,000		
Cost of Goods available for sales	1,656,800		
Closing Inventories of			
Finished Goods	(80,000)		
Cost of Goods Sold		(1,576,800)	
Gross Profit		423,200	
Distribution Costs:			
Discount Allowed	9,600		
Sales Commission	83,000		
Carriage Outwards	11,800		
			(104,400)
			318,800
Administrative Expenses:			
Office Salaries	88,000		
Insurance Premium	2,800		
Office General Expenses	26,800		
Lighting	5,000		
Rent and Rates	8,000		
Depreciation: Office Equipment	4,000	(134,600)	
		184,200	

Finance Cost:	
Bank Charges and Interests	(4,600)
Net Profit	**179,600**

Illustration 2

Sammy and SammyLimited for has presented you the following list of balances on its transactions for the year ended 30/06/2016.

	₦	₦
Inventories as at 1/07/15:		
Raw Materials	205,560	
Finished Goods	707,520	
Purchases: Raw Materials	937,296	
Salaries	150,840	
Rent: Factory	115,200	
:Office	52,800	
Van Expenses	60,000	
Lighting :Factory	68,616	
Office	26,640	
Factory Wages	1,091,280	
General Expenses:		
Factory	135,360	
Office	91,584	
Sales Commission	188,640	
Property, Plant&		
Equipment(@cost ₦1,200,000)	780,000	
Furniture (@cost ₦360,000)	264,000	
Sales		3,276,000
Trade Receivables	680,880.	
Trade Payables		466,800
Bank Balance	320,088.	
Buildings@ cost ₦1,200,000)	960,000.	

Capital		3,298,944
Drawings	205,440	
	7,041,744	7,041,744

Additional Information:

1. Closing inventories as at 30/6/2016: Raw Materials ₦217,200.00 and Finished Goods ₦748,800.00.
2. Property, Plant and Machinery to be depreciated ₦48,000.00, Furniture ₦36,000.00 and Building ₦24,000.00
3. Manufacturing Wages of ₦7,320.00 has accrued.Office rent of ₦2,592.00 was paid in advance.

   You are required to prepare manufacturing account, income statement and statement of financial position for the firm for the financial year ended 30/6/16

Notes

		₦
1. Manufacturing Wages		
As per Trial Balance	1,091,280	
Add: Wages accrued	7,320	
		1,098,600
2. Office Rent		
As per Trial Balance		52,800
Less: Prepaid rent	2,592	
		50,208

Sammy and Sammy Limited

Manufacturing Account for the Year Ended 30th June, 2016

Notes	₦	
Opening inventories: Raw Materials	205,560	
Add: Purchases		937,296
Cost of Raw Materials		
Available for Production		1,142,856

Closing Stock of		
Raw Materials		(217,200)
		925,656
Add: Factory Wages	(1)	1,098,600
Prime Cost		2,024,256
Add:Factory Overhead		
Rent	115,200	
Lighting	68,616	
General Expenses	135,360	
Depreciation of PPE	48,000	367,176
Cost of Production		2,391,432

Sammy and Sammy Limited

Income Statement for the Year Ended 31st December, 2016

Notes ₦	**₦**		
Sales			3,276,000
Less: Cost of Sales			
Opening Stocks of Finished Goods	707,520		
Add: Cost of Goods Produced	2,391,432		
Cost of Goods Avail.for Sales	3,098,952		
Less: Closing Stock of Finished Goods.	(748,800)		
Cost of goods sold		(2,350,152)	
Gross Profit		925,848	
Less: Administrative Expenses			
Office Rent	(2) 50,208		
Office Salaries	150,840		
Delivery Van Expenses	60,000		

General Expenses		91,584	
Depreciation: Land and Building		24,000	
Furniture	36,000		
Lighting		26,640	439,272
			486,576
Sales Commission			(188,640)
Net Profit			**297,936**

SAMMY AND SAMMY LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31STDECEMBER, 2016

	Notes₦	₦		
NON-CURRENT ASSETS				
Property, Plant and Equipment	1,896,000			
Current Assets:				
Inventories		966,000		
Trade Receivables	680,880			
Prepayment: Rent		2,592		
Bank	320,088	1,969,560		
			3,865,560	
EQUITY AND LIABILITIES				
Capital		3,298,944		
Drawings			(205,440)	
Profit for the Year	297,936			
			3,391,440	
Current Liabilities:				
Trade Payables	466,800			
Wages Accrued	7,320474,120			

3,865,560

Notes to the Accounts:

Property, Plant and Equipment	**Cost**	**Accumulated Depreciation**	**Net Book Value**
	₦	₦	₦
Building	960,000	24,000	936,000
Plant & Machinery	780,000	48,000	732,000
Furniture	264,000	36,000	228,000
	2,004,000	108,000	1,896,000

Exercise:

1. What is a manufacturing account
2. What do you understand by prime cost
3. What does WIP stand for in this context.
4. Give three items that may be classified as direct factory overheads?
5. Give three items that may be classified as indirect factory overheads?

Illustration 2.3:

Angelic Paper Mills is a company which deals in the manufacturing and sale of exercise books. It has the following transaction for the year ended 31st December, 2016.

Particulars	₦
Stock of Raw Materials 1/1/16	7,825,200
Stock of Raw Materials 31/12/16	3,598,310
Work-in-Progress 1/1/16	890,000
Work-in-Progress 31/12/16	515,000
Wages: Direct	320,000
Indirect	192,000
Raw Materials Purchased	5,200,000
Fuel and Lubricants	410,000
Direct expenses	280,000
Carriage inwards of Raw Materials	192,000
Electricity	85,000
Factory Rent & Rates	96,200

Depreciation of factory Property, Plant and Equipment	18,920
Factory Transport	29,450
Insurance of Factory Equipment	32,400

You are required to prepare the company's manufacturing account for the financial year ended 31st December, 2016.

2. Benard-Brew Agencies is a soft drink manufacturing company with many sales outlets for its products. It has the following trial balance for the financial year ended 30th June, 2015

	Dr.	Cr.
	₦	₦
Capital		825,000
Drawing	110,000	
Purchases of Raw Materials	990,000	
Sales		4,950,000
Inventories 1/7/14:		
Raw Materials	187,000	
Work-in- Progress	83,875	
Finished Goods	251,625	
Carriage Inwards of Raw Materials	44,000	
Carriage Outwards	20,625	
Salaries	929,500	
Rent	206,250	
Lighting	137,500	
Bad debts	35,750	
Insurance Premium	52,250	
Factory Wages	1,091,280	
Office Wages	763,125	
General Expenses :Factory	66,000	
:Office	41,250	

Director's fee	572,000	
Plant and Machinery	500,500	
Motor Van	231,000	
Discount Received		88,000
Discount Allowed	77,000	
Trade Receivables	423,500	
Trade Payables		330,000
Cash	215,875	-
	6,193,000	**6,193,000**

Additional Information:

1. Closing Inventories as at 30th June, 2016

   Raw Materials ₦159,500.00

   Work-in-Progress ₦112,750.00

   Finished goods ₦338,250.00
2. Charge depreciation of:

   Plant and Machinery ₦82,500.00

   Motor Van ₦27,750.00
3. Prepaidinsurance was ₦8,250.00 while office general expenses accrued at ₦4,125.00.
4. Rent and Lighting should be allocated 75%:25%, while insurance be shared 60% and 40% to factory and office respectively.
5. Salary accrued at ₦4,500.00.

You are required to prepare:

- Manufacturing Accounts showing prime cost and total cost of production for the accounting years.
- Profits or Loss Account for the period.
- Statement of Financial Position for the year ended 30th June 2015.

6.0 Tutor-Marked Assignment

Germain Nig. Ltd records for the year Ended 31st December, 2016 shows the following:

	₦
Purchases of Raw Materials	64,300
Carriage on Raw Materials	1,605

Direct Labour	65,810	
Office Salaries		16,920
Delivery Van	256,000	
Rent	2,700	

Opening Inventory:

Raw Materials		184,500
Finished Goods		174,700
Lighting		57,600
Land and Building	9,850,000	
Depreciation: Factory Equipment	83,000	
Office Equipment	19,500	
Motor Vehicle	6,800,000	
Sales	2,006,000	
Factory Fuel and power	59,200	
Maintenance of Plant and Machinery	285,000	
Stationery		152,500
Electricity		785,000
Factory Wages		36,500
Insurance		45,200
Salaries		86,000
Rent		65,000

You also have the following additional information:

1.Closing Inventories; Raw Materials ₦32,420, Finished Goods ₦25,650.00

2. Depreciate Office Equipment 12.5%, Motor Van 20% and Land and Building 10%.

3.Apportion electricity 2/3 and 1/2 to the factory and office respectively.

4.Apportion Rent, 60% and 40% to factory and office respectively.

Prepare Manufacturing Accounts showing the prime cost, total cost of production.

Trading, Profit and Loss Accounts for the year ended 31st December,2016.

(I)The prime cost
(2) The cost of raw materials utilized for the period
(3) The production cost of goods manufactured during the year
(4) The percentage of the net profit on capital
(5) The value at selling price of goods manufactured during the year
You are advice to acquire the following textbooks and any other that could assist you in his course.

Frank, Wood& Alan Sangster,. Business Accounting 1 & 2, 13th Ed

Pickles & Lafferty : Book Keeping & Accounts

Uche L. Onyekwelu-Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant)

Uche Lucy Onyekwelu- Financial Accounting Manual: A Test and Examination Pack for Students

UNIT 2 MANUFACTURING ACCOUNTS II

CONTENT

1.0 Introduction

In unit 2 you learnt about manufacturing account including the calculation of prime cost and production or manufacturing cost. In this unit you will learn further about manufacturing account and related important points. In case of trading concerns, you can find out the cost of goods and the gross profit by preparing trading account. But a manufacturing concern has to first prepare another account called manufacturing account with the help of which it works out the cost of goods produced. The cost of goods produced is then transferred to the Trading Account for ascertaining the cost of goods sold and the gross profit. A manufacturing concern purchases raw materials from the market and converts them into finished goods for sale. The cost of goods produced thus includes two major cost:

(i) Cost of raw materials consumed and
(ii)Cost of conversion.

2.0 Objective
At the end of this unit, you should be able to:
• Prepare manufacturing account and calculate cost of goods produced.

3.0 Main Content

3.1 Computation of Cost of Raw Materials Consumed
The cost of raw material consumed is determined by summing up all in expenses incurred in the purchases of raw materials utilized in the manufacturing of a product. To do this, the raw materials at beginning will have to be adjusted with the closing raw material cost.

Illustration One: An entity by name Yingi Limited has the following records:

	₦
Opening Inventories	185,000
Purchase of Raw Materials	1,250,000
Inventories(31/12/2016)	65,780

You are required to calculate the cost of raw materials consumed.

Solution:

			₦
Opening Inventory of Raw Materials			185,000
Add: Purchase of Raw materials	1,250,000		
Cost of Raw Materials Available for production			1,435,000
Less: Closing Inventory of Raw Materials		65,780	
Cost of Raw Materials Consumed		1,369,220	

Note: When direct expenses such as freight, dock, dues, cartage, and import duty are incurred such costs are included in the cost of raw materials consumed. They could also be posted separately on the debit side of the Manufacturing Account. Posting such expenses separately will enable readers to see the makeup of such expenses.

3.2 Cost of Conversion
Cost of conversion includes the expenses incurred in the process of transforming the raw materials in the factory. They include expenses such as wages paid to labour, salaries of supervisory staff, factory rent and rates, motive power, repairs to plant and machinery, depreciation on plant etc. Allthese expenses are debited to the Manufacturing Account.

Illustration:

Manufacturing Account of……………….for the period ended………………….

DR CR

Particulars Amount Particulars Amount
To work –in Progress at the Beginning
To Raw Materials Consumed:
Opening Inventory of Raw Materials
Add: Purchases of Raw Materials
Less: closing inventory of Raw Materials
To carriage Inwards
To freight Import duty, dock dues etc
To Manufacturing Wages
To motive power
To coal, Gas& Water

By Sales of scrap
By work-in-Progress at the end
By cost of goods Produced (transfer
To Trading account)
To oil and Grease
To factory Lighting and Heating
To factory Insurance
To repairs to Factory building
To repairs to plant and machinery
To depreciation
On factory Buildings
To depreciation
On plant& Machinery

3.3 Some Important Points

3.3.1 Scrap

The term 'Scrap' is used for waste materials coming out of the manufacturing process. Cutting of cloth in readymade garments factory and metal cutting in engineering factories are some examples of scrap. Any amount realized from the sale of scrap must be adjusted in the cost of goods produced. Hence, it is credited to the Manufacturing Account.

3.3.2 Work-In-Progress

It is quite likely that at the end of the year, there may be certain goods which are still in the process of manufacture. Such goods are called 'semi-finished goods' or 'work. in-progress'. There will always be some work in-progress at the beginning as well as at the end of the accounting year. Their cost must be adjusted while working out the cost of goods produced. Hence, the opening work-in-progress is shown on debit side of the manufacturing account while the closing work-in-progress is shown on its credit side.

3.3.3 Inventories of Finished Goods

Besides the stock of raw materials and semi-finished goods every firm will have the stock of finished goods. This is to be adjusted in the cost of goods produced, Hence, it is not shown in the manufacturing account. As you learnt earlier, it will be shown in the trading account.

Exercise:

I. Distinguish between:
(a) Cost of goods sold and cost of goods processed
(b) Direct expenses and indirect expenses
(c) Trading account and manufacturing account

2.Below is the records of Uceey Agencies for the production of its product for the 2016 accounting year.

	N
Opening Inventory	50,000
Purchases	1,200,000
Return Outwards	80,000
Sales	1,900,000
Closing Inventory	70,000
Direct Expenses	60,000
Indirect Expenses	100,000

Determine the cost of goods sold.

Solution

Uceeys Agencies
Trading Accounts
for the year ended 31/12/2016

	N	N	
Sales			1,900,000
Opening Inventory	50,000		
Add: Purchases	1,200,000		
Less: Returns Outwards	80,000	1,120,000	
Cost of goods available for sale		1,170,000	
Less: Closing Inventory		70,000	
		1,100,000	

Add: Direct Expenses	60,000
Cost of Goods Sold	1,160,000

4.0 Conclusion

You have learnt that a manufacturing concern has to prepare manufacturing account before preparing the trading and profit and loss account. Thoughconsidered desirable but many firms do not do so because it is notcompulsory. You will also generally be asked to prepare only the trading account without preparing such manufacturing account. In such a situationyou will show all items of manufacturing account in the trading accountitself. In other words, cost of raw materials consumed, expense on purchasesof raw materials, all manufacturing expense. The opening and closing workin-progress, sale of scrap, etc will also be shown in the common practice i.e.the items like depreciation and repairs to plant and machinery and factorybuilding will be shown in the profit and loss account and not in the tradingaccount.

5.0 Summary

The manufacturing concern may also prepare a manufacturing account for ascertaining the cost of goods produced which is then transferred to thetrading account for ascertaining the cost of goods sold and the gross profit,this however is not compulsory.Most manufacturing concern prepare trading account directly by showing allexpenses incurred in the factory (including cost of raw materials consumed),in the trading account itself.

6.0 Tutor-Marked Assignment

1. Prepare Manufacturing, Trading, Profit or Loss Account from following balances of Jumbo Nigeria Limited for the year ended 31/12/2x14.

	₦
Purchases: Raw Materials	64,300
Carriage on Raw Materials	1,605
Direct Labour	65,810
Office Salaries	16,920
Stock at 1/1/14:	
Raw Materials	18,450
Work- in- Progress	23,600
Finished Goods	17,470
Sales	200,600
Factory Fuel and Power	5,920

Rent		2,700
Office Lighting and Heating	5,760	
Depreciation: Plant and Machinery	8,300	
Wages	15,060	
Salaries		18,600
Repairs**:** Factory Building		8,650
Plant and Machinery	19,600	
Discount allowed		15,600
Discount received		18,980
Carriage Inwards		25,600
Insurance		12,500

Additional information:

1.Closing Stock of Raw Materials amounts to ₦28,000; Closing stock of work-in-progress ₦35,000 while that of finished goods is ₦72,000.

2.The depreciation on office equipment, plant and machinery is 20% of cost of acquisition.

3. The expenses on rent, insurance and electricity should be shared on the ratio of 3:1 for the factory and office respectively.

7.0 REFERENCES/FURTHER READING

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Frank, Wood& Alan Sangster,. Business Accounting 1 & 2, 13th Ed
- Pickles & Lafferty : Book Keeping & Accounts
- Uche L. Onyekwelu-Fundamentals of Financial Accounting 1 & 2: A Simplified Approach,(Revised Edition, IFRS Compliant).
- Uche L. Onyekwelu- Financial Accounting Manual: A Test and Examination Pack for Students

MODULE 2: PARTNERSHIP ACCOUNTS

1.0 CONTENTS

5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Reading

- **Introduction:**

  People often come together to engage in businesses with an intention to carry on the business for a very long time. The number of people involved could be two or more. This form of business is called partnership. The Partnership Act of 1890 definedpartnershipbusiness as 'a relationship that subsists between two or more people with an aim of making profit'. Thebusiness unlike the joint venture business, involves two or more people coming together temporarily to execute specific business, the relationship in partnership is considered a permanent relationshiphas a long term commitment to operate.Parties involved in a partnership business are refered to as partners and they maintain one set of accounting records, have equal access to books of accounts and share the profit and losses arising from the business according to a pre-agreed ratio.

Learning Objectives:

At the conclusion of this chapter, you should be able to:

- Define partnership business;
- State the reasons for partnership
- Define partnership deed or agreement;
- State and explain the contents of partnership deed or agreement;
- Distinguish partnership from other forms of business;
- Prepare the necessary ledger accounts to record the transactions of a partnership business;
- Prepare the the necessary final accounts of a partnership business;
- Apply the knowledge learnt herein in solving other related accounting questions.

1.1 Definition of Partnership: The Partnership Act of 1890 definedpartnership business as 'a relationship that subsists between two or more people with an aim of making profit. This definition does not foreclose the fact that a partnership business can make a loss. However, it assumes that every business exists primarily to make profits.

1.2 Reasons for Partnerships:

There are many reasons why people engage in partnership business. Some of the reasons are:

1. Partnership helps in entrepreneurship as it helps in pulling resources together in order to establish businesses which the partieswould not be able to fund on individual basis. There is high probability that partnership will have more income or capital to do business than that which is run by one person.

2. Individual abilities such as technical known-how, management capabilities among others are brought together for establishment of a more formidable business concern.

3. Partnership business often command more trust and respect of customers and other stakeholdersthan a sole proprietorship.

4. The going concern of a partnership business is more assured than sole proprietorship.

5.Naturally bankers and other credit facility agents will be more disposed to give loans and advances to partnership than sole proprietorship.

6. The inherent risks are less in partnership than sole proprietorship as more people would be sharing the risk.

5. By involving more than one person’s expertise, the chances of failure of such business is reduced.

6. Partnership creates a platform for increased partonage and enlarged market share for goods and services produced when compare to a sole proprietor.

1.2 Features ofPartnership Business:

The common attributes of a partnership business:

(a) Most partnership business is formed to make profits while partners are allowed free access to books of accounts.

(b) Partnership are to conformto the Partnership Act of 1890. The Limited Partnership must in addition be in consonance with the Limited Partnership Act of 1907 as spelt out in Sections 41.3.

(c) A partnership is formed by a minimum of two and a maximum of twenty persons.However, partnerships for purposes of banking cannot be more than ten partners while Accountants,Solicitors,stock exchange, Surveyors, Auctioneersmay enjoy unlimited number of members.

(d)Partners with the exception of limited partners must pay their share of any liabilities which could not be settled. This means that they could be forced to sell their private propertyin order to pay their share of debts incurred in the business, hence their liabilities are unlimited in nature.
(e) Partners have equal access to the books of records or accounts of books while partners have right to participate in the management of business with the exception of a limited partner.

1.3 Limited Partnership:

Limited partnership is partnership that contains one or more limited partners. A limited partnership must be registered with the Registrar of Companies. The most important distinguishing feature of a limited liability partner is that the partners' liability is restricted tothe capital contribution in the time of liquidation. That is, he or she is not liable for the outstanding debts as in Section 41.2(4) of the Act.

Other characteristics of limited liability partner includes:

a. A limited partner is not allowed to take out or receive back any part of his contribution to the partnership during its life time.

b. A limited partner does not participate in the management of the partnership or have power to make the partneship take a decision. If they do, they become liable for all the debts and obligations of the partnership up to the amount taken out or received back or incurred while taking part in the management of the business.

c. All the partners cannot be limited partners, as such there must be one general partner with unlimited liability.

1.4Partnership Deed:A partnership deed may be defined as a set of terms, principles or rules which the partners willingly subscribe and have agreed to guide their conducts in the business.

Partnership agreement could be drawn up by a Lawyer or an Accountant. It need not be written. However, having a deed in writing helps to reduce incidence of disagreement among partners and it could serve as a document/basis for the settlement of disputes between partners if the need arise.

1.4 Contents of Partnership Deed or Agreement.

A partnership deed or agreement contains as much clauses as the partners may wish. However, the following are the basic contents of a deed:

i) Partners' capital contribution
ii) Interest to be paid on capital contributed
iii) Whether the partnership should maintain a current account and the basis for the contribution.
iv) Partner's profits or losses sharing ratio.
v) Basis for allowing drawings will be allowed and percentage of interests (if any).
vi) Salaries, commissions among others payable to partners
vii) Treatment on the admission of new partners.
viii) Treatment of a retiring or a deceased partner.
ix) Treatment of goodwill.
x) Treatment of loans due and from partners.
xi) Basis for revaluation of assets etc.

The above issues are very critical and must be addressed at the on-set of the business to minimise disagreement among partners or even help in resolving them in case of conflicts. To understand these contents we will look at the issues in details:

i) Capital Contribution by Partners:By this, the partners clearly agree on the amount each of them should contributeto the business.

ii) Interests Payable on Partner's Capital: This interest payable to partners serves as a form of compensation for the capital contributed in the business. The partners will however agree on the percentageto be paid to on the capital contribution.

iii) Whether Partner's will maintain Current Accounts: Partners may agree to contribute additional monies to be known as current account. This is to help them run the day to day activities of the business. Partners will also agree on the basis for such contribution.

iv) Partner's Profit and Loss Sharing Ratios: Business exists basically to make profit. Therefore, partners must agree from the inception of the business on the basis for the sharing of the profit made and also how to share losses if they occour.

v) Drawings and Interests on Drawings: It is very important that partners agree on whether drawings can be allowed in the business. Partners need to agree on the interests members will pay on drawings made. This is to discourage partners from making unnecessary cash and goods withdrawals as such can liquidate the business.

vi) Partnership salaries and other forms of compensation: Some partners are usually more active in the running of the business than others and may therefore need to be rewarded for their services to the partnership. These rewards come in the form of salaries, commission. The salaries are deducted before appropriating the balance to the other partners.

vii) Admission and treatment of new members:As the business grows, others may be willing to join it as partners. Partners should agree on the possibility of admitting new members and the treatment to be given to assets and liabilities if such condition arise.

viii) Treatment of a retiring or deceased partner**:** A partnership business is assumed to be dissolved in the event of retirement or death of a member. The partners should spell out in the deed, the treatment to be given to the assets, liabilities and capital of the business if such arise.

ix) Treatment of goodwill in the books of partnership: Partnerships that have existed for many years and have made some good reputations may decide to value its goodwil. Goodwill is defined as the excess (monetary value) of the worth of the business over its assets. The partners must agree on the bases for valuing its goodwill and the ratio allocation to members and when that would be necessary.

x) Treatment of Loansto and from Members: Usually, when additional funds are needed for the running of the business, partners may lend the needed money to the business. The partnership should agree on how to pay back to the partner,that is whether it will pay interest or not on the principal lent. On the other hand they should also agree if partners that borrow funds from the business should be asked to pay interest and at what percentage.

xi) Basis for Revaluation of Assets: Partners should also agree if they would need to value their assets and if the revaluation surplus or loss should be capitalised, that is added to capital account or not.

1.5 Rights of partners in the absence of a written agreement

According to Section 24 of Partnership Act of 1890, the rights of partners in the absence of agreement are:

1. Equal share of profits and losses.
2. All partners may take part in the management of the business.
3. Partners should not earn interests on capital before profit is ascertained.
4. Partners are to earn interest of 5% on any fund in excess of capital.
5. Records must be kept at the principal place of business while all partners areto enjoy equal access to the books.
6. Partners are not entitled to salaries.
7. The partnership must indemnify every partner who:
    - In respect of payments made and liabilites incured in the ordinary and proper conduct of business of the partnership;

- In or about anything necessary done for the preservation of the business or property of the partnership.

8. No partner may be admitted as one without the consent of other partners.
9. Ordinary differences may be decided by the majority vote but no change may be madin the nature of the business without the consent of all.

1.6 Duties of Partners

According to Sections 28 and 30 of 1890 Act, partners duties include the following:

i. Partners are bound to render true accounts and give full information of any things affecting the partnership to any partner or is its legal representative.

ii. Every partner must account for all profits derived without the consent of the others from any partnership transaction or use of firm name or connection.

iii. No partner may carry on another business of the same nature or compete with the firm without the consent of other, and if he does, he must account for or pay over all profits made.

3.0 EXERCISE

a. Define Partnership business according to the Partnership Act.
b. State and explain five reasons why people go into partnership
c. Define the Partnership Deed?
d. State and explain three contents of the Partnership Deed.

4.0 CONCLUSION

Partnership business is a very important form of business in which two or more people come together to carry on a business with the aim of making profit. Partnership deed is also made by partners to guide the business. The knowledge from partnership business will also help students in the preparation of final accounts of other forms of business.

5.0 SUMMARY

In this unit, you have been successfully introduced to partnership business account by defining what partnership is, the reasons for partnership, partnership deed and contents of partnership deed. You were also taught the duties of a partnership and who a limited partner is.

6.0 TUTOR-MARKED ASSIGNMENT

Attempt the following questions:

a. Define Partnership business Aaccording to the Partnership Act.
b. Define Partnership business State and explain five reasons why people go into partnership
c. Define the Partnership Deed?
d. State and explain three contents of the Partnership Deed.

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Frank, Wood & Alan Sangster,. Business Accounting 1 & 2, 13th Ed.
- Pickles & Lafferty: Book Keeping & Accounts.
- Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant) by Uche Lucy Onyekwelu.
- Financial Accounting Manual: A Test and Examination Pack for Students by Uche Lucy Onyekwelu.

UNIT 2 ACCOUNTING ENTRIES FOR PARTNERSHIP ACCOUNTS

1.0 CONTENT

2.0 Objectives:

At the end of this unit, you should be able to:

- Define and prepare the partners' capital account.
- Define and prepare partners' current account.
- Prepare Partners' Drawings Account.
- Prepare Partners' Profit or Loss Appropriation Account.
- Prepare Partners' Statement of Financial Position (Balance Sheet).

Introduction:

The partnership business like every other business keeps records of its transactions so it could determine the profit or loss it has sustained over any given period. In addition to the usual trading, profit or loss account and the statement of financial position, the partnership has some accounts that are peculiar to it. These accounts are prepared to take care of the specific nature of partnership business.

The accounts are:

- Partners' Capital Account.
- Partners' Current Account.
- Partners' Drawings Account.
- Partners' Profit or Loss Appropriation Account.
- Partners' Statement of Financial Position (Balance Sheet).

(1) **Partners' Capital Accounts:**This isanaccountwhich records the initial funds and any subsequent ones contributed by the partners for the acquisitionof initial assets and for the running of the business.It could be in form of cash or cash equivalent.

Illustration 1.1. Anne and Ella established a partnership business in Lagos. The business trades on ladies' bags and shoes. They contributed Five hundred and fifty TthousandNaria Only (₦550, 000.00) and Seven Hundred and Fifty Thousand Naira Only (₦750, 000.00) respectively at the commencement of the business. The partners are to receive 5% interest on capital at the end of every accounting year. Thebusinessmade net profit of ₦72, 000.00 at the end of the year. Partners share profit and lossin the ratio of 1:2. You are to assume that the partnership do not maintain a separate current account.

Required: Prepare the partners'capital account as at 31st December, 2x14.

Solution

Anne and Ella Partnership

Partnership Capital Account as at 31st December,2x14

Date	**Particul arrs**	**Anne**	**Ella**	**Date**	**Particular s**	**Anne**	**Ella**
		₦	₦			₦	₦
				1/01/1	Bal b/d	550,00 0	750,0 00
				31/12/ 1	Int. on capital	27,500	37,50 0
31/12	Bal c/d	601,5 00	835,5 00				
				31/12/ 1	Share of profit	24,000	48,00 0
		601,5 00	835,5 00			601,50 0	835,5 00
				31/12	Bal b/d	601,500	835,500

Note: The basic assumptions of the above accounts are:

(i) The partners did not maintain a separate current account.

(ii) The income received in the year like interest in capital and share of profit have affected the position of capital account as the new capital balance=₦601, 500 and ₦835, 500 respectively.

(2) **Partners' Current Accounts:**This isanaccountwhich takes care of the expenses which partners incurred in the running of the business.It could be in form of cash or cash equivalent.

Illustration 1.2

Still using the same illustration, assume that they currently maintains a current account in addition to their capital account. Partners agreed to contribute to open a current account. Anne contributed Two Hundred and Twenty Thousand Naira Only (₦220,000.00) while Ellapaid in Four Hundred and Sixty Thousand Naira Only (₦460,000.00). The businessmade a net profit of One Hundred and Five Thousand Naira Only(₦105,000.00). Partners are to maintain theirprofit and loss sharing ratio.

You are required to prepare the partners'capital account at the end ofthe period.

Note: Partners do not maintain a separate current account. Show your answer in a tabular form.

Anne and Ella

PartnershipCapital Account as at 31/12/14

Date	Particular	Anne	Ella	Date	Particular	Anne	Ella
		₦	₦			₦	₦
				01/1/14	Bal b/d	550,000	750,000
				01/1/14	Current A/c	220,000	460,000
				31/12/14	Interest on Capital	27,500	37,500
31/12/x1	Bal c/d	832,500	1,317,500	31/12/14	Share of Profits	35,000	70,000
		832,50	1,317,	31/12/x	Bal /d	832,500	1,317,5

		0	500	1			00
					Bal c/d	832,500	1,317,500

PartnershipMaintains a Separate Current Account

When a partnership maintains a separate current account,it means that a current account is openedin addition to the capital account. The partnership current account records those items which may increase or decrease partners' worth. These items include drawings, interest on drawings, partner's salary, commissions, interests on capital, share of profits or loss among others.

Illustration 1.3: If the partnership of Anne and Ella maintains a separate current account. Their capital accounts and the current account in the 2nd year willreflect thus:

Anne and Ella

Partnership Capital Accounts as at 31/12/14

Date	**Particular**	**Anne**	**Ella**	**Date**	**Particular**	**Anne**	**Ella**
		₦	₦			₦	₦
				1/1/x2	Cash	550,000	750,000
31/12/14	Bal c/d	550,000	750,000				
		550,000	**750,000**	31/12/x2		**550,000**	**750,000**

Note: The capital account shows a separate balance of ₦550,000 and₦750,000 for Anne and Ellarespectively as there was no additions/ increase in capital account.

The partners' current account will reflect the changes as follows:

Anne and Ella

Partnership Current Account

Date	**Particular**	**Anne**	**Ella**	**Date**	**Particular**	**Anne**	**Ella**
		₦	₦			₦	₦
				01/1/14	Cash	220,000	460,000
				31/12/14	Intereston capital	27,500	37,500
31/12/14	Bal c/d	282,500	567,500	31/12/14	Share of profits	35,000	70,000

	282,500	567,500			282,500	567,500
			31/12/14	Bal b/d	282,500	567,500

Drawings by Partners:

Drawings by partners can be either through cash or goods. However, when partners drawings from the business the cash equivalent is debit to the partners current account.

Thus:

Dr. Partner's Current Account if they maintain that or Capital Account as the case may be.

Cr. Partnership's Cash/Bank Account

Dr. Partner's Drawing Account

Cr. Partnership Cash/Bank Account

Illustration 1.4

Still using illustration 1.1 on Anne and Ella.Assume that the partners also madedrawing of ₦52, 000 andN84, 000 in the same year respectively. Partners agreed on 5% interst charge on drawings.

Prepare the partnership drawings and current accounts to show the above transactions of partners.

Anne and Ella

Partners'Drawings Account

Date	**Particular**	**Anne**	**Ella**	**Particular**	**Anne**	**Ella**
		₦	₦		₦	₦
Dec. 31st	Cash	52,000	84,000			
Dec. 31st	Interest	2,600	4,200	31st Dec Transfer to Current A/c	54,600	88,200

	54,600	88,200			54,600	88,200

Anne and Ella
Partnership Current Account

Date	Particular	Anne	Ella	Date	Particular	Anne	Judith
		₦	₦			₦	₦
31/12/14	Drawings	52,000	84,000	1/1/14	Bal b/d	220,000	460,000
31/12/14	Intereston drawings	2,600	4,200	31/12/14	Intereston Capital	27,500	37,500
31/12/14	Bal c/d	227,900	479,300	31/12/14	Share of Profit	35,000	70,000
				31/12/14	Bal b/d	227,900	479,300

<u>Explanation</u>:
In the Current Account;
Dr. Drawings.
Dr. Interest on Drawings.
Cr. The PartnershipCash Book.

Loan from Partners:

Partnership business can access loans from individual partner just like it access from other avenues such as banks. When a partner contributes any funds in excess of capital required are also, the fund is regarded as loan from that partner. Such are consequently paid interests on the said funds. The interest is credited to the current account of the partner.Interest is also appropriated to the partner in the partners’ profit and loss appropriation account.

Thus:

- **The principal borrowed:**

Dr. Partnership Cash book with loan received.

Cr. Partner’s Loan Account.

- **Accrued Interest**

Dr. Interest payable account

Cr.Partner’s Current Account with interests that has accrued.

Illustration 1.5

Anne and Ella partnership still subsists. The business borrowed the sum of Four Hundred and Eighty Thousand Naira Only (₦480,000)from Anne to pay a supplier. She is to receive a 5% interest on that loan.

Prepare relevant partner’s account to show this transaction.

Solution:

Principal amount = ₦480, 000

Interest = 5% per annum

5 % of ₦480,000 = ₦24,000

Dr. Interest paid by partnership business i.e interest account

Cr.The partner Anne account with₦24,000.

Solution:

Anne and Ella

Partnership Current Account

Date	**Particular**	**Danny**	**Judith**	**Date**	**Particular**	**Danny**	**Judith**
31/12/15	Drawings	₦ 18,000	₦ 22,000	1/1/15	Balb/d	₦ 220,000	460,000
31/12/15	Interest onDrawi	450	550	31/12/15	Int. on	7,500	12,500

	ngs				cap.		
31/12/15	Bal c/d	115,450	162,720	31/12/15	Int. on loan	19,200	-
				31/12/15	Share of profit s	35,200	52,800
		133,900	**185,300**			**133,900**	**185,300**

Explanation:

Dr.The interest paid account by the partners and charge to the P&LA/c.

Cr.Interest on loan obtained from Danny of₦19, 200 is creditedto his current account.

Anne and Ella
Partnership Profit and Loss Appropriation Account for the Year Ended, 31/12/ 2x15

	₦		₦
		Net Profit b/d	88,000
Interest on Loan:			
Anne	19,200		
		Add: Other income:	
Interest on capital:		**Interest on drawings**	
Anne 7,500		Anne: 450	
Ella 12,500	20,000	Ella: 550	1,000
	39,200		
Share of Profit:			
Anne: 2/5 x 49, 800=19,920			
Ella: 3/5 x 49, 800 =29,880			
	89,000		**89,000**

3.0 EXERCISE

a. Differentiate capital account from current account of partnership business.
b. Kingsley, Jennyand Collins are in partnership selling electronics. Their capital account on 31/12/14 was as follows: Kingsley₦960,000;Jenny₦1,108,000 and Collins ₦1,250,000. The current account balances on the same date were:Kingsley ₦650, 000; Jenny ₦490, 000; Collins ₦710, 000. Jenny who

has been a veryactive partner will receive a monthly salary of ₦46, 000.00. Collins made a loan of ₦1, 032, 000 to the business. Interest on the loan is 5% interest. Jenny and Collins is to receive commission of₦6, 800 and ₦11, 420 each. Drawings of the partners stood at ₦24, 000; ₦32, 000 and ₦ 56,000 respectively. Interest on drawing is to be charged at 8.5% while interest on capital is 5%. Net profit for the year was ₦180, 000 while profit is to be shared in the ratio of 1:2:3.

You are required to prepare the partnership Capital Account and Current Account for the year ended 31st December, 2014.

4.0 Conclusion

The partnership business prepares a capital account to show to show the amount of investments which the partners have made in the business and this is shown in the capital account. However, the business sometimes maintains a separate account to take care of some recurring expenditure of the business and this is shown using the current account. When partner draws either cash or goods from the business the partnership maintains the partnership drawings account. When loans are also taken from partners the business maintains the loan account.

5.0 SUMMARY

In this unit, you have been successfully taught the basic accounts prepared by partnership business. These account include the partners capital account, current account, drawings account and loan account.

6.0 TUTOR-MARKED ASSIGNMENT

Attempt the following questions:

Darl and Carl established a partnership business in Lagos. The business trades on ladies' bags and shoes. They contributed Six Hundred and Fifty Thousand Naira Only(₦650,000.00) and Four Hundred and Fifty Thousand Naira Only(₦450,000.00) respectively at the commencement of the business. 5% interest on capital will be paid to the partners. The partners also made a drawings of N8,500 and N5000 respectively. Thebusinessmade net profit of ₦58, 000.00 at the end of the year. Partners share profit and lossin the ratio of 3:2. You are to assume that the partnership do not maintains a separate current account.

You are to prepare the necessary account to show the capital account, current and drawings account.

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Frank, Wood & Alan Sangster,. Business Accounting 1 & 2, 13th Ed.
- Pickles & Lafferty : Book Keeping & Accounts
- Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant) by Uche Lucy Onyekwelu
- Financial Accounting Manual: A Test and Examination Pack for Students by Uche Lucy Onyekwelu

UNIT 3: FINAL ACCOUNTS OF A PARTNERSHIP ACCOUNTS

1.0 Content

2.0 Objectives:

At the end of this unit, you should be able to:

- Prepare the Trading Accounts of the Partnership Business
- Prepare Profit or Loss Accounts of Partnership Business
- Prepare Partners' Statement of Financial Position

UNIT 2 ACCOUNTING ENTRIES FOR PARTNERSHIP ACCOUNTS

1.0 CONTENT

2.0 Objectives:

At the end of this unit, you should be able to:

- Define and prepare the partners' capital account
- Define and prepare partners' current account
- Prepare Partners' Drawings Account
- Prepare the Trading Account
- Prepare the Profit or Loss Account
- Prepare Partners' Profit or Loss Appropriation Account.
- Prepare Partners' Statement of Financial Position (Balance Sheet).

Introduction:

The partnership business prepares the final accounts to show the actual profit or loss position and statement of financial position of the business.

The accounts are:

- Prepare the Trading Account
- Prepare the Profit or Loss Account
- Prepare Partners' Profit or Loss Appropriation Account.
- Prepare Partners' Statement of Financial Position (Balance Sheet).

1. **Trading Account:** The trading account is an account format where the cost of sales is debited against the sales or net sales of a merchandizing business. For the partnership business, the trading account aggregates the cost of sales. The cost of sales is however deducted from the sales for the period. The end result of the trading account is either the gross profit or gross loss.

Illustration:

Lilly and Prisca are in a partnership business. They share profit and losses equally. Thefollowing trialbalance shows their transactions for the period ended 31st December 2x15:

	Dr.	Cr.
	₦	₦
Motor Vehicle	263,250	
Furniture (cost)	3,726,000	
Trade Receivables/ Trade Payables	848,880	659,138
Sales	3,659,985	
Purchases	2,901,015	
Salaries	340,889	
Office Expenses	55,485	
Discount Allowed	22,802	
Capital Account as at 1/1/15:		
Lilly		1,093,500
Prisca		486,000
Current Account as at 1/1/15:		
Lilly	55,850	
Prisca		49,046
Drawings:		
Lilly	222,750	
Prisca	162,000	
Accumulated Depreciation as at 1/1/15		
Furniture & Fittings	149,040	

Motor Van	78,975	
Inventories as at 1/1/15	1,011,285	
Cash Balance	24,908	
Bank Balance	5,670	
	6,231,534	**6,231,534**

Additional Information

(a) Closing inventories was valued at₦1,107,270

(b) Office expenses was outstanding ₦4,455

(c) Interest of 10% is to be charged on capital account; while Lilly and Prisca are to pay interest on drawings of ₦7,290 and ₦8,505 respectively.

(d) Provide for depreciation of 10% on cost of furniture and fittings and 20% on motor vehicles.

You are required to prepare the following accounts to record the partnership transactions for the period:

(i) Trading Account

(ii) Profit orLoss Account

(ii) Profit orLoss Appropriation Account

(iii) Capital Account

(iv) Current Account

(v) Statement of Financial Position

Present your answers in a columnar form. Show all workings.

Workings/ Notes:

(1) Office Expenses

			₦
Amount as per the Trial Balance		=	55,485
Add: Amount Outstanding	=	4,450	
Dr. P &LA/c	=	**59,940**	

Note*** The outstanding amount of ₦4,455 will be recorded in the balance sheet as a current liability.

(2) **Interest on Capital Accounts:**

(i) Lilly: 10% of ₦ 1,093,500 = 109,350

(ii) Prisca: 10% of ₦ 486,000 = 48,600

(3) **Interest on Drawings:**
(i) Lilly = ₦ 7,290
(ii) Prisca = ₦ 8,505
(4) **Depeciation:**
(i)Furniture &Fittings: 10% of ₦372,600 = 37,260(P or L A/c)
Accumulated Depreciation: ₦149,040 + ₦37,260=₦186,300
(ii) Motor Vehicles: 20% of ₦ 260,250 = 52,650
Add: Accumulated Depreciation =78,975
131,625

Lilly and Prisca

Trading,Profit or Loss Account for the Year ended31st December, 2x15

	Notes		₦	₦
Sales				3,659,985
Less: Cost of Sales				
Opening stock		1,011,285		
Add: Purchases		2,901,015		
Cost of goods available for sales		3,912,300		
Less: Closing Stocks		(1,107,270)		
Cost of goods sold				(2,805,030)
Gross Profit				**854,955**
Less:Other Expenses				
Salaries			340,889	
Office expenses	(1)		59,940	
Discount allowed			22,802	
Depreciation (4)				
(4i) Furniture& fittings		37,260		
(4ii) Motor Vehicles		52,650		
			513,541	
Net Profit			**341,414**	

Lilly and Prisca Partnership

Capital Account as at 31st December 2x15

Date	Particulars	Lilly	Prisca ₦	Date	Particulars	Lilly	Prisca ₦

		₦				₦	
31/12 /15		1,093,5 00	486,00 0	1/1/1 5		1,093,50 0	486,00 0
		1,093,5 00	**486,00 0**			**1,093,50 0**	**486,00 0**

<u>Lilyand Prisca Partnership Profit and Loss Appropriation Account for the Year Ended 31/12/15</u>

			₦	₦
Net Profit b/d				341,414
Add:	Interest on Drawings			
	Lilly	7,290		
	Prisca		<u>8,505</u>	<u>15,795</u>
Less:	Interest on Capital			357,209
	Lilly	109,350		
	Prisca	<u>48,600</u>		
	<u>(157,950)</u>			
Profit available to partners				199,259
	Lilly ½ x 199,259=	99,629.5		
	Prisca ½ x 199,259=		99,629.5	<u>199,259</u>
	Balance			nil

Lilly and Prisca Partnership

Current Account as at 31st December, 2x15

Date	**Particulars**	**Lillly**	**Prisca**	**Date**	**Particulars**	**Lilly**	**Prisca**
		₦	₦			₦	₦
31/12/15	Drawings	222,750	162,000	1/1/15	Bal b/d	55,850	**49,046**
				31/12/15	Inter on Capital	109,350	**48,600**

31/12/15	Interest on drawings	7,290	8,500	31/12/15	Share of Profit	99,630	**99,630**
31/12/15	Bal. c/d	34,790	26,776				
		247,830	**197,276**			**264,830**	**197,276**
				1/1/16	**Bal. b/d**	**34,790**	**36,770**

Note:

The new balance of the current account of the partnership has decreased to ₦34,790 and ₦29,776 respectively. This is due to the drawings and interest on drawings paid.

Lilly and Prisca Partnership

Statement of Financial Position as at 31st December, 2x15

	₦		₦₦	
Non-Current Assets Cost	**Dep.**		**NBV**	
Motor Vehicle	263,250		(121,625)	131,625
Furniture & Fittings	372,600		(186,300)	186,300
	635,850		317,925317,925	
Current Assets:				
Inventories		1,107,270		
Trade Receivables		848,880		
Bank		24,908		
Cash		5,670		
Total Assets			1,986,728	
				2,304,653
Equity and Liabilities				
Capital Account:				
Lilly				1,093,500
Prisca				486,000
Current Account:				
Lilly			34,790	

Prisca		26,770	
	1,641,060		
Current Liabilities			
Trade Payables	659,138		
Office Expenses	4,455		
			663,593
			2,304,653

3.0 EXERCISE

Clara, Jenny and Olivia are in partnership business. They trade on stationery and sports wears. The profits or losses will be shared among the partners in the ratio of 2:3:5. Below is the partnership trial balance as at 1st January, 2x16.

	Dr.	Cr.
	₦	₦
Purchases	1,920,660	
Sales		2,947,000
Sales returns	95,200	
Discount allowed	1,540	
Salaries and Wages	256,144	
Office Expenses	35,910	
Repairs and Maintenance		
of Motor Vehicle	55,160	
Telephone Expenses	34,300	
Office Equipment (cost)	117,600	
Delivery Van (cost)	175,000	
Provision for depreciation as at 1/01/16:		
Delivery van		58,800
Office equipments		37,800
Debtors and Creditors	520,492	340,984
Rent	13,230	
Provision for bad debts 1/01/16		11,200
Bad Debts	17,276	

Carriage inwards	21,000	
Cash at Bank	9,324	
Inventories 1/1/16	599,900	
Capital Accounts:		
Clara		420,000
Jenny		224,000
Olivia		168,000
Current Accounts:		
Clara		19,460
Jenny	2,142	
Olivia		29,036
Drawings:		
Clara	176,540	
Jenny	117,838	
Olivia	87,024	
	4,256,280	**4,256,280**

Additional Information:

i) Inventories as at 31st March 2009 was value at ₦714,840

ii) Telephone expenses paid in advance was ₦2,660

iii) Rent prepaid ₦1,680

iv) Depreciation: Delivery Van ₦35,000

Office Equipment ₦23,520

v) Jenny and Olivia are to receive salaries of N16,800 and N9,800 respectively.

vi) Partner are to pay interest on drawings as follows:

Clara	₦2,380
Jenny	₦1,540
Olivia	₦1,680

vii) Partners are to earn 10% interest on capital .

You are required to prepare:

i) The Partners' Trading, Profit or Loss Accounts for the year ended 31st December, 2x16

ii) Partners' Current Account (You are to assume that the partners maintain a separate current account).

iii) Partners' Capital Account.

iv) Statement of Financial Position as at the year end.

4.0 CONCLUSION

Partnership business is a very important form of business in which two or more people come together to carry on a business with the aim if making profit. The final accounts of a partnership helps the partners to understand the position of the business over a given period.

5.0 SUMMARY

In this unit, you have been taught how to prepare the final accounts partnership business. The Income statement/ profit or loss accounts shows the sales made within the period and the expenses incurred (cost of sales). The cost of sales is deducted from sales to determine profits or loss. Again the Profit or Loss Appropriation account is prepared to allocate the various earnings/expenses of the partners such as partners' salaries, commission and interest on capital as the case may be. Profits are also distributed.

6.0 TUTOR-MARKED ASSIGNMENT

Attempt the following question:

2. Meshark and Shedrack are in business sharing profit in the ratio of 1:2. Below is their trial balance as at 31/12/16:

		DR.	CR.
		~~NN~~	
Equipment at cost	65,000		
Vehicle at Cost		92,000	
Provision for Depreciation:			

Vehicle 36,800

Equipment 19,500

Inventories 31/12/16 249,700

Trade Receivables 209,600

Trade Payables 162,750

Cash at bank 6,150

Cash in hand 1,400

Sales 903,700

Purchases 716,300

Salaries 84,170

Office Expenses 1,370

Discount Allowed 5,630

Current Account as at 31/12/16

Meshack 13,790

Shedrack 12,110

Capital Account: 31/12/16

Meshack 270,000

Shedrack 120,000

Drawings:

Meshark 55,000

Shedrack <u>40,000</u>

<u>1,538,6501,538,650</u>

<u>Additional information:</u>

a) Inventories, 31/12/16: N273,400; (b) Office Expenses owing ₦1,100; c).Provide for depreciation : Vehicle 20% of cost, Equipment 10% of cost.d). Interest is to be charged on capital at 10%. Charge interest on drawings of ₦I,800 on Meshark and ₦2,100 on Shedrack.

Required: Prepare Trading, Profit or Loss Account for the partnership business for the year ended 31/12/16. You should also prepare the Statement of Financial Position as at that date.

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Frank, Wood & Alan Sangster,Business Accounting 1 & 2, 13th Ed
- Pickles & Lafferty : Book Keeping & Accounts
- Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant) by Uche Lucy Onyekwelu
- Financial Accounting Manual: A Test and Examination Pack for Students by Uche Lucy Onyekwelu

MODULE 3:ACCOUNTS OF NON- TRADING CONCERNS

UNIT 1: ACCOUNTS OF NON- TRADING CONCERNS I

CONTENT

1.0 Introduction
2.0 Objective
3.0 Main Content
3.1 Accounting Records of non-trading organizations
3.2 Final Accounts
3.3 Receipts and Payments Account
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Reading

1.0 INTRODUCTION
The accounting system you have studied so far relates to the organization, which engages in some kinds of business activities. The accounting records are equally important for welfare organization, which may not be doing any business such as clubs, societies, educational institutions, hospitals etc. they are basically charitable organization which function without any profit motives. They are usually termed as non-trading concerns. Such organizations also have to keep proper records of their receipt and payment and match their expense with incomes. This is a legal.

2.0 Objective
After studying this chapter, you should be able to:

- Define non-for trading organization;
- State some of the sources of revenue/income to a non-trading organisation;
- State some of the expenditure incurred by non-trading organisations;
- Prepare the receipts and payments accounts;
- Make appropriate entries relating to subscriptions, registration fees, donations, grants.
- Prepare income and expenditure accounts and balance sheets for non-for- profit making organisations.

Introduction: Though the primary objective for setting up most business outfits is profit making, yet there are organizations that exist basically not to make profit but to satisfy some welfare needs of its members and other stakeholders. These outfits are referred to as Non-for-Profit making organizations. Examples of non-trading making organizations are:

1. Charity organisations such as the Nigeria Red Cross,Rotary Club, Boys Scout, Girls' Guide among others.

2. Clubs like the SportsClubs of Enugu, Gulf Club of Nigeria, Super Eagles Supporters' Club of Nigeria etc.
3. Welfare Association such as Police Officers Wifes' Association,Society of Women Accountants Association(SWAN).
4. Churches and other related societies such as the Christian Association of Nigeria, Catholic Women Organisation, Mothers' Union, Women's Guild and so on.
5. Non-Governmental Organization like the Women for Women International, Council for Intellectual Co-orperation of Nigeria and so on.
6. Town Unions meetings and groups.
7. Professional Associations namely theInstitute of Chartered Accountants of Nigeria, Association of National Accountants of Nigeria, Chartered Institute of Taxation of Nigeria, Nigeria Society of Engineers among others.
8. Sport association like Rangers Football Club of Enugu, Dolphin Football Club of Port Harcourt, Super Eagles, and so on.
9. Trade unions and associations like Nigeria Labour Union, Nigeria Medical Association, Nigeria Union of Journalists etc.

4.1 Sources of Revenue

The activities of the above mentioned associations often are to provide comfort and cater for the welfare needs of its members.The activities often yield revenue/income and sometimes make them to incur expenses for the associations. For example the football clubs, organise football tournaments and earn some revenue through gate fees and advertisements placed by companies on football peaches. While the sports clubs earn revenue through subscriptions paid by members etc.

Other sources of revenue/income non-for-trading organisations are:

(a) Registration/Entrance fees paid by members
(b) Proceed from bars/ sales of drinks
(c) Proceed from restaurant
(d) Grant from Donor Agencies like the World Health Organisations.
(e) Monthly and annual ssubscription fees from members

(f) Collection from members for lateness to meetings and other club activities.

(g) Other miscellenous receipts.

(h) Rent received where the association has built some houses and so on.

4.2 Expenditure

In the course of running the association, certain expenses are inevitable that is they must be incurred if the organisation must exist. Some of the ways through which they incure expenditure are:

1. Transportand travelling.
2. Wages and Salaries for restaurant and bar attendants.
3. Advertisement and publicity of its activities
4. Rent and rates
5. Bank charges and interests
6. Insurance premium
7. Legal service
8. Entertainment for members and other related expenses.
9. Scholarship endowment and donations to other organisation of interest.
10. Printing and stationery.

The above mentioned activities either result to cash inflow or cash outflow hence some special accounts are prepared to show the effect on the worth of the business.The accounts prepared to capture these activities is referred as accounting for Non-for- profit making organization.

4.3 Accounts for Non-Trading Concerns

1Two different types of account are peculiar and are prepared for the activities of such organizations. They are:

(1) Receipt and Payment Account

(2) Income Expenditure Account

Receipts and Payments Account: Isan account with a debit and credit format prepared to show all the cash inflows and cashoutflows of the organization. This account does not separate between expenses of revenue or capital nature.

Dr. All cash payment are objective the accounting year it belong)

Cr. All cash payment (outflow) respective of accounting date it relates

Format for Receipt and Payment Account

Name of Club or Association

Receipts and Payments for the Year Ended Date/Month/Year

	₦		₦
Receipts		**Payments**	
Balance b/d Grants	xx xx	Purchase of drinks Salaries and wages	xx xx
Donations		Purchases of assets	Xx
Sales-Cash from bar takings	Xx	Repairs to assets	Xx
Entrance fees Subscriptions	xx xx	Staff Training Printing and Stationery	xx xx
Endowment	Xx	Entertainment	Xx
Bank iinterests received Proceeds from sales of Motor Van	xx xx	Rent paid Expenses on prizes	xx xx
Proceeds from sale of Otherassets	Xx	Sundry expenses	Xx
Rent received	Xx		
Dividendsreceived	Xx		
Sundry receipts	Xx	Surplus	Xx
	xxx		**Xxx**

This above format can also be presented in a vertical form thus:

Name of Club or Association

Receipts and Payments for the Year Ended Date/Month/Year

	₦	₦	₦		
Balance b/f					xx
Add: Actual cash received					
Members subscriptions				xx	
Bar Takings					xx
Grants				xx	
Donations					xx
Entrance fees received					xx
Endownments				xx	
Proceeds from the sale of motor van				xx	
Proceed from the disposal of other assets				xx	
Rent received				xx	
Dividend received					xx
Commission received		xxxx	xxx		
Less: Payments					
Salary and Wages	xx				
Purchases of Motor Van	xx				
Purchases of assets	xx				
Staff training	xx				
Repairs to assets	xx				
Printing and Stationery	xx				
Entertainment	xx				
Rent paid		xx			
Expenses on prizes		xx		(xxx)	
Surplus /(deficiency)			**xxx**		

The receipt and payment account is prepared to determine if the business has made a surplus or deficitin its transaction. Thus, if the cash receipts that is the debit side is more than the credit(payment side) it is regarded as surplus.However,if the credit (payment) is more than the debit side it shows that business has borrowed to finance its activities and is therefore owing.

(ii)Accumulated fund: The accumulated fund of such entity is the equivalent of capital of a profit oriented business organization. An accumulated fund represents the value of the organization at the beginning of any financial year.

Accumulated Fund = Assets less liabilities atthe beginning of the financial year.

The assets of suchaNot–for- Profit businessesconsist of:
(i) Freehold Property/Land and Buildings
(ii) Plant and Machinery
(iii) Furniture and fittings
(iv) Sports facilities and equipment
(v) Motor Vehicle and any either asset
(vi)Subscriptions due or in arrears/ other debtors
(vi) Cash at Bank and cash in hand

The liabilities may consists of the following:

i. Subscriptions paid in advance.
ii. Unpaid bills due from restaurant/bar items.
iii. Bank loan and overdrafts
iv. Accumulated Fund (owners worth i.e the members' contributions in the form of capital)

Illustration 1:

Port Harcourt Polo Club 11 has the following transactions for the year ended 31st December, 2015.

	₦
Subscription from members	61,500
Sale of tickets for a for welcom party for new inductees	795,000
Sale of sport wears to member	21,000
Take-offgrant from parent, Ph Club	112,000
Proceeds from sales Bar takings)	6,000
Proceeds from disposal of furniture	101,500
Registration fees from members	10,500
Proceeds from raffle draws	7,500
Bank interets earned	6,000
Donation received	148,500

The expenses for the year include:

Rent	43,500
Purchases (bar and restaurant)	618,000
Printing and stationery	6,750
Electricity bills	19,500
Salaries for bar attendants	106,500
Purchases of prizes	9,750
Bank interests and charges	7,500
Purchase of gymnastics equipment	57,000
Repairs and maintenance expenses	10,500
Legal fees (premises)	14,250

You are required to prepare a receipts and payment accounts for the club for the year ended 31st December, 2015

Solution

Port Harcourt Polo Club 11

Receipts and Payment Account
for the year ended 31st December, 2015.

Receipts	₦	Payments	₦
Subscriptions from members	61,500	Endowment (Scholarships)	160,000
Proceedfrom sales of tickets	795,000	Rent & Rates	43,500
Sales of sports wears to members	21,000	Purchases of refreshments for members	618,000
Sales of sports wears to members	21,000	Purchases of refreshments for members	618,000
Take of grant	12,000	Printing and stationery	6,750
Proceeds from sales refreshments	6,000	Telephone expenses	4,250
Proceed from disposal of property	109,500	Electricity bills	19,500
Bank Interest received	6,000	Salaries for attendants	106,500
Donation received	148,500	Purchase of prizes	9,750
		Bank charges and interests	7,500
		Purchase of sporting equipment	57,000
		Maintenance fee	10,500
		Legal fees paid	14,250

		Surplus	109,500
	1,167,000		**1,167,000** 0

Explanation: The District has a favourable balance of ₦109, 500 from its activities. The receipt and payment account serves the purpose of determining the total cash received within the period and how it was spent. This account shows the balance of cash at end of the period only and cannot serve well in determining the actual income earned in the period to determining the profit or loss made by the organization and hence the need for an income and expenditure account.

Income aand Expenditure Accounts:

The income and expenditure account just like the profit and loss account of a profit making organization. It is prepared with the intent of capturing only the particular income and expenses due the organization in the year under review. The Income are summed up while the expenditure (expenses) are deducted irrespective of whether they were received/paid for or not as the case may be. Here the income and expenditure must be of revenue nature and not capital.

Illustration

Lime-Light Club has the following records as at 31st December. 2014.

	₦		₦
Bal b/d	425,000	Equipment	5,000
Cash and Bank balances	900,000	Wages paid	1,150,000
Donations Received	200,000	Fittings	25,000
Interests received	450,000	Entertainment	100,000
Subscriptions from members	1,250,000	Insurance	50,000
Sundry receipts	15,000	Rates	25,000
		Repairs	10,000
		Telephone Expenses	

			35,000
		Sundry Expenses	5,000

(1) Additional Information available are that:

As at 31st December 2014, the bank and cash balances was ₦935,000 while investment was ₦1,000,000.

(2) Interest received in advance was ₦100,000 with an outstanding interest to be received was ₦115,000

(3) Wages of ₦50, 000 was paid in arrears while₦75,000 was due in the next year.

(4) Subscriptions received from members include ₦500,000 due in 2013, subscriptions due in 2014 not yet received was ₦350,000.00.

(5) At the beginning of year, asset balance were:

Equipments	₦100,000
Land and buildings	₦10,000,000
Inventory	₦175,000.00

(6) The following depreciation rates apply on the assets:

Land and building	2.5%
Equipment	6.0%
Fittings	20%

You are required to prepare:

i) The statement of affairs of the organisation as at the beginning of 1st January, 2014

ii) Income and Expenditure Account for the year ended 31st December, 2014 and the Balance Sheet as at that date.

Solution:

To determine the capital of the club at the beginning of the year, deducted by

Assets as at 1.1. 2014	xx	
Less: Liabilities as at 1.1.2014		xx
Accumulated fund	**xx**	

Thus :

Lime- light club

Statement of Affairs as at ist January, 2014

			~~N~~
Assets:			
Equipment			100,000
Land and Buildings			10,000,000
Investment in Shares		750,000	
Subscription in arrears			350,000
Interests (1)			115,000
Investment		1,000,000	
Stocks		175,000	
Subscription in arrears (3)	350,000		
Cash Balance	935,000	**13,475,000**	
Liabilities			
Accumulated fund		13,475,000	
	13,475,000		

Lime-Light Club
Income and Expenditure Account for the year ended 31st, December,2014

	Notes		~~NN~~	
Income:				
Donation received				200,000
Interest received	(1)			115,000
Subscriptions	(3)			1,100,000
Sundry receipts			15,000	
			1,430,000	
Expenditure:				
Wages	(2)	1,125,000		

Entertainment		100,000	
Insurance		50,000	
Rent and rates	25,000		
Repairs		10,000	

Depreciations:

Land and building	250,000		
Equipment	6,000		
Fittings	5,000	261,000	
Telephone		35,000	
Sundry expenses		5,000	(1,610,100)

Deficit of income over expenses	**(181,000)**

Lime Light Club
Statement of Financial Position as at 31st December, 2014

	₦	₦	₦
Non-Current Assets:			
Land and Building		9,750,000	
Equipment		94,000	
Fittings	20,000		
Current Assets			
Stocks	175,000		
Interest	15,000		
Members' subscription outstanding	350,000		
Wages prepaid	75,000		
Interest prepaid		100,000	
Cash balance		935,000	1, 750,000
Current liabilities	-	**11,614,000**	
Financed by:			
Accumulated funds		11,433,000	
Deficit		(181,000)	
		11,614,000	

Notes :

1.**Interests Received:**

		₦
As per trial balance	450,000	
Add: Payment in arrears	115,000	
		560,000
Less: Prepayment	100,000	
Income and expenditure account	**455,000**	

2.**Wages Paid :**

As per trial balance		1,150,000	
Add: Payment in arrears		50,000	
	1,200,000		
Less: Prepayments		75,000	
			1,125,000

3.Subscriptions :

As per trial balance		1,250,000
Add: subscriptions in arrears		350,000
		1,600,000
Less : Prepayments	500,000	
		1,100,000

Tutor Assignment

(1)Women in Education Club, has its receipt and payments for the year ended 31st December, 2016 as follows:

				₦
Balance 1/1/2016			48,310	
Proceeds of Dance				36,150
Transfer to bank deposit			120,000	
Rates				10,000
Entrance fees received				5,000
Subscription received		300,000		
Wages Paid				72,300
Equipment bought				40,000
Repairs	16,172			
General Expenses				48,896
Stationery				9,790
Interest received on bank deposit		12,000		
Donation received				4,200

Additional information

(a) Wages of ₦4,800 were due and unpaid at 31/12/2016;

(b) Rates prepaid of ₦2,000. General expenses owing since last year was ₦3,000.

(c) Included in the subscription received, ₦ 8,000 was received in arrears while ₦ 20,000 was paid in advance for the coming year while ₦ I2,000 was still owing.
(d).The club has the following properties as at 31/12/08,Club House ₦ 960,000;Equipment ₦ 600,000;Bank Deposit₦400,000.
(e).Depreciate Club House by 5% and Equipment including additions within the year by 10%.

Required:
Prepare Income and Expenditure Account for the year ended 31/12/15

(2)Federation of Women Lawyers club has its receipt and payments for the year ended 31st March, 2016 as follows:

	₦
Balance 1/04/2016	508,310
Proceeds from sales from bar	326,150
Transfer to bank deposit	230,000
Purchase of sporting equipment	426,000
Repairs of office equipments	34,170
General Expenses	96,860
Insurance	12,150
Registration fees received	46,700
Subscription received	540,000
Wages paid	72,300
Bank charges	14,200
Donation received	762,000
Rent	18,560

Additional information:
(a) .Subscription received, ₦25,000 relates to the previous year. However, some members paid in the sum ₦18,600 in advance.
(b). The club has the following properties as at 31/04/07, Land and Building ₦742,000.00; Office Equipment₦820,000; Current account with credit balance of ₦350,000.00
(c). The following expenses were outstanding at the end of the accounting year insurance of ₦24,100.00; rent of ₦13,200.00; and bank interest of ₦24,500.

e. General expenses prepaid of ₦12,400.00.
d. Depreciate Land and Building 8.5%

Office Equipment25%

Required: Prepare the Club's Income and Expenditure Account for the year ended 31/03/16.

UNIT 2 ACCOUNTS OF NON-TRADING CONCERNS II

CONTENT

1.0 INTRODUCTION

In unit 7, you learnt about the accounting records of non-trading organization, final account of non-trading organization and the receipts and payments account of same. In this unit, you will learn about the income and expenditure account, the difference between receipts and payments account and income and expenditure account and the statement of financial position of a non-trading organization.

2.0 OBJECTIVE

At the end of this unit, you should be able to:

• explain and prepare the income and expenditure account of a non-tradingconcern.

• explain the difference between receipt and payment account and the incomeand expenditure account.

• explain the balance sheet of a non-trading organization.

3.0 Main Content

3.1 Income and Expenditure Accounts

The income and expenditure account serves the same purpose for non-trading organization as the profit or loss account for a trading organization.It is also prepared exactly in the same manner as the profit or loss accountall income are shown on the credit side and all expense and losses on the
debit side.

For the not-trading concerns, the excess of income over expenses losses is not termed as profit. It is called Excess of Income over Expenditure or Surplus, in case of cooperative society, similarly the excesses of expense and losses over income is termed as Excess of Expenditure over Income or Deficiency.

As stated earlier, the income and expenditure account is prepared with thehelp of receipts and payments account and the additional information available.

You know the income and expenditure account will show incomes and expenses only for the period to which it relates and that too on accrual basis. Hence, while taking figures from receipts and payments account, you will have to make the necessary adjustments. It should be deducted for purposes of computing the income from subscriptions. Similarly, if certain amount of subscriptions relating to 1987 is still to be received (outstanding), it would not appear in the receipts and payments account. But, it has included in the income from subscriptions for 1989 andso added thereto. Another precaution you have to take relates to the distinction between capital and revenue items. In the income and expenditureaccount, you are to include only the revenue items, the capital items will be ignore.

Then, you will also have to provide the necessary amount of depreciation on all fixed assets and make provisions for doubtful debts. The items do not appear in the receipts and payments account. Let us now list the steps to be followed for preparing the income and expenditure account from the receipts and payments account.

Procedure for Posting in the Income and Expenditure Accounts

1. Go through the receipts side for ascertaining all items of income and thepayment side for all items of expenses and losses.
2. Ignore opening and closing balances
3. Ignore capital receipts and capital payments
4. Ignore receipts and payment relating to the preceding and the followingyears. If however a receipt or payment includes any amount which relatesto the preceding or the following year, the same should be deducted.
5. Add the outstanding amounts to the respective items of income andexpense.
6. Provide for depreciation and doubtful debts if required.
7. If any fixed asset has been sold during the year, complete the amount of profit or loss on such a sale and show the same in the income and expenditure account. Note that the sale of old sports materials is not to be regarded as sale of a fixed asset. The total amount received from such sale is an income. Let us prepare the income and expenditure account from the receipts and payments account.

3.2 Difference between Receipts and Payments Account and Income or Expenditure:

While preparing the receipts and payments account and the Income andexpenditure account, you must have noticed that they differ in many ways.

The various points of difference can be summarized as follows:

S/N	Receipts and Payments Account	Income and Expenditure Account
1	It is the summary of the cash book	It is like a profit or loss account
2	It is a real account and records cash	It is a nominal account and records cash transactions only as well as non-cash transaction
3	It is prepared on cash basis	It is prepared on accrual basis.
4	Includes opening cash	Does not include the opening cash bank balances and bank balance.
5	Both the revenue and capital receipts are recorded	Only the revenue items are recorded.
6	Shows receipts on the debit side while the payments are shown on the credit side.	Shows income on the credit side and expenditure is shown on the credit side of the account.
7	Includes items relating to preceding concerns only with the amounts related or succeeding year to the current year.	Concerns only with the amounts related or succeeding year to the current year.
8	Does not recognize outstanding expenses.	Recognizes all income and income and expenditure which are due but not received or paid.
9	Depreciation and impairments are excluded.	Records depreciation and impairements.
10	Closing balance represent cash in	Closing balance represents surplus or hand and cash at bank (or overdraft) deficiency of Income over expenditure.

Source: Author’s Compilation.

3.3 Statement of Financial Position: Statement of Financial Position was formerly known as the balance sheet of a non-trading organization is prepared in the samemanner as that of the other organizations. It shows all assets and liabilities asat the end of the year in the usual way. However, the excess of assets overliabilities in their case is termed as Capital Fund or General Fund and not capital as in case of the trading concerns. The capital fund actually comprisethe excess of income over expenditure and other income like lifemembershipfees, entrance fees, etc which have been capitalized from time totime. Effectively it constitutes the capital of the institution. Sometimes you may also have to prepare the balance sheet as at the beginning. This isrequired mainly to ascertain the opening balance of capital fund.

Exercise: List the steps you will follow in preparing the income and Expenditure Account from the Receipts and Payments Account.

4.0 CONCLUSION

The non-trading concerns like societies club, educational institutions,hospitals etc also maintain a proper record of their financial transactions. It isnot only a legal requirement for all registered bodies. But it is also considereddesirable for effective control of funds. The accounting records of the non trading records are based on the same principles as those applicable to tradingconcerns. However, the nature of their income and expenses is slightly different and most of their transactions are cash transaction. Hence, theirmain book of original entry is cash book. They also maintain ledger whichshows all the concerned accounts.

5.0 SUMMARY

The final accounts of non-trading organization consists of:

(i) receipts and payments accounts
(ii) Income and expenditure accounts
(iii) Statement of Financial Position

As earlier stated, receipts and payments account is simply a summary of all cash transactions relating to the accounting year which begins with the opening cash and bank balances and ends with their closing balances.

Income and Expenditure Accounts which is likened to the Profit or Loss Account (also known as Income Statement) is prepared to show the surplus (excess of income over expenditure) or deficiency (excess of expenditure over income).

Finally, the Statement of Financial Position formerly known as the Balance Sheet is done to show the assets, capital liabilities of the business in any given time.

6.0 Tutor-Marked Assignment

The Golf Club of Shagamu has the following list of balances for the period ended 31st December, 2016.

	Dr.
	₦
Premises	420,000
Equipment	136,100
Proceed from Entrance Fee	99,600

Accumulated fund 1/1/16363,500

Subscription received 375,200

Wages for restaurant attendants 56,180

Stock of restaurant consumables 1/1/1635,280

Purchases of bar/restaurant consumables 233,160

Sales from bar and restaurant 359,460

Gardner's wages153,960

Allowances to tournament participants 120,000

Repairs and other expenses 11,600

Cash balances 31,400

Additional information

a. The closing stock for bar and restaurant consumables amounted to ₦19,780
b. The club does not maintain any bank account and thus all its transactions are on cash.
c. Some members paid their subscription for 2017 and this amounted to ₦ 3600
d. Provide for depreciation of equipment of ₦1,520

Required to do:

a. The Bar/ Restaurant trading account for the year 31 December, 2016.
b. Income and expenditure for the year ended 31st December, 2016.
c. Statement of Financial position as at 31st, December, 2016.

7.0 References/Further Reading

1.7 Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in this course.

Frank, Wood& Alan Sangster,. Business Accounting 1 & 2, 13th Ed
Pickles & Lafferty : Book Keeping & Accounts

Uche L. Onyekwelu-Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant)

Uche L. Onyekwelu-Financial Accounting Manual: Test and Examination Pack for Students

UNIT 3: TREATMENT OF PECULIAR ITEMS IN ACCOUNTS OF NON-TRADING CONCERNS

Contents

1.0 Introduction
2.0 Objective
3.0 Main Content
3.1 Subscriptions
3.2 Donations
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Reading

1.0 INTRODUCTION

You have learnt that the final accounts of non-trading concerns are preparedalmost in the same manner as those of others. Of course, the nature of theirincome and expenditure is slightly different from those of the tradingconcerns. There are those of the trading concerns, there are a number of itemswhich are peculiar to non-trading concerns and their treatment in finalaccounts need to be clarified. Two of those items peculiar items are hereby treated. They are namely subscriptions and donations.

2.0 Objective

At the end of this unit, you should be able to:
• explain and record subscription in the final accounts
• explain donation and record it in the final account

3.0 MAIN CONTENT

3.1 Subscriptions

Definition: in the context of not-for- profit making organization, subscription is described as the annual dues and charges which members of a club or any other non-trading concern pay to the organization for being a member. It is therefore a source of income to the business outfit.

Posting of Subscription: Posting of subscriptions is done to reflect three things:

1. Actual Subscription Received with the accounting year.
2. Subscription Received in Advance
3. Subscription Received in Arrears

Actual SubscriptionReceived: The actual cash subscriptions received are posted to the debit side of the receipt and payments account.

Dr. Receipt and Payment Account
Cr. Income and expenditure account

Illustration 1: Integrity Club of Kano City has One Hundred (100) members as at 31st December, 2016. The members pay a subscription fee of Five Thousand Naira every year. Sixty members were able to pay the subscription fee as at the year end.

Prepare the necessary records to post the subscription fee received to the receipt and payment account and the income and expenditure account.

Solution:
Since 60 out of One Hundred members paid the annual subscription, thus:
60 x N5, 000 = N300,000.

Dr. Receipt and Payment Account, N300, 000
Cr. Subscription Account, N300, 000

In the Income and Expenditure Accounts:
Dr. Cash/Bank Account, N300, 000
Dr. Subscription in Arrears N200, 000
Cr. Income and Expenditure Accounts, N500, 000

Subscription Received in Advance: These are subscriptions received from members well ahead of the accounting year due. The subscription does not belong to the period.

Accounting Treatment:
Dr. Receipt and Payment Account
Dr. Income and Expenditure Accounts

Cr. The Cash Accounts

Illustration 2: Unique club of Enugu has One Hundred and Twenty members as at 31st December, 2017. It has received the full subscriptions from members for the year. Twenty members have also paid the subscription fee for year 2018. Annual subscription fee is Three Thousand Naira per member.

You are to prepare the necessary records to show the transactions.

Solution
Subscription due in 2017 = 120 x N3,000
= N360,000

Subscription due in 2018 received in 2017
20 x N3,000=N60,000
Total Subscription Received =
N360,000+N60,000= N420,000

Dr. Receipt and Payment Account N420,000
Cr. Income and Expenditure Account N420,000
Dr. Income and Expenditure Account N60,000
Cr. Subscription received in advance account, N60,000

Dr. Receipt and Payments Accounts,

Subscription Received in Arrears: These are subscriptions received after the year it was due. This means that the members could not pay within the accounting year it belonged.

Accounting Treatment:
Dr. Receipt and Payment Account
Dr. Income and Expenditure Accounts

Cr. The Cash Accounts

Illustration 3: If we use the Integrity Club of Kano City has One Hundred (100) members as at 31^{st} December, 2016. The members pay a subscription fee of Five Thousand Naira every year. Sixty members were able to pay the subscription fee as at the year end. The remaining members paid the subscription in 2017.

You are to prepare the necessary records to show the transactions.

Solution
Since 60 out of One Hundred members paid the annual subscription, thus:
60 x N5, 000 = N300,000.

Dr. Receipt and Payment Account, N300, 000
Cr. Subscription Account, N300, 000

In the Income and Expenditure Accounts:
Dr. Cash/Bank Account, N300, 000
Dr. Subscription in Arrears N200, 000

Cr. Income and Expenditure Accounts, N500, 000

To record the arrears received in 2017 = N200,000

Dr. Cash Account
Cr. Subscription in Arrears Account

3.1 Donations
Most of the not-for-trading organizations are for welfare purposes. For this, most of them are involved in one form of charity or the other. Because of this many individuals including members and even other organizations make donations to them. For instance, the Rotary Club, Red Cross Society and so on receives voluntary contributions from various sources. Donations are therefore a huge source of income for the institutions.

Accounting Treatment:

Dr. Receipt and Payment Accounts
Cr. Income and expenditure account (General donations, those not of capital nature)

That when donations are received for specific purpose such as buildings and endowments;
Dr. Receipt and Payment Accounts
Cr. Amount due in that year.

The balance will be recorded in the Statement of Financial Position as liabilities.

Exercise:
Select the most appropriate alternative.
(a) Subscription received in advance are shown on the:
(i) Credit side of the income and expenditure account
(ii) Assets side of the balance sheet
(i) Liabilities side of the balance sheet
(b) Subscription due but not yet received are shown on the:
(i) On the liabilities side of the balance sheet
(ii) On the asset side of the balance sheet
(iii) On the credit side of the balance sheet -

4.0 CONCLUSION
Some items which needed peculiar treatment in the transactions of not-for –trading organization. Subscription and donations require very special treatment so they can be incorporated in the annual financial statements.

5.0 SUMMARY
The items which demand special treatment while preparing the final account of non-trading organizations consists of subscriptions and donations have been treated in this unit. The remaining peculiar items shall be dealt with in the following units.

6.0 TUTOR-MARKED ASSIGNMENT
As unit 9 and 10 must be studied together, please see i.e T.M.A of unit 21 (Relevant to both units)

7.0 REFERENCES/FURTHER READING
You are advice to acquire the following textbooks and any other that could assist you in this course.
Frank, Wood& Alan Sangster,. Business Accounting 1 & 2, 13th Ed
Pickles & Lafferty : Book Keeping & Accounts

Uche L. Onyekwelu-Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant)

UNIT 4: TREATMENT OF PECULIAR ITEMS IN ACCOUNT'S OF NON TRADING CONCERNS 11

CONTENT

1.0 INTRODUCTION

In unit 9, you learnt about donation and entrance fee, this unit you will be thought about entrance fee, membership fees, legacies, special funds, sale of old newspaper, sport materials used and honorarium. These are some of the peculiar items in accounts of non-trading organization. Note this unit must be read in conjunction with unit 20.

2.0 OBJECTIVE

At the end of this unit, you should be able to:

• explain the peculiar items in the account of non-trading organization and deal with the accounts proper.

3.0 MAIN CONTENT

3.1 Entrance Fees

An entrance fee is the fee an intending member pays before he is admitted into into the club. It therefore means that before anybody can claim to be a member of any of the clubs or organization the member must have satisfied this demand/ condition. Any expenses that the outfit incurs in the process of admitting such members are also charged against the income and therefore recorded as expenditure.

Accounting records of the entrance fee:
When entrance fee is received

Dr Cash Account

Cr. Entrance fees Account

Posting of Expenses incurred on Admitting New Members
Dr. Entrance Fees Account
Cr. Cash Account

3.2 Life Membership Fees
Certain institutions also provide for life members and charge fees from persons who opt for it. The amount of subscription received from them is termed as life
membership fees and it is treated as capital receipt. In other words, the life, membership fee is not shown in the income and expenditure account it is directly, added to the capital, fund as shown in the Statement of Financial Position formerly known as Balance Sheet.

3.3 Legacies
Legacy is the cash or its equivalent (Plant, Property and Equipment) which are received following the will of the deceased donor. This type of donation is not a recurring phenomenon. Since the amount which is often received is generally large hence, the practice is to capitalize it and show it over a specified in the Statement of Financial Position. Depending on the amount received the small amounts of legacies received from time to time may be shown in the income and expenditure account of the period in which they are received or written off over a number of years depending on the terms spelt out by the donor.

3.4 Special Funds
Special funds are funds and accounts which are set aside for accomplishing some projects of the organization in the promotion of the welfare of its people or in pursuance of the aims and objectives of the organization. The funds could be for 'Health Awareness Funds' Educational/Sholarship Prizes' Fund, Sport Fund', among others. When income received on account of special fund investments, the funds are to the particular funds they are meant for. Expenses which are incurred are also to be deducted from such funds.

Illustration: If ABGClub of Abuja has fund for the sponsorship of Scholarship in Secondary Schools in Abuja titled 'Best Science Scholar Award'

The special fund is sponsored through members' goodwill. In the year 2016, the fund commenced with the sum N350,000. In the same year, the fund spent N320,000. Members also donated additional N220,000 to the funds. You are to show the necessary records to post the transactions in the funds accounts.

Solution:

Dr. Cash Account N350,000
Cr. ABG Club Best Science Scholarship Award, N350,000

Posting of the Expenses;
Dr. ABG Club Best Science Scholarship Award, N320,000
Cr. Cash Account, N320,000

Posting of the additional funds;
Dr. Cash Account N220,000
Cr. ABG Club Best Science Scholarship Award(Additional Funds), N220,000

3.5 Sales Old Newspapers
The sale of old newspapers is of a recurring nature and is credited to the Income & expenditure account.

3.6 Sport Materials Used
In case of sports clubs, the expenditure on sports materials is a common item. But you know the materials purchased in accounting year may not be fully consumed. Some materials may still be in stock. Hence, to ascertain the exact amount of expenditure chargeable to the income and expenditure account of the year, you have to work out the amount of materials consumed by adjusting the opening and closing stock of such materials in their purchases.

Illustration: Ladies Gold Club has the following records:

	N
Opening inventories of sporting materials 1/1/15	150,000
Purchases of more sports materials	256,500
Closing inventory 31/1/15	22,200

You are to show the cost of sporting materials consumed
Within the accounting year.

Solution:

		N
Sport materials consumed the year		
Opening inventory	150,000	
Add: Purchases of Sporting Wears	256,500	
Cost of Sporting Wear Available	406,500	
Less: Closing inventory		22,200
Cost of wears consumed		374,300

The amount charged to the income and expenditure account for 1988 on account of sports materials will be N374,300. It is also possible that the club receives certain amount by selling the used sports materials like bats and balls. This will be an income of the club and should be credited to the income & expenditure account.

Note*** Income which arise from sale of scraps are not taken credited into the account as such amount of spots materials consumed because such income arises out of the consumed materials themselves. Similar treatment may be adopted for ascertaining the amount of stationery and printing materials consumed by such organizations or tinned provisions consumed in the restaurant.

3.7 HONORARIUM

Honorarium is fees which are paid to non-employees of the club or society. Such expenses are incurred when some outsiders especially professionals of various types are invited for special assignments or to render some specialized services to the body. Examples of the expenses which may attract honorarium may include inviting guests to deliver lecture on certain economic or social topics for the benefit of the members. Professional accountants who visits to audit the accounts of the organization are also paid honorarium. The remuneration paid to the secretary or treasurer may be termed as honorarium because they are not the employees of the organization. Honoraiums are generally treated as expenses and are debited in both the Receipts and Payment Accounts and Income and Expenditure Account.

Exercise:

From the following information, compute the amount to be debited to the income and expenditure account in respect of printing and stationery.

	N
Opening inventories	70,000
Purchase of Printing & Stationery	80,000
Closing inventories	15000

4.0 CONCLUSION

In this unit, you have learnt about a number of items which are peculiar to non-trading concerns and their treatment in final account, this items includes: entrance fees, life membership fees, legacies, sales of old newspapers, sport materials used and honorarium. You should keep what you learn about these items in your memory for further studies.

5.0 SUMMARY

The non-trading organization may prepare a trail balance, but the receipts & payments account constitute the major source for the preparation of income & expenditure and balance sheet. Certain items like subscriptions, entrance fees, donations, legacies, special funds etc need special care while preparing the final accounts of such organization.

6.0 TUTOR-MARKED ASSIGNMENT

From the following receipts and payments account of Ladies of the Ivory Towers, prepare the income and expenditure account for the year ended 31 December, 2016 and the statement of financial statement as at that date.

Receipts & Payments Account for the year ended 31, December, 2016

			DR N	CR N
To Balances on 1/15		10000		
By expense				
To Subscriptions 1/16		1400		
2013 -				
2014 -	2400 3400			

2015 -2100 By household land 4000
1916-150 2630 By interest paid 400
To entrance Fees 800 By refreshment
To Locker rent 700 expenses 2000
To income from By balance on
refreshment 4000 31/2/88 8330
N 18130 N18130
====== =======

Balance Sheet as on December 31,2016
DR CR
Liabilities N Assets N
Capital Fund 33620 Building 30000
Subscriptions Subscriptions
received in advance 600 outstanding 380
Outstanding expenses 1400 Outstanding locker 240
Loan 5000 rent
Cash in hand 10000
____
N 40620 N 40620
====== =======

Adjustments:
i) Expenses Outstanding as on31/12/88 were N 500
ii) Subscription Outstanding on 31/12/88 were N 800
iii) Salary due but not paid up to 31/12/88 were N 200
iv) Depreciation of N2000 is to be charged on buildings
v) Entrance fees are to be capitalized

7.0 REFERENCES/FURTHER READING

You are advice to acquire the following textbooks and any other that could assist you in this course.

Frank, Wood & Alan Sangster,. Business Accounting 1 & 2, 13th Ed
Pickles & Lafferty : Book Keeping & Accounts

Uche Lucy Onyekwelu-Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant)

Uche L. Onyekwelu-Financial Accounting Manual: Test and Examination Pack for Students

MODULE 4: ADJUSTMENTS REQUIRED BEFORE THE PREPATION OF FINAL ACCOUNTS

UNIT 1: ADJUSTMENTS REQUIRED BEFORE THE PREPATION OF FINAL ACCOUNTS

CONTENT

Introduction

Business organizations are expected to enjoy the prospects of going concern which means that they are expected to continue in their business for an indefinite period of time or according to International Accounting Standards 1(Conceptual Framework) should exist for the next accounting year. The process of business transactions (income or expenditure) often see it spanning for more than one accounting year. These transactions are recorded and and accounted for whether the bills have been settled or not.

The importance of the adjustment helps business organization to articulate all financial transaction whether paid for or not. This approach is known as accrual accounting and is opposed to the cash system of accounting.

Most often than not, organizations do not insists on immediate payments or receipts for products sold or services rendered especially for organizations or individuals that have long standing relationships with them. In the course of the interactions, there arise situations when services are paid for in advance or in arrears. Again, some income earned by organizations is received in advance or are still in arrears till the end of accounting year. To show the true picture of all the transactions in terms of income and expenditure, and in conformity with the principle of matching concept, the Accountant is expected to adjust for the expenses paid in arrears or advance and income earned but not received till the end of the year. The matching concept requires that all income earned in a period should be matched with the corresponding expenses incurred within the same period whether settled or not to determine the true position of the company's profit or loss in any given accounting year. Adjustments enable the Accountant to capture all the income & expenses that are due to a particular accounting period. Consequently, it helps him or her to produce a true & fair view of the state of affairs of the organization for any accounting period.

2.0 OBJECTIVES

After studying this unit, you should be able to explain the following:

(i) Accrued Income earned but not received by the business as at end of the year.

(i) Accrued Expenses incurred but not paid for.

(ii) Expenses paid for while the service is yet to be rendered to organization.

(iii) Depreciation and provisions for depreciation.

(iv) Amortization of goodwill.

(v) Bad debts & provisions for bad debts

3.0: MAIN CONTENT

3.1 **Accrued Income:**

These are income earned but not been received by the business from its customers: These are income that due or earned through goods sold to them or services rendered but have not been paid for by customers. When a business renders services to other companies and they are not paid for, such income has accrued to the organization and will be recorded income in the profit or loss account. It will also be recorded as a current asset in the statement of financial statement.

3.2 Accrued Expenses: These are expenses which the business has incurred including services it has received from others but not paid for. These are expenses or payments that the business should have made to its suppliers for either goods supplied or services rendered. The business has enjoyed such goods/services but has not paid as at end of the accounting period. Such payments are outstanding and should be adjusted for.

3.3 Prepayments: These are payments madefor **e**xpenses which services the organization is yet to receive. This is also referred to as payment in advance. These are expenses paid for which service is yet to be rendered to the organization. These expenses may be in the form of bills like Light Bills, GSM Prepaid Recharge cards among others or even goods.

3.4 Depreciation andProvision for Depreciation:

Adjustments are made for depreciation because the wear and tears on assets are also part of the expenses incurred for the year to generate the income.

3.5. Income Receive Advance

Just as organization or individuals pays in advance, so they at times, receive in advance. The

income received in advance may be termed prepaid income. It is thus a liability because benefit enjoyed is one for which the service for the income received has not been provided. The prepaid income is therefore a liability. To enter any prepaid income that occurs in the book of account debit the income account and
credit the prepaid income account.

3.6 Bad Debt: Baddebt is usually a percentage of debt owed to a business which is considered irrecoverable after a specified period. Since allowing credits in business is normal, bad debts is a normal business expense. To that effect, prudency concept of accounting demands that bad debts are written- off the existing trade receivables and charged against the profit of the year. This is to enable the business to reflect clearly what its debtors are and the actual profit made in the year.

Bad debts could occur in a business when any of the following happens:

a). The debtor has refused to pay.
b). When a debtor's business collapses and the owner cannot pay. The business is declared bankrupt.
c). The demise of a debtor is most likely to make a debt unrecoverable.
d). The debtor has opted to pay only a part of the debt and it is very unlikely that the remaining part will be recovered.

3.7 Bad Debt Recovered

Bad debt recovered is that part of bad debt which is paid back by the debtors. When a percentage of bad debt is paid for that is decided Sometimes a debt which had been written off may become recoverable some years
later. When the debt is now paid back, it is called a bad debt recovered. When such situation arises, the best way of recording the bad debt recovered is by debiting cash account and crediting the bad debt recovered account then the value of the bad debt recovered would be transferred to the credit side of the profit and loss account as revenue thus closing the bad debt recovered account.

3.8 Discount

This is an inducement offered by a creditor to debtors to pay promptly (cash discount).

• A deduction from the selling price of an article generally allowed by a wholesaler to a retailer, that is, trade discount.

• With reference to bill of exchange, to discount a bill means to acquire it by purchase for a sum less than its face value, the amount of this discount depending partly on the length of the unexpired term of the bill and partly on the amount of risk involved.

• When a recently issued stock falls below its issued price, it is said to stand at a discount.

3.4.1 Discount Allowed

Discount allowed is an incentive given to encourage the debtors to settle their account or debts promptly. On the other hand, the provision for discounts allowed is the amount set aside from the profit to cater for the discounts allowed in case the need to give such discounts arises.

However, the major reason behind the creation of the provision for discounts allowed is similar to that behind creating provision for bad debts. No wonder the accounting treatments of the two are closely similar.

3.4.2 Discount Receivable

Discount received is a rebate from a supplier when he is paid within a stipulated period. If it is envisaged that discount will be received from a supplier as a result of the credit purchase made now, then a provision would be for discounts receivable (i.e. discounts on creditors). However, such a provision is regarded as an asset because a certain amount of money is estimated to be received in future. Thus, unlike

the other provision earlier discussed, the provision is then credited in the profit and loss account for the year in which it is made because it increases the profit.

Exercise:

(a) Distinguish between discount allowed and discount receivable.

(b) How does bad debt recovered differ from bad debt?

(c) What is accrued income?

4.0 CONCLUSION

Adjustments as highlighted in Prepayments, Accruals and Bad debts are very important aspect of accounting. In fact, the true picture of the financial transaction will only be seen when the necessary adjustments are made. Understanding it is therefore very important to the understanding of financial accounting.

5.0 SUMMARY

Accrued income are income which are due to an organization whoreplace ‘who’ with ‘which’ have rendered a service or sold goods to another. Prepayments are payments made now for the benefit to be enjoyed tomorrow such payments are regarded as payments in arrears, while Accruals are expenses that are due for payment now but which remains unpaid, these are called accruals or accrued expenses. Bad debts is regarded as being bad if the debtor for one reason or the other refused to settle his debts. In account, prepayment is deducted from the payment concerned in the profit and loss account and added to the current assets in the balance sheet, accrual is an expenses in Profit or Loss account which is added to the expenses concerned and shown in the balance sheet as a current liability. Bad debt is treated in the same way as accrual in the profit and loss account and the statement of financial position

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Frank, Wood & Alan Sangster,. Business Accounting 1 & 2, 13th Ed.
- Pickles & Lafferty: Book Keeping & Accounts
- Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant) by Uche Lucy Onyekwelu
- Financial Accounting Manual: A Test and Examination Pack for Students by Uche Lucy Onyekwelu

UNIT 2 : ADJUSTMENTS REQUIRED BEFORE THE PREPATION OF FINAL ACCOUNTS 11

CONTENT

Introduction

Business organizations are expected to enjoy the prospects of going concern which means that they are expected to continue in their business for an indefinite period of time or according to International Accounting Standards 1(Conceptual Framework) should exist for the next accounting year. The process of business transactions (income or expenditure) often see it spanning for more than one accounting year. These transactions are recorded and and accounted for whether the bills have been settled or not.

The importance of the adjustment helps business organization to articulate all financial transaction whether paid for or not. This approach is known as accrual accounting and is opposed to the cash system of accounting.
Most often than not, organizations do not insists on immediate payments or receipts for products sold or services rendered especially for organizations or individuals that have long standing relationships with them. In the course of the interactions, there arise situations when services are paid for in advance or in arrears. Again, some income earned by organizations is received in advance or are still in arrears till the end of accounting year. To show the true picture of all the transactions of in terms of income and expenditure, and in conformity with the principle of matching concept, the accountant is expected to adjust for the expenses paid in arrears or advance and income earned but not received till the end of the year. The matching concept requires that all income earned in a period should be matched with the corresponding expenses incurred within the same period whether settled or not to determine the true position of the company's profit or loss in any given accounting year. Adjustments enable the accountant to capture all the income & expenses that are due to a particular accounting period. Consequently, it helps him or her to produce a true & fair view of the state of affairs of the organization for any accounting period.

1.0 INTRODUCTION: In unit 2 you learnt some of the necessary adjustments that may be needed before final account is prepared. This section will teach you how to do the adjustment when the need arise.

In this unit you will learn how to treat adjust the items. Here the principle of double entry will apply. This unit will specifically accrued income, accrued expenses and prepayments.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

(i) Accrued Income

(vi) Accrued Expenses

(vii) Prepayments

(viii) Record the above in the books of accounts applicable.

3.0: MAIN CONTENT

3.1 **Accrued Income:**

These are income earned but not been received by the business from its customers: These are income that due or earned through goods sold to them or services rendered but have not been paid for by customers. When a business renders services to other companies and they are not paid for, such income has accrued to the organization and will be recorded income in the profit or loss account. It will also be recorded as a current asset in the statement of financial statement.

Illustration 1. GINO Ltd has rented a ware house from Harvard Limited at a cost of ₦840, 000. ABC however paid only ₦640, 000.00 by the end of the year. You are required to show the effects of these transactions on the accounts of the two companies.

Solution
In the books of Harvard Mortgage the following analysis will ensue:

	₦
Income due from GINO Ltd	840,000
Cash received	<u>640,000</u>
Amount outstanding	<u>200,000</u>

In the books of Harvard Limited
Dr. Gino A/C ₦840, 000
Cr. P& L A/c ₦840, 000

On receipt of N640, 000

Dr. Cash book ₦640, 000
Cr. Gino Ltd ₦640, 000

In the Balance sheet: Record, Rent due from GINO Ltd ₦200, 000 as a current asset.

In the books of GINO Ltd the entries will be:
Dr. Rent Expenses A/c ₦840, 000
Cr. Harvard A/c **₦8**40, 000

On payment of N640, 000

Dr. P& L A/c ₦640, 000
Cr. Harvard A/c ₦640, 000

In the Balance Sheet: Record the unpaid amount as rent outstanding or rent in arrears stated as a Current Liability.

3.2 Accrued Expenses: These are expenses which the business has incurred including services it has received from others but not paid for. These are expenses or payments that the business should have made to its suppliers for either goods supplied or services rendered. The business has enjoyed such goods/services but has not paid as at end of the accounting period. Such payments are outstanding and should be adjusted for.

Illustration 2. ABC Ltd is into transport; it had ordered and used ₦560, 000 worth of fuel from Texaco Ltd. However, ABC Ltd was able to pay ₦500, 000 before the end of the accounting year.

You are required to record the above transaction in the books of ABC Ltd and Texaco Ltd.

Thus:	₦
Total cost of Fuel consumed	560,000
Less: Amount paid	<u>500,000</u>
Accrued/outstanding amount	<u>60,000</u>

In the book of receiver (Texaco Limited)

Dr. Cash book A/c	500,000	
Cr. ABC LTD		500,000

In the book of the payer

Dr. Fuel Expenses A/C	560,000
Cr. Cashbook	500,000
Cr. Creditors	60,000

The total amount of ₦560,000 = is debited to the P & LA/C as expenses on Fuel & Gas for the period therefore providing fully for the cost incurred on fuel for period not minding that only ₦500,000 = was paid for.

- **Expenses paid for while the service is yet to be rendered to organization (prepaid or payment in advance).**

These are expenses paid for which service is yet to be rendered to the organization. These expenses may be in the form of bills such as electricity bills, telephone bills, water bills among others.

ABC Ltd makes a monthly payment for the sum of ₦100, 000 for the repair of its buses and lorries. It however paid ₦1, 500,000 for 2009 accounting year ending 31/12/09.

You are required to show the entries in the books of ABC Ltd.

The analysis of the payment is thus:

	₦
Total amount paid	1,500,000
Total amount due for one year	<u>1,200,000</u>
Prepayment/advance payment	<u>**300,000**</u>

The amount due for one month = ₦100, 000
The amount due for one year = ₦100,000x 12months= ₦1, 200,000 amount paid = ₦(1,500,000-1,200,000) = ₦300,000

The sum of ₦300, 000 will be adjusted by deducting if from total amount paid to determine that ₦1, 200,000 is the only expenses due to repairs in one accounting year while the excess is treated as prepaid expenses or payment in advance.

Thus:

Dr. Repairs & Maintenance of Motor Vehicle ₦1, 200,000
Cr. Cash book ₦1, 500,000
Dr. Prepayment(Repairs& Maintenance) ₦300,000

In the Balance Sheet:

Record the unused amount of N300, 000 as prepaid expenses or repairs payment in advance. It should be recorded as current assets.

3.4 Prepayments: These are payments madefor **e**xpenses which services the organization is yet to receive. This is also referred to as payment in advance. These are expenses paid for which service is yet to be rendered to the organization. These expenses may be in the form of bills like Light Bills, GSM Prepaid Recharge cards among others or even goods.

Credit: Expense A/c
Debit: Prepaid Expenses

(The actual amount paid in advance)

Exercise: Dolly Ltd has a supermarket and has the following records as at 1st January 20x8.

	₦
Salaries outstanding	650, 000
Rent received in advance	450, 000
Insurance prepaid	150,000
Advertisement Expenses paid arrears	83,200
Electricity expenses in advance	14,620

The following expenses were however incurred in the year 20x8

Paid for salaries ₦480,000; received rent ₦742,000;Insurance paid ₦360,000; Advertisement expenses paid ₦65,000; Electricity Expenses paid ₦23,000

As at 31st December, rent in arrears was ₦360,000; and insurance paid in advance was ₦152,000; salaries outstanding ₦120,000.

a. Prepare the insurance, wages and rent receivables accounts for the year ended 31st

b. Show the end balances.

c. Prepare the Profit and Loss account extract showing clearly the amounts transferred from each of the above account for the year ended 31st December, 20x9.

4.0 CONCLUSION

Adjustments as highlighted in Prepayments, Accruals and Bad debts are very important aspect of accounting. In fact, the true picture of the financial transaction will only be seen when the necessary adjustments are made. Understanding it is therefore very important to the understanding of financial accounting.

5.0 SUMMARY

Accrued income are income which are due to an organization which have rendered a service or sold goods to another. Prepayments are payments made now for the benefit to be enjoyed tomorrow such payments are regarded as payments in arrears, while Accruals are expenses that are due for payment now but which remains unpaid, these are called accruals or accrued expenses. Bad debts is regarded as being bad if the debtor for one reason or the other refused to settle his debts. In account, prepayment is deducted from the payment concerned in the profit and loss account and added to the current assets in the balance sheet, accrual is an expenses in Profit or Loss account which is added to the expenses concerned and shown in the balance sheet as a current liability. Bad debt is treated in the same way as accrual in the profit and loss account and the statement of financial position

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

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- Pickles & Lafferty: Book Keeping & Accounts
- Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant) by Uche Lucy Onyekwelu
- Financial Accounting Manual: A Test and Examination Pack for Students by Uche Lucy Onyekwelu

UNIT 3: INCOMPLETE RECORD

CONTENT

1.0 Introduction
2.0 Objective
3.0 Main Content

3.1 Incomplete Records
3.2 Disadvantages of Incomplete Records

4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Reading

1.0 INTRODUCTION

Conventionally, accounting records are kept by observing the rules as applied in double entry system of accounting. Double entry approach is preferred because it helps in ensuring that all transactions are captured thereby enhancing the degree of accuracy of such records. Sometimes, this rule is not strictly adhered to as accounting records/documents are not properly kept. In some cases some documents are lost. This is often the case with small and medium scale enterprises that do not employ trained and qualified Accountants for accounting purposes. This situation often lead to a situation of incomplete records.

2.0 OBJECTIVE

After studying this unit you should be able to:

- Explain the term ‘incomplete records’
- identify and explain the different methods of collating accounting information; Calculate profit where only the increase in capital and details of drawings are known;
- Deduce the figure for cash drawings when all other cash receipts and cash payments are known;
- Deduce the figures of sales and purchases from incomplete records;
- Prepare a trading and profit and loss from records of incomplete nature;
- Prepare a balance sheet from records of incomplete nature.

3.0 MAIN CONTENT

3.1 INCOMPLETE RECORDS

- Explain the term ‘incomplete records’
- identify and explain the different methods of collating accounting information; Calculate profit where only the increase in capital and details of drawings are known;
- Deduce the figure for cash drawings when all other cash receipts and cash payments are known;
- Deduce the figures of sales and purchases from incomplete records;
- Prepare a trading and profit and loss from records of incomplete nature;
- Prepare a balance sheet from records of incomplete nature.

3.0MAIN CONTENT

3.1INCOMPLETE RECORDS

The concept of iincomplete records or single entry explains the practice whereby the normal principle of double entry which is the basis of modern accounting is not followed strictly,and yet accounting records are said tobe kept.In a situation, where records like cash received, expenses paid but other records like drawings are not kept, the owner of the business knows his initial capital but at times may not record other subsequent capital injections or introduction into the business within period yet he or she would want to determine the true position of the business at the end of a given financial period. The need for making up financial information from the above situation revolve around the above concept called incomplete or single records.

The accounting personnel is now charged with the responsibility of picking whatever available records in order to determine any of the following accounting information:

- The profit for the period.
- Sales/Purchases made.
- Drawings within the period.
- Actual cash lodged into bank.
- Actual debts owed by customers at a particular period.
- Actual goods supplied and amount due to creditors.
- Trial balance
- Accounting / financial statement.

9.1 Features of Single Entry or Incomplete Records

The critical features of single entry are:

1) The keeping of personal account only with no corresponding rent or normal accounting in the books of accounts.
2) Incomplete and unsatisfactory and it is clear that accurate information of the operation is not maintained.
3) Lack of maintainance of sales accounts without any debtor control account maintained to reconcile sales to debtors.
4) Lack of maintainance of purchases accounts without corresponding creditors account to reconcile it to creditors purchases to actual payments made.
5) More often than none, is the only receipts and invoices are maintained with an absence of a sales or purchases ledger.
6) Situations where some accounting documents are either lost or destroyed and so on.

7) Situations where receipts and payments are made through banks without any corresponding records kept in the office.
8) It creates problems to management because it is difficult to keep full control of records to avid misappropriations.
9) Arithmetic accuracy of records is not assured because trial balance cannot be prepared.

(10)Valuation of assets is difficult when business is considered for sale.

Illustration One:
Clara Super Market has an opening capital of N62,000 and the closing capital reads, N85,000 (assuming that there was no drawing). The profit generated for the period in question will be calculated as thus:

		N
Closing Capital	85,000	
Less: Opening Capital	62,000	
Net Profit		23,000

Explanation: The increment of N23,000 is attributed to the profit earned during the period.

IllustrationTwo

ABL Business Centre does notmaintain proper account based on double entry principle. The proprietor operates three departments(X,Y and Z) but has however managed to present you with the following records for its year ended 31st December, 2015

	₦	₦	₦
Capital balance. 1/1/15	50,000	40,000	80,000
Capital balance 31/12/15	100,000	80,000	60,000
Drawings	12,000	10,000	8,000
Capital Additions	24,000	18,000	15,000

The capital structure is as follows:

		₦
Balance as 31/12/15	100,000	
Less:		
Opening capital bal. 1/1/15	50,000	
		50,000
Add: drawings	12,000	
		62,000
Less: Introduction of Capital	24,000	

Profit for the year			**38,000**

			Y ₦
Balance as at 31/12/xx			80,000
Less: Opening capital bal 1/1/xx		40,000	
			40,000
Add: Drawings			10,000
			50,000
Less: Introduction of capital	8,000		
Profit for the year	32,000		

			X
			₦
Balance as at 31/12/15			60,000
Less: Opening Capital 1/1/15		80,000	
			20,000
Add: drawings			8,000
		28,000	
Less: Introduction of capital		15,000	
Profit for the year			**13,000**

			A
			₦
Balance as at 31/12/15			60,000
Less: Opening capital 1/1/15	120,000		
			(60,000)
Add: Drawings			25,000
			(35,000)
Less: Introduction of capital		(30,000)	
Loss for the period			**65,000**

Illustration 3

The book-keeper of Yinusa Mart had the following balances as at 31st 31st December, 2015 and 31st December, 2016

	31 Dec.,2016	Dec. 31,2015
	N	N
Motor Van	6,000	5,100
Furniture & Fittings	1,050	945
Inventories	8,838	9,000
Trade Receivables	11,384	11,500
Cash & Bank	16,233	20,400
Payment for Stationery	357	-
Trade Payables	12000	11,985
Accrued Rent	360	150
Drawings	-	1,500

You are required to calculate the net profit of the business for the periods

Solution:

Opening Statement of affairs of Yinusa Mart Mini Market

	N			
Capital (Difference)	31,500	Non-Current Assets		
		Motor	6000	
		Furniture & Fittings	1,050	
				7,050
Current Liabilities		Current Assets:		
Trade Creditors 12,000		Inventories	8,838	
Rent Accrued 360	12,360	Trade Receivables	11,382	
		Cash & Bank	16,233	
		Prepayment(Stationery)	357	36,810
N 43,860				43,860
=======				

Opening Statement of affairs of Yinusa Mart Mini Market

		N			
Capital	31,500				
Net Profit	6,810		Non-Current Assets		
	38,310		Motor Van	6000	
Less: Drawings	1,500	1,500	Less: Prov for Deprecation	900	
	36,810				5,100
			Furniture & Fittings	1,050	
			Less: Prov for Deprecation	105	
					945
Current Liabilities			Current Assets:		

Trade Creditors	11,985		Inventories	9,000
Rent Accrued	150		Trade Receivables	13,500
		12,135	Cash & Bank	20,400
				42,900
48,945		48,945		

The following equation could help in the determining the components of financial statement especially when the records are incomplete. Thus:

1. Assets = Capital + Liabilities
   Capital= Assets – Liabilities
   Liabilities= Assets- Capital

2. To determine:
   Profit = Closing Capital + Drawing -Opening Capital

Note: Steps for preparing double entry from incomplete recordsfor an accounting period are:

1. **Prepare a statement of affairs at the beginning of the financial period.Thus:**
   Dr. All assets
   Cr. All liabilities
   (Exclude debtors and creditors, cash and bank.)

- **Open a nominal account thus:**

  Dr.All assets with the opening balances
  Cr. All liabilities with the opening balances

- The Capital account becomes the balances, the balancing figure which could be a debit or credit.

2. The subsidiary books or journals are opened and figures posted to the appropriate side of nominal accounts for example the discount are drawn from the cash book either the discount allowed or discount received.

3. Carefully check the un-posted items, which will be posted to the appropriate accounts like nominal accounts or real accounts, like electricity bills paid, interest paid, land and buildings.

4. The withdrawals made from the business either in the form of cash or goods which are often forgotten most be added together and posted under the withdrawal accounts.

Summary

First step:- Establish what the opening figures are in the statement of affairs**.**

Second step:-Define the accounts to be opened and record the opening balance there accordingly except the cash and bank item and debtors and creditors, which are already recorded in the books.

Third step: - Separately open anoriginal entry and post the necessary figures.

Calculating Profits from Incomplete Records.

To ascertain profits from incomplete records, the followingpoints should be noted. They are:

- Increase in capital shown within any financial year is an increase in profit or
- Capital is also increased by the introduction of new capital from other sources.

Decrease in capital means that there is decrease in profit, that is:

- Losses are deducted from the capital thereby decreasing the level of capital available from the business.
- That any withdrawal is a decreasein capital as withdrawal is deducted from capital.

Exercise

Young Adebayo started business on the 1st of August 2015 with the sum of N240000 . Below are the list of transactions within the period:

1. Rose Henshaw Gloceries did not keep books in accordance with the double entry principles. However, it has managed to keep the following record for the 2015 financial year.

	₦
Office Equipment	229,500
Delivery Van	1,995,000
Inventory	244,500
Trade Debtors	355,500

Trade Creditors	259,500
Cash balance	150,000

As at the end of the financial year the business recorded

	₦
Office Equipment	580,500
Delivery Van	4,026,000
Inventory	580,500
Trade Debtors	658,500
Trade Creditors	272,100
Cash Balance	207,000

Rose Henshaw also invested more capital of ₦2,250,000. She also made withdrawal of ₦37,500 monthly for her personal expenses. You are to prepare the necessary accounts to show the business transactions. Show the capital account, the profit for the period and statement of affairs for the period.

4.0 CONCLUSION

Proper bookkeeping is required for good accounting process. However, lack of adequate records makes it difficult for proper accounting to be done. This process of preparing accounts from incomplete records has taken note of this.

5.0 SUMMARY

In this unit, you have been taught how to determine profit, capital among others from incomplete records

6.0 TUTOR-MARKED ASSIGNMENT

1. OliveAgencies is a dealer in groceries.She maintains a bank account but does not keep proper book of accounts. Below are some ofher records:

	₦	₦
Balance b/f	212,500	106,250
Cash Sales	7,313,500	3,658,750
Rent paid	725,000	362,500
Printing & Stationery	122,500	61,250

Advertisement	70,000	35,000
Furniture & Fittings	1,200,000	600,000
Rates	255,000	127,500
Cash balance	307,500	153,750
Purchases	4,850,000	2,425,000

She has also made the following expenses – paid salaries/month of ₦60,000. The Additional information, miscellaneous performing ₦56,150, withdraw ₦25,000 monthly for personal use.

The additional information:

As at	1/12/16	31/12/16
₦	₦	
Stock	325,000	227,500
Trade Creditors	187,500	125,000
Printing & Stationery	9,375	6,250
Rates paid in advance	17,500	12,500
Furniture &Fitting(Cost)	387,500	787,500
Depreciation –Furniture	217,500	78,750
Rent Outstanding	72,500	103,750
Cash in hand	43,750	25,000

2.Mr. Kenneth Young runs a bakery business and maintains incomplete records. She however has the following balances.

	1st Jan, 2x8	31/12/x8
	₦	₦
Trade Creditors	30,000	45,000
Stocks	22,500	33,000
Receivable	90,000	105,000
Furniture	60,000	64,000
Cash in hand	66.000	112,500

You are required to prepare Mrs. Kenneth Young's

1. Statement of Affairs
2. Current year's profit

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Frank, Wood & Alan Sangster,. Business Accounting 1 & 2, 13th Ed
- Pickles & Lafferty : Book Keeping & Accounts
- Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant) by Uche Lucy Onyekwelu
- Financial Accounting Manual: A Test and Examination Pack for Students by Uche Lucy Onyekwelu

MODULE 5 JOINT VENTURE ACCOUNTS

UNIT 1 JOINT VENTURE ACCOUNTS1

CONTENT

1.0 INTRODUCTION

Joint venture is a business relationship that exists between two individuals or body corporate with aim of executing a specific trade or transaction within a very short time frame. The aim is for each to pull its resources together to execute the business after which they share the profit (all things being equal) that is made after all.

Organizations through joint venture pull their resources (capital or human) to handle business projects which they may not be able to execute alone. Accounts are therefore opened for the purpose of the joint venture business. This unit will introduce you to the process of recording the accounts of joint venture business.

2.0 OBJECTIVES:

After concluding this unit, you should be able to:

- Define joint venture business;
- Features of joint venture business;
- Outline the importance of joint venture;
- Differentiate joint venture from partnership business.

3.0 MAIN CONTENT

3.1 Joint Venture

Unlike partnership business which is a permanent partnership, the joint venture business is one that exists often on very short period with an aim to execute a specific business. To this extent, joint venture is the coming together of two or more people or even corporate organization for the execution of a set business (already well defined) after which the business relationship ceases to exist. The joint venturers (parties involved in the business) share the profit or losses based on a pre-defined basis. The businesses or persons involved in the business do not need to change their names unlike in the mergers and acquisitions. They retain their individual names since the life span of the business is usually very short period.

Joint venture business is often seen in construction, oil and gas firm and even telecommunication. It also involves people or organizations pulling resources together. These resources can be in the form of cash, infrastructure (land and other forms of plant, property and equipment) and human capital (technical known-how/competencies).

Features of Joint Venture Business:

- The business is formed by two or more individual or corporate organizations;
- The aim is to execute a particular project or business transaction;
- The venturers still retain their separate names and do not choose any other names for the purpose of the joint venture.
- The duration is often very short and is temporal in nature.
- The parties to a joint venture are usually continue in their various business except if otherwise agreed.

- The venturers share profits or losses based on pre-determined ratio or percentages.

Advantages of Joint Venture:

- Sufficient Resources: Since two or more persons pool their resources, there is sufficient capital available.
- Ability and Experience: The different venturers may be having different skills and experience.
- Spreading of Risk: The co-venturers agree to share the profit and losses in a particular ratio.

17.1 Major Differences between Joint Venture and PartnershipBusiness**.**

- The aim of joint venture is to carry on a specific business and share the profit after while partnership is more permanent with well spelt out deed of partnership.
- Unlike the partnership that is expected to last for a reasonable number of years, joint ventures business can come to an end within a short time just enough to execute the business. Its life span can be as short as two weeks, a month, and a year or as agreed by the parties. In other words, the life span of joint venture is definite and well spelt out.
- Partnership business is guided by Partnership Act of 1890 especially in the event of disputes while the joint venture is guided by the agreement of parties.
- A partnership business will have a different name however, for the joint venture there is no need for a separate name.
- A joint venture business has a definite life span but the duration for partnership is indefinite.
- Separate books of accounts are to be maintained. There is no need for a separate set of books, the accounts can be maintained even in one of the co-ventures books only.
- In partnership, no partner can carry on a similar business. Co-venturers are free to carry on any business of their choice.
- In partnership a minor can be admitted to benefit from the firm where as a minor cannot be a co-venturer on the grounds of his or her age.

EXERCISES

1. Define joint venture business?
2. State two advantages of joint venture business?
3. State two differences between joint venture and partnership business?

4.0 CONCLUSION

In this unit, you have learnt about joint venture business. Joint venture business is the coming together of two or more people or body corporate to carry out a specific business venture with aim of sharing the profits at an agreed basis. You also learnt about the difference between joint venture and partnership business?

5.0. SUMMARY

Joint venture is a temporary coming together of two or more persons or body corporate who have agreed to undertake jointly a specific project or job. On the completion of the project or the job after which the business comes to an end.The joint venture also differs from partnership mainly because the joint venture is set out to carry out a particular business after which the business is dissolved while partnership is more permanent in nature.

6.0 TUTOR MARKED ASSIGNMENT

Mirabel and Mikel are in Joint Venture for the construction of a feeder road for the government. Each had contributed capital of N800,000 and N1,200,000 for the project. They also agreed to share profit or losses in the ratio of 2:3. The joint venture had made a profit of N240,000.

You are to show:

a) The name of the business
b) The share of profit received by each co-venturer.

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Financial Accounting by A.R Jennings
- Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant) by Uche Lucy Onyekwelu
- Financial Accounting Manual: A Test and Examination Pack for Students by Uche Lucy Onyekwelu

UNIT 2: JOINT VENTURE, ACCOUNTING TREATMENT

CONTENT

1.0 INTRODUCTION: You learnt in the last unit, the definition, importance, features of and differences between the joint venture business and partnership business. In this unit you will learn the various forms and books of accounts that are kept in the joint venture business. You will also learn how the transactions are recorded in the books of accounts of joint venture.

2.0 OBJECTIVE

3.0 After studying this unit, you should be able to:

- Record the transactions of the joint venture in the books of one joint venturer
- Post the transactions in the books of all the joint venture
- Post the relevant transactions of the venturers to the memorandum of joint venture account.

- **The Accounting Treatment**
  The account of a joint venture is usually kept in line with the following, namely:
  • In the books of one co-venture: One of the co-venture may be maintaining the records of the business the transactions in his book on behalf of the other venturers. The party that keeps accounts would receive the contributions of members to the business by opening a Joint Venture Account and the personal accounts of other co-venturer in his books.
  • in the books of all the co-venturers: when all co-venturers are working actively, each one of them shall open a Joint Venture Account and the personal accounts of other co-venturers in his books. In such a situation each co-venturer informs others about the transactions undertaken by him so that they can incorporate them in their books.
  Memorandum Joint Venture Account: Sometimes each co-venturer records only such transactions as are directly concerned with him. In that case he cannot work out the profit or loss because his books do not include all transactions of the joint venture. Hence, for calculating the profit or loss of the joint venture, a memorandum joint venture account has to be prepared by incorporating all transactions related to the joint venture. Thereafter the Joint Venture Account is completed and closed.
  • Separate set of Books: Sometimes for the sake of convenience, a Separate set of books are maintained for the joint venture. Under this system a, Joint Bank Account, a Joint Venture Account and the personal accounts of all the co-ventures are to be opened in the independent set of books of account.

3.4 Books of Accounts Maintained in Joint Venture

It is important to note that party's joint ventures are at liberty to maintain their own books of account. This account is called the joint venture with other party account.

Joint Venture with the other Party Account
This is an account maintained by each party in which they records all the expenses made on behalf of the business and all the receipt of income from the business.

Illustration: If Mr. X & Mr. Y are in joint venture and they both maintain this book.

Accounting entries requirements:

Debit:
1. Purchases
2. All expenses paid and all expenses taken over.
3. Share of profit
4. Amount refunded by the other parties.

Credit:
1. Proceed from sales
2. Assets taken over
3. Amount to be refunded to the other joint venture or party
4. Share of loss

Example: If Jane and Kelly are in a joint venture:

Joint Venture between Jane & Kelly
The Proforma of the Joint Venture Account with Kelly (in the books of Jane)

	₦		₦
Purchases (Jane)	Xx	Sales proceeds (Jane)	Xx
Expenses incurred (Jane)	Xx	Assets taken over by Jane	xx
Share of profit (Jane) due to Jane from the transaction	xx		
Amount due from other Joint Venture parties	xx		
(Balancing figure)	Xx		
	xx		**xxx**

Note: that if the balancing figure is a credit balance, the party that maintains that account owes the other that party. But if the balancing figure is a debit balance, than the party that maintains that account will receive that as due from the other party.

Memorandum Joint Venture Account

The memorandum joint venture account is drawn up to calculate the profit or loss due to each party to the Joint Venture. This is by capturing or aggregating expenses incurred by the parties and the monies received by them, assets taken over, expenses to be settled by each party. The Memorandum Joint Venture Account is also used to compute and produce the amount due to the settlement from and to each party.

The Accounting Requirement for Memorandum Joint Venture Account is thus:

Debit: All Purchases
All Wages and Salaries
Other Expenses incurred/taken over
Net profit as apportioned according to sharing ratio.

Credit: All Sales Proceeds
All Assets taken over
Loss as apportioned according to the sharing ratio.

Joint Venture with Jane Accounts (in Kelly's book)

Dr	**₦**	**Cr**	**₦**
Purchases (Kelly)	xx	Sales proceeds (Kelly)	xx
Expenses incurred (Kelly)	xx	Assets taken over (Kelly)	xx
Expenses taken over(Kelly)	xx		
Share of profit due to Kelly from the Joint Venture	xx	Balancing figure (Amount due to other party) xx	
	xxx		**xxx**

Note:

- That Jane will also prepare the same type of account to reflect her transactions on behalf of the business.
- This means that Kelly has received more than the inputs he has made plus his share of profit and then he needs to pay up the difference as a balance to Jane in form of each and that is the equivalent of the balancing figure.

Memorandum of Joint Venture Account

Dr.	**₦**	**Cr.**	**₦**
(At an aggregate amount)		(Aggregate cont)	
Purchase (Jane + Kelly)	Xx	Sales proceed	Xx

Expenses incurred (Jane+ Kelly)	Xx	Asset taken over by	Xx
Share of Profit:			
Jane xx			
Kelly xx	Xx		
	xxx		**xxx**

Illustration 1
CEE Ltd and GEE Ltd decided to form a Joint Venture on the 1st Jan, 2007. The following is the details of the transactions.

	Name	Particulars	₦
-	CEE Ltd	Purchased goods	540,000
-	CEE Ltd	Paid wages	60,000
-	GEE Ltd	Settled transport	36,000
-	GEE Ltd	Electricity bill	96,000
-	CEE Ltd	Handling charges	54,000
-	CEE Ltd	Received cash proceeds	960,000

You are required to prepare the Joint Venture Accounts and Memorandum of Joint Venture Account for the Joint Venture business of CEE Ltd and GEE Ltd.

Step I:
Open a Joint Venture Account for each of the parties separately and record the transactions profits shared.

Thus: In the books of CEE Ltd.

Joint Venture with GEE Ltd

	₦		₦
Purchase of goods	540,000		
Wages paid	60,000		
Handling charges	54,000		
Share of profit	87,000		
		Amount to receive from GEE Ltd	74,000
	741,000		**741,000**

In the books of GEE Ltd.

Joint Venture with CEE LTD

	₦		₦

Transport Exp.	36,000	Cash Received (Sales)	960,000
Electricity Bill	96,000		
Share of Profit	87,000		
Refund to GEE Ltd	741,000		
	960,000		**960,000**

CEE LTD & GEE LTD
Memorandum of Joint Venture Account

Dr	**₦**	**Cr**	**₦**
Purchases (CEE Ltd)	540,000		
Wages Paid (CEE Ltd)	60,000	Cash received (GEE Ltd)	960,000
Handling Charges (CEE Ltd)	54,000		
Transport Exp. (CEE Ltd)	36,000		
Electricity Bill	96,000		
Share of Profit:			
CEE 186,000 /2	87,000		
GEE 186,000/2	87,000		
	960,000		**960,000**

Illustration 2
Rose, Kate and Julie are in a joint venture business sharing profits in the ratio of 3:2:1. The following transactions took place. Thus:

Jan. 2x15:
2nd Rose paid for rent for the 1st quarter of the year ₦18,000
3rd Kate purchased delivery van for ₦324,000
5th Kate also bought goods for sale ₦78,000
15th Oct. – Rose cash sales ₦454,800
18th Julie paid electricity bill ₦14,400
20th Cash sales made by Kate ₦93, 600 and held the money
21st Julie paid for goods ₦52,800
23rd Julie made cash sales of ₦118,800
23rd Julie disposed the delivery van for ₦252,000
24th Julie and Rose paid for office expenses of ₦96,000 was settled at half each.
29th The business ended with unsold goods worth ₦252,000 and was taken over by Kate.
30th Julie paid for cleaning expenses of ₦48,000.
You are required to show:
i. Joint Venture Account in each party's books.

ii. Memorandum Joint Venture Account.

Solution:

In the Book of Julie

Joint Venture with Rose and Kate

Dr.	₦	Cr.	₦	
Oct. 15 Sales	454,800			
" 18 Electricity	14,400	Oct 23rd sale of motor	252,000	
" 21st Purchases	52,800	23rd sales	118,800	
" 24th Office Exp.	48,000			
" 30th Cleaning Exp.	48,000			
Share of profit	66,000			
		Cash to Rose	342,000	
		Cash to Emeka	254,400596,400	825,600
	825,600			

In the Book of Rose

<u>Joint Venture with Kate & Jullie</u>

	₦		₦		
Jan. 2 Rent	18,000	Jan. 12 Cash from Julie	342,000	Purchases	454,800
24th Office Exp.	48,000				
Share of profit	132,000		**342,000**		**342,000**

In the Book of Kate

<u>Joint Venture with Rose & Jullie</u>

	₦		₦
Jan. 3rd Delivery Van	324,000	Jan. 20th Sales	93,600
5th Purchases	78,000	Inventory (taken over)	342,000
Bal. figure	164,400		
Share of profit	198,000		
	600,000		**600,000**

Rose, Kate and Julie

<u>Memorandum Joint Venture Account</u>

	₦	₦		₦	₦
Purchases:			**Sales:**		
Rose	454,000		Rose	-	
Kate	78,000		Kate	93,600	
Julie	52,800	584,800	Julie	454,800	
			Julie	118,800	667,200
Rent (Rose)	18,000				
			Sale of Van- Julie	252,000	
Office expenses (Rose)	48,000		Inventory taken	252,000	504,000
‘’ (Julie)	48,000				

Motor Van(Kate)	324,000	
Cleaning (Julie)	48,000	
Electricity ‘’	14,400	
Share of profits		
Rose	335,400	
Kate	223,600	
Julie	111,800	**1,171,200**
1,171,200		

EXERCISES

4. Define joint venture business?
5. State two advantages of joint venture business?
6. State two differences between joint venture and partnership business?

4.0 CONCLUSION

In this unit, you have learnt about the books of accounts which are kept in recording joint venture business transactions. The memorandum of joint venture is kept to determine the profit or loss that are due to the parties to the joint venture. Again, in the case of a small business one member may be asked to keep the books. Each party may also keep his own records of the transactions.

5.0. SUMMARY

Joint venture is a temporary coming together of two or more persons or body corporate who have agreed to undertake jointly a specific project or job. The accounts are kept to determine if the venture has been profitable by using the memorandum of the joint venture.

6.0 TUTOR MARKED ASSIGNMENT

(3) Diamond, Silver and Gold are in joint venture handling a road construction contract. Diamond won the contract but believe that it would need the equipment of Silver and Technical known how of Gold to execute the project. Within the one month of the contract duration, the following transpired: They share profit at 2:1:1

1st Diamond paid for site clearing for ₦82,500.
2nd Diamond received part of contract payment ₦890,000.
4thDiamond paid for sand filling on the roads for ₦740,000.
5th Diamond bought a truck for ₦865,000.
12th Silver brought some earth moving machine that worked for 8hours with a charge of ₦2,800 per hour. Silver received a payment for those days of work.
15th Three Engineers from Gold have worked for 12 days without remuneration, they were however paid at the close of the day at ₦2,600 per day.
16th Gold paid for the transport of the engineers to site for ₦2,500.
20th Silver paid for electricity bill ₦3,400 and postal expenses of ₦1,580.
22nd Gold bought a staff bus for ₦980,600.
23rdDiamond was some monies for the expertise ₦420,000.
25th Silver received some contract fee ₦820,000.

26th Silver paid for hire of trucks to lift sand to site ₦650,000.
27th Silver received the balance of contract fee of ₦10,800,000 and also collected the staff bus for ₦650,000.
28th Diamond paid for telephone expenses of ₦6,980.
29th On closing Silver took the truck valued ₦560,000.
30th Silver took the remaining sand for ₦230,000.

You are required to show:

i. Joint Venture Account in each party's books.
ii. Memorandum Joint Venture Account.

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Financial Accounting by A.R Jennings

- Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant) by Uche Lucy Onyekwelu
- Financial Accounting Manual: A Test and Examination Pack for Students by Uche Lucy Onyekwelu

UNIT 2 Consignment Account 1

UNIT 2 Consignment Account 11

UNIT 3 Consignment Account 111

UNIT 1 CONSIGNMENT ACCOUNT1

CONTENT

1.0 INTRODUCTION

Most business outfits that operate branches and outlets and often have need to send goods across to those outlets from where customers can buy the goods. They also send goods to customers who may demand for them from time to time. The goods so sent are referred to as consignment'. This unit will teach you how the accounts for consignment are maintained both in the book of the sender(consignor) and that of the receiver(consignee). These goods are dispatched to their representatives usually called agents while the sender is known as the principal.

2.0 OBJECTIVES:

At the end of this unit you should be able to:

- define some peculiar terms relating to consignment business.
- Record the transactions on consignment in the relevant journals

3.0 MAIN CONTENT

3.1Definition of Peculiar Terms

Consignment: A consignment may be described as the goods sent (dispatched) by the principal (owner) to the agent(representative) for sales purposes.

Consignor: The consignor is the sender or principal owner of the goods being sent to the agent for sales.

Consignee: This is the receiver or agent to whom the consignment(goods) is being dispatched or sent to.

Consignment outwards: This is considered the worth of goods sent from the consignor to the consignee.

Consignment inwards: The worth of the goods which the consignee receives from the consignor.

Del credel: Refers to the additional commission paid to the consignee whereby he has agreed to make up for any loss which the consignor may suffer as a result ofbad debts. They may also agree that the agent be remunerated based on the percentage of profits.

Note: (1) That a consignment is not the same as sales by the consignornor a purchase by the consignee.

(2) That goods are removed from one department to another does not constitute a sales no matter the distance.

(3) The consignor sends to the consigneestatement as a guide indicating price and quantity of goods with specific instruction to the selling price.

(4) A consignment is not to be regarded as good on sale or return, their purchase or forward sale rather it is merely a transfer of goods from one place to another with a view to be sold by the recipient on behalf of the sender.

(5) Remuneration: The consignee (agent) receives his remuneration in the form of commission. The consignee is compensated for his services to the consignee.The consignee is entitled to reimbursement for legitimate expenditure and any other remuneration because he is neither the buyer nor seller on this capacity. Commission due to the consignee is usually calculated based on the total value of goods sold.

EXERCISES

7. Define Consignment?
8. What is the difference between a consignor and consignee?

4.0 CONCLUSION

In this unit, you have learnt what consignment is and the role played by the consignee and consignor as it consigns consignment. You have also learnt the various terminologies associated with consignment such as the principal, agent among others.

5.0. SUMMARY

Consignment accounts are maintained between the various parties to the business involving the shipment of goods from the principal and the agent. The agent receives the goods and incurs some expenses while selling the goods. The consignment accounts help both parties in determining the sales and associated expenses which were incurred in the transactions.

6.0 TUTOR MARKED ASSIGNMENT

a. Define the term consignment
b. Why is the agent paid a del credel

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Financial Accounting by A.R Jennings
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UNIT 2 CONSIGNMENT ACCOUNT III

CONTENT

1.0 INTRODUCTION

Both the consignor and consignee are required to open up necessary accounting record for the goods dispatched. In line with this the consignor and consignee have book of accounts which they maintain and it will be treated in this unit.

2.0 OBJECTIVES:

By the time you complete this unit, you should be able to:

- Identify the necessary accounting records neededinconsignment account;
- Post the transactions to the necessary journals and accounts.

3.0 MAIN CONTENT

3.1 Accounts Entries for Consignment

There are records and accounts which are and often sent from the consignee to the consignor to explain or show the affairs of their transactions. These accounts are:

i. Statement showing the goods received.
ii.Statement showing the sales made.
ii. Statement showing the expenses incurred.
iv. Statement showing the commission charged.
i. Statement showing the remmittances made with the resultant balances due by him also called account sales.

3.2.1Accounts maintained by the Consignor

In the books by the consignor:The consignor keeps and maintains some special account to enable him record the various transactions between him the consignor (principal) and the consignee.
The accounts are:

1.**The consignment account:** The consignment account can be compared to a trading, profit and loss account. Infact, it is a special form of trading, profit and loss account. This is because the principles applied to the account is applicable to trading, profit and loss account**.**

9.4 Accounting Entries - When goods are sent at cost price:

a.Total cost of goods:

Dr. Consignment account with total cost price of goods sent out.

Cr. Goods sent out on consignment account

b. Balance of goods at the end of the period:

Dr. The Stock Account

Cr. Purchases or Trading Account

c. Expenses incurred by consignor on consignment:

Dr. The Consignment Account

Cr. Cash account.

Dr. The Expense Accounts

Dr. The Consignment Account.

(d) **Receipt/remmittance from consignee**

Dr. Personal Account with Gross proceed

Cr. Consignment Account

Note: That the consignor expects the proceeds of sales less (expenses + commission)from the consignee. A personal account is opened for the consignee to do this.

Proforma of a consignment account .

	DR		CR
	₦		₦
Total cost price of good sent	Xx	Total sales	xx
Add: Expenses relevant incurred for the consignment	Xx	Stock at hand (consignment stock account)	Xx
Profit/loss on the consignment	Xx		
	xxx		**Xxx**

In a case that profitis made on consignment, the balance will be transferred to the credit side of the profit or loss on consignment account. But if it is a loss, it will be entered on the credit sale and transferred to the debit side of profit and loss on consignment account to be transferred to the profit and loss account at the end of the accounting period.

Illustration 1

On the 1st of January 2015, the Managing Director of Janney Limited located in Dubai sent some consignment (shoes) to its agent in Nigeria (Clerk Agencies) goods worth₦250,000.00. The consignor, Janney Ltd paid the following expenses in regards to the consignment(carriage and freight expenses) of ₦17,500; Insurance of ₦5,000. Clerk Agencies is entitled to 5% selling commissions and 1.25% decledere commission. On January 30th, Clerk Agencies sent his account on the sales as follows:

20th January sold goods = ₦400,000.00
25th January Expenses incurred= ₦30,000.00
Stock on hand as at 30th January = ₦7,500.00
On the 31st of January = ₦ 7,500.00

You are required to show the necessary accounts to record the transactions in the books of the consignor on the consignment as at 31st of January.

Solution

Note: The consignor is Janney Limitedlocated in Dubai.

The consignee is the Clerk Agencies while the consignment – goods(shoes) sent of worth₦250,000.00.

Accounts to be prepared are:

- Goods on consignment: To record the worth of goods actually dispatched to the consignee.
- Consignment to clerk agencies to record transactions about the goods.
- Profit &loss account to records any profit or loss that arise from the transaction.
- Personal Account/creditor account in respect of clerk agencies to show his indebtedness to Janney Limited.

Goods on Consignment Account

Date	**Particulars**	**Dr.**	**Date**	**Particulars Cr.**	**CR**
31/12/	Purchase (Trading A/c)	₦ 250,000	1st Jan.	Consignment to Clerk Agencies	₦ 250,000.00
		250,000			**250,00**0.00

Consignment to Clerk Agencies

Date	Particulars	Dr.	Date	Particulars	CR
		₦			₦
Jan. 1	Goods on consignment	250,000	20th Jan.	Clerk Agencies Sales	400,000
"	Insurance	5,000	30th	Stock c/d	7,500.00
"	Carriage/freight	17,500			
25th	Expenses	30,000			
	Sales Commission 5% of ₦400,000	25,000 20,000			
30th Jan.	Profit/ LossAccount	120,000			
		407,500			**407,500**

Profit or Loss Account

Date	Particulars	₦	Date	Particulars	₦
			30th Jan.	Consignment to Clerk Agency	80,000
30th jan.	Bal c/d	80,000			
		80,000			**80,000**

Clerk Agency Ltd

Date	Particulars	₦	Date	Particulars	N
			1st Jan.	Consignment	80,000
30thJan.	Bal c/d	80,000			
		80,000			**80,000**

Clerk Agency Ltd (Trading Accounts)

Date	Particulars	₦	Date	Particulars	₦
1st Jan	Consignment to Clerk Agency (Sales)	40,000	1st Jan.	Expenses	30,000
			25th Jan.	Commission	25,000.00
			30th Jan.	Remmitance	345,000
		40,000			**400,**000

Notes:

- **Consignment Debtor Account:** Here the agent is a Del Credere Agent where he is not provided with a control over the debtors.

- **Stock are valued on the basis of the lower of cost or net realizable value:** Cost at destination constitutes of an aggregate of all expenses incurred to getting the goods to the consignee(agent and in a marketable condition).These expenses include insurance, freight charge, custom duties, warehousing among others. These cost are aggregated and are often put at the invoice but should be segregated while posting to the individual ledger.

3.2.3 In the book of the Consignee

The consignee has been defined as that agent of the principal who receives the goods for the purposes of resale. The consignee maintains some accounts on his own to reflect his transaction with the principal.

Entries in consignee's books can be presented in two different ways. Thus:

The First Approach:

- On receipt of the consignment: The consignee only makes entries in his stock books when:

  He makes no entries at all on the books of accounts (as the goods are not assumed to be purchases).

If he incures expenses on handing of the goods like landing charges, import duties, warehousing and storage.

Dr Cash or Debtor's PersonalAccount

Cr Cash (creditors or expenses)

He raises a memorandum entry in the stock book to reflect thus;

Dr. Cash or Debtors with cash received on sales

Cr.Consignor's Personal Account.

To record the commission due to the consignee:

Dr consignor's personal account

Cr commission Account

Close the consignors account by issuing a draft to the consignor at the end of the account year;

the consignor hasthe balance due to the or from the consignee, which will appear in the Balance sheet as creditor or debtor.

Dr the Bad debt account

Cr del credelaccount with any outstanding debt.

Illustration 2

On the 1st of March, 2016Ranchers Electronics Limited sent a consignment of electronics to its agent Sammy Electronic Nigeria.

		₦
The goods were worth	850,000	
Paid freight expenses		159,500
Insurance fee		317,000

It was agreed that Sammy Limitedwill receive 7½% commission on sales. On 25thMarch, 2016Sammy Electronics made sales of ₦1,360,000.00.Sammy also incurred expenses of

₦102,000. Stock in the hand of the consignee as at 31st March was ₦25,500. Sammy electronics remmitted:

Cash ₦136,000

Cheque ₦595,000

You are required to show the accounts in the books of Sammy Electronics as at 31st, March, 2016.

Solution

In the books ofSammy (Consignee)Electronics

Date	**Particulars**	**₦**	**Date**	**Particulars**	**₦**
March 25th	Sales	1,360,000	25/3/x8	Expenses	102,000
			25/3/x8	Commission 7 ½ % of 1,360,000	102,000
				Remittance	1,156,000
		1,360,000			**1,360,000**

Goods on Consignment Account

Date	**Particulars**	**Dr. ₦**	**Date Particulars**	**Cr. ₦**
1st March	Consignment to Sammy Electronics	850,000	31st March, bal c/d	850,000
		850,000		**850,000**

Consignment to Sammy Electronics

Date	**Particulars**	**Folio**	**Dr ₦**	**Date**	**Particulars**	**Folio**	**N**

1st March	Goods on Consignment		850,000	25th March	Sammy Group		1,360,000
"	Freight Expenses		59,500	31st March	Balance of stock/ stock at hand		25,000
"	Insurance Exp.		17,000				
25th March	Sammy Group expenses		102,000				
31st March	Profit and Loss on consignment		357,000				
			1,385,500				**1,385,500**

Date	**Particulars**	**Folio**	**Dr ₦**	**Date**	**Particulars**	**Folio**	**N**
1st March	Goods on Consignment		850,000	25th March	Sammy Group		1,360,000
"	Freight Expenses		59,500	31st March	Balance of stock/ stock at hand		25,000
"	Insurance Exp.		17,000				
25th	Sammy		102,000				

March	Group expenses						
31st March	Profit and Loss on consignment		357,000				
			1,385,500				**1,385,500**

Profit and Loss on Consignment

Date	Particulars	Dr ₦	Date	Particulars	₦
			30th March	Consignment	375,000
31st March	Balance c/d	357,000			
		357,000			**357,000**

EXERCISES:

Phina Phyll Breweries on 1st June, 2011 consigned 50,000 crates of its goods ₦375,000 to its agent. It estimates however that it will sell the goods with a profit of 25% margin.On shipment, Phina paid some bills on behalf of the consignment as follows: freight ₦30,000 on the same date. On receiving the goods, the consignee paid carriage expenses of ₦10,000. On the 20th of June, he made a sales of 40,000 cartons for ₦400,000.00. He is entitled to a commission of 5% on sales.

You are required to prepare the necessary accounts in the books of the consignor.

4.0 CONCLUSION

In this unit, you have learnt how to record transactions in the books of consignor and consignee.

5.0. SUMMARY

The key players in the business namely the consignor and consignee are expected to show the records from time to time. The consignment accounts help both parties in determining the sales and associated expenses which were incurred in the transactions.

6.0 TUTOR MARKED ASSIGNMENT

a. On 5th, January 2016 Unilever Nigeria Plc consigned 20,000 units of its detergent brand to Uni Part Limited Ghana,goods valued at ₦1,000,000. 1,000 units was reported as damaged in transit, and therefore worthless. The goods were however insured against loss. The expenses incurred on the consignment before the loss occurred was₦16,000; after the loss, selling expensesof ₦38,000. However, 60,000 units were sold for ₦140,000 on the 8th of January 2016.

You are required to show the consignment account in the books of the consignor.

7.0 REFERENCES/FURTHER READING

Set Textbooks

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UNIT 3 CONSIGNMENT ACCOUNT III

CONTENT

4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Reading

2.0 Introduction

Accounting treatment for loss of stock: It is very pertinent that some goods consigned may be lost or damaged, necessary entries should be made to adjust the position in the books. These entries will depend on whether the loss has been insured against or not.

*****If the goods have been insured against loss or damage

Dr. Insurance Account

Cr. Consignment Account with any loss anticipated.

Note:

(1) All the expenses incurred before the loss goods were damaged must be apportionedas part of the lost of the goods accordingly.

(2) The value of the remaining goods in the caselost will be made up of two parts as follows:

(i) Proportion of the cost of the goods, plus expenses incurred on all goods.

(ii) Proportion of the expenses incurred subsequent to loss.

However, for the loss that was not insured against, it must not be left to adjust itself in the consignment account by merely inserting the stock as reduced by the loss.

In the books of consignor. The entries should be:

Dr. Uninsurred Loss Account.

Cr. Consignment Account stock with the actual cost that existed.

Illustration 2:

On 5th, January 2016 Unilever Nigeria Plc consigned 20,000 units of its detergent brand to Uni Part Limited Ghana,goods valued at ₦1,000,000. 1,000 units was reported as damaged in transit, and therefore worthless. The goods were however insured against loss. The expenses incurred on the consignment before the loss occurred was₦16,000; after the loss, selling expensesof ₦38,000. However, 60,000 units were sold for ₦140,000 on the 8th of January 2016.

You are required to show the consignment account in the book of the consignor.

Workings:

(1) The claim against the insurer

Cost of damaged goods $= \frac{1,000}{20,000} \times \frac{1,000,000}{1}$

$= \mathbf{50,000.00}$

Expenses before loss $= \frac{1,000}{20,000} \times \frac{16,000}{1} =$ **800.00**

50,800.00

(2) The value of the stock/cost of goods

$= \frac{8000}{20,000} \times \frac{1,000,000}{1} = 400,000$

Expenses before loss $= \frac{8,000}{20,000} \times \frac{16,000}{1} = 6,400$

$= 406,400$

Add: Expenses after loss $= \frac{8,000 \times 38,000}{19,000\ (20,000 - 1,000)} = 16,000$

$=$ **₦422,400**

Consignment Account

Dr. **Cr.**

Date	**Particulars**	**Qty (Unit)**	**Amount ₦**	**Date**	**Particulars**	**Qty (Unit)**	**Amount**
5th June	Cost of goods	20,000	100,000				
	Expenses prior to loss		16,000	8th Feb. 2011	Sales	11,000	140,000
	Expenses		38,000		Insurance	1,000	50,000

	after loss Selling Expenses	 **20,000**	 60,000 **663,200**	 Inventories c/d to P & a/c	claim account	 8,000	 422,400 50,800 **663,200**

This two consignment accounts can be opened to show:

(i) Consignment account showing goods lost

Consignment Account

Date	**Particulars**	**Qty (Unit)**	**Amount**	**Date**	**Particulars**	**Qty**	**Amount**
			₦				₦
5th June 2011	Cost of goods	1,000	50,000	June 2011	Insurance claim A/c	1000	50,800
	Expenses prior to loss		6,400				
		1,000	**56,400**			**1,000**	**50,800**

(ii) Consignment Account (showing goods in good condition)

Date	**Particulars**	**Qty (Unit)**	**Amount**	**Date**	**Cr**	**Qty**	**Amount**
			₦				
June 2011	Cost of goods	19,000	95,000	June 2011	Sales	11,000	140,000
					Stock balance	8,000	62,400
	Expenses		15,20				5,800

	prior to loss		0		Transfer to Profit and Loss on consignment account		
	Expenses after loss		38,000				
	Selling expenses		60,000				
		19,000	208,200				
	Stock b/d						

∴ Note that the calculation above was based on 19,000 units of the product which are good. That is the stock balance of8,000 =

$$\frac{8000}{19,000} \times \frac{148,200}{1} = \mathbf{\underline{62,400}}$$

∴ The balance in units is = **8,000**

Illustration 1. Janet Agencies received a consignment of 350,000 cartons of Red Juice from its principal overseas. They had agreed on a selling expenses of 5% on sales which is ₦35,000.On arrival,half of the goods were received as damaged goods. The consignor agreed to make an allowance of 75% of the total damaged goods.The consignee made a sales of ₦140,000 with a cost price of₦87,500.00. The damaged goods were however disposed off for ₦7,350. You are to show the accounting treatment for the closing stock.

Workings:

1. To determine cost of half(½) of the goods sent on consignment.

before the apartment

∴ To goods sent on

consignment = ½ x ₦ 350,000= **₦175,000**

2. Apportionment of expenses on the closing stock

Cost price of goods = ₦87,500 x Expenses

₦175,000

= Cost Price of damage goods

Cost price of 1/2 the good senton consignment

87,500 xexpenses excluding selling expenses

245,000

- Expenses excluding selling expenses

87,500 x 35,000

245,000 1 = **12,500**

(2) Proportion of the undamaged stock to the total undamaged goods consigned

87,500 x 35,000

175,000 1 **17,500**

Method I is however preferable as the expenses were insured for the total consignment and the damaged proportion must share out of the proportion of its value.

- In a case where no damaged goods are sold the proportion to be added to cost will be computed as follows:

	₦	
Original value of goods sent	350,000	
Less allowance		105,000
Revised value of goods sent	245,000	
The damaged goods remaining	₦(175,000–105,000)=70,000	

Add: The undamaged goods remaining =₦(175,000–87,500) = **87,500**

Check:		₦
Revised value of goods	=	245,000
Less: Sales	=	87,500
Value of remaining goods	=	**157,500**

Goods sent at Invoice Price: This method values the consignment using the price at which the goods will be sold. Valuation are based on selling price of the goods. This is because most consignor send their good with proforma invoice or price. This good are sent on consignment with a price that could cover the cost and also a margin as profit. The actual price realized is made known by the consignor when the consignee renders account of consignment.

Under this method,the following entries will be raised in the consignors books.

* Dr. Consignment Stock Account;
Cr.Goods on consignment account;
The consignment @ selling price.

* At accounting year end
Dr.Goods on consignment account;
Cr. Consignment Stock Adjustment Account.

* Dr.Consignee's sales account
Cr.Consignment stock account with sales

Credit Stock on consignment at selling price and used to balance the accounts.

- All expenses are to be maintained in aseparate expenses account and apportioned in the ratio of the unsold stock to the stock;
- The amount apportioned to unsold stock must be carried forward and balance transferred to consignment trading account;

- Amount apportionable to unsold stock should be brought down as a balance;

*Dr.The Stock Adjustment Account;

*Cr. The Consignment Trading Account with the realized profit ie selling price less cost price;

- If the current net realizable value is less than the cost;

*Dr.Profit and Loss on consignment account

*Cr.Stock provision to show depreciation of stock value.

- Transfer the balance of profit and loss on consignment account to the general profit and loss account.

EXERCISE:

On 1st October, 2016,PJ Limitedconsigned1,000 bags of Golden flour costing ₦800 each to its Agent, Jambo Agencies in Zaria on consignment terms. PJ paid freight, duty and insurance premium of ₦2,100.00. On 31st October, Jambo sold the 1,000 bags of the flour at the price of ₦1,100 each and remitted the balance to PJ after deducting landing charges of ₦2,400 ; commission of 5%.

You are to show the relevant account in the books of PJ Limited, of the above transactions on the consignment made.

4.0 CONCLUSION

In this unit, you have learnt how to record transactions in the books of consignor and consignee.

5.0. SUMMARY

The key players in the business namely the consignor and consignee are expected to show the records from time to time. The consignment accounts help both parties in determining the sales and associated expenses which were incurred in the transactions.

6.0 TUTOR MARKED ASSIGNMENT

a. On 5th, January 2016 Unilever Nigeria Plc consigned 20,000 units of its detergent brand to Uni Part Limited Ghana,goods valued at ₦1,000,000. 1,000 units were reported as damaged in transit, and therefore worthless. The goods were however insured against loss. The expenses incurred on the consignment before the loss occurred was₦16,000; after the loss, selling expensesof ₦38,000. However, 60,000 units were sold for ₦140,000 on the 8th of January 2016.

You are required to show the consignment account in the books of the consignor.

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UNIT 4 CONSIGNMENT ACCOUNT III

CONTENT

Balance of unsold goods: Here part of the the goods sent on consignment remains unsold for a particular period especially till the end of a financial year.The cost of the unsold goods will be ascertained by adding a representative proportion of the cost incurred by both the consignor on the consignment, that is the selling expenses and commission due to the consignee and commission due from the consignment. Where the goods are invoiced to consignee at a price mark – up, the mark up is usually deducted to ascertain cost price.

Accounting Entries Loss of Goods on Transit - that is when goods are partly or wholly lost in transits, the insurance company usually compensates the consignor once the goods were insured.

The accounting treatment:
Dr. Goods lost on transist at the point of loss.
Cr. The Agents (Consignee) Account with the cost of goods lost.

Memorandum Column Method: This method is preferred especially when no specific method is required.

Using the example in illustration six, the memorandum column method would be:

Date	**Particulars**	**Qty**	**Memo**	**Amount**	**Date**	**Particulars**	**Qty**	**Memo**	**Amount**
				₦	30th June	Consignee	40,000	400,000	400,000
1st June 30th June	Goods on consignment account Consignment trading account	50,000	500,000	375,000 100,000	30th June	Stock c/d	10,000	100,000	75,000
		50,000	**500,000**	**475,000**			**50,000**	**500,000**	475,000

Consignment Trading Account

Date	**Particulars**	**Amount (₦)**	**Date**	**Particulars**	**Amount**
1st June	Cash Freight Expenses	30,000	30th June	Consignment Stock Account	100,000
20th June	Consignee Expenses	10,000			
30th June	Commission	40,000		Expenses 1/5 (₦30,000 + 10,000)	8,000
30th June	Profit/(Loss) on consignment	<u>48,000</u>			
		<u>108,000</u>			**<u>108,000</u>**
30th June	Expenses b/d	8,000			25,000

Consignment Account

Date	**Particulars**	**Amount(₦)**	**Date**	**Particulars**	**Amount (₦)**
30th June	Consignment stock account sales	400,000	20th June	Consignment Trading Account: Expenses	10,000
			30th June	Commission	20,000

			30th	Balance c/d	370,000
		<u>**400,000**</u>			<u>**400,000**</u>
June 30th	Balance b/d	370,000			

Date	**Particulars**	**Qty**	**Memo**	**Amount**	**Date**	**Particulars**	**Qty**	**Memo**	**Amount**
June 30th	Purchases Trading Account	50,000	500,000	₦ 375,000	June 1	Consignment stock account	50,000	50,000	375,000

Consignment Account

Particulars	**Qty**	**Amount**	**Particulars**	**Qty**	**Amount**
		₦			400,000
Goods	50,000	375,000	Sales	40,000	
Expenses (freight)		30,000	Stock	10,000	83,000
Carriage expenses		10,000	20% of ₦ 415,000		
Selling commission		20,000			

Profit and loss on consignment a/c		48,000			
	50,000	**483,000**		**50,000**	**483,000**
Stock b/d	10,000	483,000			

On 1st October, 2016,PJ Limitedconsigned1,000 bags of Golden flour costing ₦800 each to its Agent, Jambo Agencies in Zaria on consignment terms. PJ paid freight, duty and insurance premium of ₦2,100.00.

On 31st October, Jambo sold the 1,000 bags of the flour at the price of ₦1,100 each and remitted the balance to PJ after deducting landing charges of ₦2,400 ; commission of 5%.
You are to show the relevant account in the books of PJ Limited, of the above transactions on the consignment made.

EXERCISE:
On 1st August, 2015, Tee Jee Limitedconsigned 8,000 bags of Golden flour costing ₦3000 each to its Agent, Genuine Agencies in Zaria on consignment terms. Tee Jee Limited paid freight, duty and insurance premium of ₦6,100.00. On 31st October, Genuine Agencies sold the 6,000 bags of the flour at the price of ₦3,100 each and remitted the balance to Tee Jee after deducting landing charges of ₦2,400; commission will be paid at 5%.
You are to show the relevant account in the books of PJ Limited, of the above transactions on the consignment made.

4.0 CONCLUSION
In this unit, you have learnt how to record transactions in the books of consignor and consignee especially the loss of stocks and damage.

5.0. SUMMARY

The key players in the business namely the consignor and consignee are expected to show the records from time to time. The consignment accounts help both parties in determining the sales and associated expenses which were incurred in the transactions.

6.0 TUTOR MARKED ASSIGNMENT

a. On 5th, January 2016 Unilever Nigeria Plc consigned 50,000 units of its detergent brand to Uni Part Limited Ghana,goods valued at ₦2,000,000. 3,000 units were reported as damaged in transit, and therefore worthless. The goods were however insured against loss. The expenses incurred on the consignment before the loss occurred was₦24,000; after the loss, selling expensesof ₦48,000. However, 40,000 units were sold for ₦180,000 on the 20th of January 2016.

You are to show the consignment account in the books of the consignor.

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

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MODULE 3 : **BILLS OF ENHANCING INSTRUMENT OF CREDIT**

Unit 1 Bills of enhancing instrument of credit I
Unit 2 Bills of enhancing instrument of credit II
Unit 3 Bills of enhancing instrument of credit III

UNIT 1 BILLS OF ENHANCING INSTRUMENTS OF CREDIT I

CONTENT

1.0 INTRODUCTION

You learnt how to use the subsidiary books which were commonly used in recording business transactions. In line with this, distinct subsidiary books can also be used in recording transactions relating to bills of exchange. Usually, transactions of this nature is recorded first in the journal before it is recorded in the subsidiary books. This unit will seek to define the bills of exchange and the promissory notes. The differences between the two will also be highlighted.

2.0 OBJECTIVE

At the end of this unit, you should be able to:
• identify different types instruments of credit
• define bill of exchange
• define promissory note
• distinguish bill of exchange from promissory note.

3.0 MAIN CONTENT

3.1 Type of Instruments of Credit

For many business transactions and relationships to hold, they often extend one form of credit or the other to the customer. This is often applicable to high profile businesses which buy in bulk. This is often done to encourage the customers so that it could pay up at a later agreed date. However, to formalize this credit relationship, the parties use some instruments so that the terms of transactions are clear to all concerned.

Some of these instruments are namely:
i) Bills of Exchange
ii) Promissory Notes

3.2 Bill of Exchange

A bill of exchange is a credit instrument which is usually drawn by the seller (a creditor) on the buyer (a debtor) requesting the buyer to pay the amount he is owing at a specified period. This serves as an evidence that the buyer is indebted to the seller. A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a person to pay a certain sum of money
only to, or to the order of a certain person, or to the bearer of the instrument.(According to the negotiable instrument Act 1882).

3.2.1 Features of the Bill of Exchange:

From the above definition it is clear the some of the features of a bill of exchange are:

- Parties to the bill of exchange are known: The parties are namely: drawer: a person who draws the bill; drawee: a person who accepts the bill and payee: a person who is to receive the payment.
- The parties aware of the transaction and must have given their consent to the deal at least by the drawer.
- The bill must be dated with the specified amount and specific due date for payments.
- There must be an intention to honour the bill by paying.
- It must be in writing and contain an order
- The order must be unconditional and be signed by the maker of the
- It is made by the creditor and duly accepted by the debtor.

Illustration: Chukason Groceries sells goods to Janet's Outfit. Chukason draws a bill for N220,000 for one month ending on the 20th of September, 2017. This bill is payable to Nky and Co.

You are to identify the drawer, drawee and payee in the above transaction.

Solution:
Drawer: Chukason Groceries
Drawee: Janet's Outfit
Payee: Nky and Co

Figure 1.1 Bill of Exchange

Abuja
20th July, 2016

N220,000

Revenue Stamp

Two months after date pay to me or my order,
The sum of Two Hundred and Twenty Thousand Naira Only, for value received.

To:
Janet — C. James
Port Harcourt — Signature

3.3 Promissory Note

As stated earlier a written undertaken by the buyer to make payment on a specified date can take the form of a bill of exchange or as promissory note. A promissory note, on the other hand, is written by
the buyer promising the seller to pay a specified amount after a specified period to him, or his order. This is opposed to the bill of exchange where a seller initiates the instrument.
A promissory note is defined instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking and signed by the maker to pay a certain sum of money to, or to the order of a certain person, or to the bearer of the instrument.
The issuance of a promissory note needs only two parties. The parties are:

1. Maker of the Note: The person who makes the note and promises to pay the amount

2. Payee: A person who is to receives the amount.

Using the example above, The In this example B is the maker and A is the payee. You should note

Drawer: Janet's Outfit

Drawee: Chukason Groceries

Figure 1.2 Promissory Note

Abuja
20th July, 2016

N220,000

Revenue Stamp

Two months after date, I promise to pay C. James to me or Order,
the sum of Two Hundred and Twenty Thousand Naira Only, for value received.

To:
C. James
Abuja

Janet
Signature

Features of Promissory Note:

a. It must be in writing and be an undertaking to pay
b. The undertaking must be unconditional,
c. Must be signed by the maker of the instrument
d. It is made by the debtor
e It must be for a specified amount and period

3.4 Differences between Bill of Exchange and Promissory Note

In line with the features of the above credit instruments, the following distinctions are drawn:

Basis for Distinction	**Bill of Exchange**	**Promissory Note**
Originator of the Instrument	The creditor originates the instrument	The debtor originates the instrument
Conditions needed	It is an unconditional order to pay	It is an unconditional promise to pay
Acceptance	Acceptance by the debtor is necessary	No acceptance is required
Basis for dishonoring the instrument	Notify the Notary Public(Law court) when the bill is dishonored	Notification is not necessary.
No of parties needed	Three parties are needed	Two parties are needed

Note: A bill of exchange is a bill receivable for the drawer or the payee and a bill payable (B/P) for the drawee. Similarly a promissory not is a bill receivable for the payee and a bill payable for the maker. A bill receivable is an asset for the business whereas a bill payable is a liability. For accounting purposes no distinction is made between bill of exchange and the promissory note.

3.5 Term and due date of a Bill

A bill is generally written for a defined period of time say two months (60days), three months

(90 days) and so on. The period of a bill is called ‘Term’ or ‘Tenor’ of a bill, the date of which the bill falls due is called ‘the ‘due date’ or the ‘date of Maturity’.
The due date is calculated by adding three days of grace to the actual period of the bill’ for example, a bill drawn on April 1 for a period of three months will be come due for payment on July 4 (add three months and three days to April, you arrive at July 4th. If the due date is a public holiday, the bill becomes due on the previous working day. In the above example, if July 4 were to be a public holiday, July 3 would be treated as the due date.

EXERCISES

1. Define Bill of Exchange?
2. How does Bill of Exchange differ from a Promissory Note.
3.On February 1, Jude draws on Judith a bill for three months for ending for N7,500 payable to Collin. It is duly accepted by Judith and sent to Jude.
Identify the drawer, drawee and the payee of the instrument.

4.0 CONCLUSION

In this unit you have learnt about the types of instruments of credit, that is bill of exchange and promissory note and the term and due date of a bill, you also learnt about the distinction between a bill of exchange and a promissory note. YOUR Understanding the above issues is important for your ability to understand the accounting treatment for bill of exchange.

5.0 SUMMARY

The instruments of credit are basically two, the Bill of Exchange which is an unconditional order in writing signed by the marker, directing a person to pay a certain sum of money to or to the order of a certain person or bearer. There are three parties to a bill, the drawer, the drawee and the payee. The drawer is the person that writes the bill, the drawee is the person to pay and the payee is the person to receive payment. The second instrument of credit is the promissory note: This is an instrument in writing containing an unconditional undertaking, signed by the maker, to pay a certain sum of money to or to the
order of a certain person or bearer. There are two parties to a promissory note:- The maker, a person who make the note and the payee: the person who receive money.

6.0 TUTOR-MARKED ASSIGNMENT

i. Define a Promissory
ii.State five features of the bill of exchange
iii. State three features of the promissory note.

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Financial Accounting by A.R Jennings
- Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant) by Uche Lucy Onyekwelu
- Financial Accounting Manual: A Test and Examination Pack for Students by Uche Lucy Onyekwelu

UNIT 2 BILL OF ENHANCING INSTRUMENTS OF CREDIT III

CONTENT

1.0 INTRODUCTION

In unit 13, you have learnt about the types of instruments of credit i.e. Bill of exchange, promissory note, distinction between bill of exchange and promissory note and the terms and due date of a bill. In this unit, we shall first identify the type of transaction which usually take place in-connection with bills and study how they are to be recorded in the books of various parties.

2.0 OBJECTIVE

At the end this unit, you should be able to:

• Post the transaction relating to bills in the journal of drawer, drawee and endorse.

3.0 MAIN CONTENT

3.1 Treatment of Bill by the Holder and its Accounting

As pointed out earlier no distinction is made between a bill of exchange and a promissory note for accounting purpose when a bill or a promissory note is received by the person who is entitled to receive its payment, he becomes a holder of the bill. It is a bill receivable for him. He will pass the following journal entry in his book at the time of receiving the bill or promissory note drawn in his favour.

Dr: Bills Receivable A/c
Cr. Drawee
(Being acceptance received from the drawee)

Approaches ro handling the Bill: After the holder has received bill, the receiver can adopt any of the following three approaches: Retain it till the date of maturity, discount it with his banker and receive the amount less discount, immediately or may endorse it in favour of his own creditor

Journal entries are: .

3.1.1 Retaining the Bill
Here the holder of the bill decides to retain the bill till the date of maturity no further entry is required till that date. If on the date of maturity the bill is dishonoured he will pass the following entry.

Dr. Bank A/c
Cr. To Bills Receivable A/c
(Bill payment received)

3.1.2 Discounting the Bill
If the holder of the bill needs fund he can approach the bank for encashment of the bill before due date. The bank will make the payment of the bill after deducting some interest. The process of cashing the bill with the bank before the date of maturity is called discounting a bill' and the interest charged by bank is called 'discount'. When a bill is discounted the holder of the bill (drawer) will pass the following journal entry in his books.
Dr. Bank A/c
Dr.Discount A/c
To Bill receivable A/C
(Being bill discounted)

On the date of maturity, payment of a discounted bill will be received by the bank and not by the drawer.
Hence, at the time of payment, the drawer will not pass any entry in his book.

3.1.3 ENDORSING THE BILL
When the holder of the bill endorses the bill to a third party, the bill is said to be endorsed. He is called the endorser and the party to whom it is endorsed is called endorses. At the time of endorsement, the following journal entries will be passed in his books of the endorser and the endorsee.

In the Books of Drawer (Endorser)
Dr. Endorsee (Creditor)
To Bill Receivable A/c
(Being bill endorsed)

In the Books of Drawer (Endorsee)
Dr. Bill Receivable A/c
To Endorser (Drawer)
(Being bill received)

On the date of maturity, the payment will be received by the endorsee. At the time of payment the endorser will not pass any entry in his books.
Endorsee will pass the following entry in his books.

DR Bank A/c
Cr Bill Receivable A/c
(Being payment received)

3.2 Treatment of Bill by the Acceptor and its Accounting
For the person who accept a bill of exchange or makes a promissory note, it is a bill payable. He will pass the following journal entry in his books when he accepts a bill or make a promissory note.

Dr Drawer (Creditor)
Bills payable A/C
(Being bill accepted)

When a bill is discounted or endorsed by the holder of the bill, the drawee is not required to pass any entry in his books. He comes into picture only when the bill becomes due for payment, when he makes the payment on due date, he will pass the following journal entry in his book irrespective of the fact whether the bill is retained, discounted or endorsed.

Dr Bills payable A/c
To Bank A/c
(Being bill paid)

Look at illustration 1 and study how journal entries are passed in the books of various parties concerned with the bill.

Illustration 1
On August 1, 2017 X sold to Y goods worth N10, 000 on the same date. The sellers X drew on B three bills for N4,000, N5000 and N1000 for one month, two months and three months respectively. Y accepted all the three bills and sent them back to X. X however retained the first bill discounted the second bill with the bank for N4500 on January 1, and endorsed the third bill to T on January 6, on the due date Y met his acceptances. Record the above transaction in the books of X, Y and T.

SOLUTION
IN THE BOOK OF THE (DRAWER)
JOURNAL

DATE 2016	**Particular**	Dr. N	**Cr. N**
August 1	To Sale A/c (Being goods sold to Y) Bills Receivable A/c	**10,000**	 **10,000**
September 1	To Y (Being second bill received for two months) Bills Receivable A/C	**4,000**	 **4,000**
October 1	Bills Receivable A/c To B (Being third bill received for three months)	**5,000**	 **5,000**
October 5	Bank A/C Dr Discount A/C Dr To Bills Receivable A/C (Being second bill discounted)	**1000**	 **1000**
August 6	C Dr To Bills Receivable A/C (Being third bill endorsed to C)	**4,500**	 **4,500**

BOOK OF C (ENDORSEE)
JOURNAL

DATE 2016	**Particular**	Dr. N	**Cr. N**
August 6	Bills Receivable A/c To X (Being Bills Receivable from X)	**4000**	 **4,000**
September	Bank A/c To Bills Receivable A/c (Being bill honoured)	**4,000**	 **4,000**

3.2.1 Dishonoured Bill

When due to some reason the drawee (the person who has to make the payment) is not in a position to make the payment of the bill on the due date, the bill is said to be dishonoured. In such a situation the holder of the bill gets an endorsement from the Notary Public. The purse of such notation is to establish the facts of presentation and the dishonour. The endorsement is down either on the bill or on a separate paper attached to the bill called 'allonge'. The holder of the bill has to pay a small charge for service of the Noting Public. It is called 'noting charges'. These noting charges are to be borne ultimately by the drawee. The journal entries for the dishonour of the bill and noting charges in the book of the drawer, drawee and the endorsee are as follows:

Books of Drawer
(i) if the bill is retained
Dr Drawee
To Bill Receivable A/c
To cash A/c
(Being bill dishonoured and noting charges paid)

(ii) If the bill is discounted
Dr Drawee
To Bank A/c
(Being discounted
bill dishonoured)
(Note: The amount will be inclusive of noting charges)

(iii) If the bill is endorsed:
Dr Drawee
To Endorsee
(Being endorsed
bill dishonoured)
(Note: The amount will be inclusive of noting charges)

Books of Drawee
The drawee passes the Following entry in his books irrespective of the fact whether the bill is retained,
Discounted or endorsed.

Dr Bills payable A/C
Dr Noting charges A/C

To Drawer
(Being bill accepted dishonoured, nothing charges involved)

Books of Endorsee
-
-
Dr Endorser
A/c To Bills Receivable

To cash A/c
(Being bill
dishonoured and
noting charges paid)

If the drawee is declared Insolvent on or before the due date, the bill is deemed to have been dishonored and all entries for dishonor will have to be passed in the books of the concerned parties as given above.

EXERCISE

1.What do you understand by discounting of a bill

2. State the Journal entries to be passed in the books of the drawer if Mr Ken drew a 1st of January, 2015 bill on Jack for N30,000 payable after one month if ;

(a) the bill is retained

(b) the bill is discounted with the bank for N28,150

(c) the bill is endorsed to James

4.0 CONCLUSION

In this unit you have learnt about the treatment of bill by the holder and its accounting, retaining the bill, endorsing the bill, treatment of bill by the acceptor and it accounting, dishonouring bill and discounting the bill. The journal entries must be noted and the knowledge is important for keeping the books of the drawer, the drawee and the endorser.

5.0 SUMMARY

The basis for accounting for the bill of exchange and a promissory have no distinction. When a business receives a promissory note or an accepts a bill, the business may deal with it in three ways. It may retain it, discount it with the bank, or endorse it to his own creditor. However, when the bill or a promissory note becomes due for payment, the drawee of a bill or the issuer of the promissory may deal with it in four ways: honour it, dishonour it, renew it or retire it.
All transactions with regard to bills and promissory notes are recorded in the journal.

6.0 TUTOR-MARKED ASSIGNMENT

1. Three bill for N5400, N6500, and N6600 were drawn for two months, three months and four monthsrespectively. The first bill was discounted with the bank for N5,300. The second bill was endorsed to a creditor in settlement of a debt and the third bill was retained by the drawer.
Show the journal entries in the books of drawer, drawee and endoursee if:

(a) the bills is honored on the due date

(b) the bill is dishonoured on the due date and noting charges N20 are paid in all the three cases by the holder of the bill.

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Financial Accounting by A.R Jennings
- Fundamentals of Financial Accounting 1 & 2: A Simplified Approach

(Revised Edition, IFRS Compliant) by Uche Lucy Onyekwelu

- Financial Accounting Manual: A Test and Examination Pack for Students by Uche Lucy Onyekwelu

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Pickles & Lafferty
- Frank Wood

UNIT 3 BILL OF ENHANCING INSTRUMENTS OF CREDIT III

CONTENT

1.0 INTRODUCTION

You have learnt how to identify the types of transaction which usually take place in connection with bills and you have also studies how they are recorded in the books of the drawer, the drawee and the endorsee, in the unit you will study renewal of the bill and retiring the bill and all the journal entries that are peculiar to them.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

• explain renewal of a bill and its journal entry
• explain retiring the bill and the necessary entries.

3.0 MAIN CONTENT

3.1 Renewal of a bill

The drawee in some circumstances appreciate the fact that he may not be able to honour the bill on the due date. In such a situation, the drawee can request the drawer for extension of time. If the drawer agrees, the old bill is treated as dishonoured and a new bill is drawn in lieu thereof. This process is called renewal of bill. The drawer may charge interest for the period of the new bill. This interest may be paid in cash or included in the amount of the new bill. There is no need for getting the bill noted since the drawee himself make a request for cancellation of the bill. The journal entries passed at the time of renewal of the bill are as follows:

BOOK OF DRAWER

i) For dishonour of the bill

Dr. Drawee
Cr. Bnak A/c

(Endorsee A/c)

ii) For interest due
Dr Drawee
Cr. Interest A/c

iii) For drawing new bill
Dr Bills Receivable A/C
To Drawee

IN THE BOOK OF DRAWEE

i) Dr Bill Payable A/c
Cr. Drawer

(ii.) Interest A/c
To Drawer
(iii.) For accepting new bill

Drawer Dr
To Bills Payable A/C

NOTE: Dishonour entry is passed keeping in view whether the bill is retained, discounted or endorsed.

ILLUSTRATION 1

Raymond drew a bill on Timothy for N1000 on April, 2015 for two months. On May 15 Tom requested Ram to renew the bill for two months. Raymond agreed to renew the bill and charged interest @ 6% p. a. A new bill was drawn for N1010 including interest. The bill was honoured on due date.
Record all this in the book of Raymond and Timothy.

SOLUTION

IN THE BOOK OF RAYMOND (DRAWER)

JOURNAL

DATE **2016**	**PARTICULARS**	**DR** **N**	**CR** **N**
August 1	To Sale A/C (Being goods	**1000**	

	sold to Timothy) Bills Receivable A/c		**1000**
APRIL 1	Bills payable A/c To Raymond (Being bill dishonoured on account of renewal)	**1000**	**1000**
MAY 15	Timothy To interest A/c (Being interest due for two months)	**10**	**10**
MAY 15	Bills Receivable To 'Timothy' (Being a new bill received inclusive of interest	**1010**	**1010**
July 18	Bank A/c To Bills receivable A/c (Being bill honoured on due date)	**1010**	**1010**

IN THE BOOK OF THE TIMOTHY (DRAWEE)
JOURNAL

DATE 2016	**PARTICULARS**	**DR N**	**CR N**
MAY 15	Raymond To Bills Payable A/c (Being bill accepted) Bills payable A/c	**1000**	**1000**
MAY15	Timothy To Bills Receivable A/c	**1000**	**1000**

	(Being bill dishonoured on Account of renewal)		
MAY 15	Interest A/c To Raymond (Being interest due to Ram for two months)	**10**	**10**

EXERCISE

Kasim owed Taye N4, 400 on January 1, 2015 he accepted two bills of N2200 each for one month and two months respectively. First bill was retained whereas the second was endorsed to Dayo in settlement of a debt. Both bills were dishonoured on the due date and noting charges N10 were paid in each case. A new bill for the full amount was drawn for four months and was accepted including interest at 6% p.a. Before the due date of the renewed bill Niyi was declared insolvent and only 50k in a Naira was received from his estate.

Required:

Journalize the above transactions in the books of Kasim, Taye and Dayo.

4.0 CONCLUSION

In this unit you have learnt in details the Renewal of the Bill and Retiring of the bill including all the journal entries in the books of all the concerned parties that is the drawer, the drawee and the endorsee.

5.0 SUMMARY

When the drawee foresees that he would not be able to honour the bill on the due date and thus requested the drawer for extension of time and the drawer agree to such a request the old bill is treated as dishonored and the new bill is draw in replacement of the old. This process is known as 'Renewal of Bill'. In this case the drawer will charge some interest for the period of the new bill. Furthermore, sometimes he i.e. the drawee may offer the payment before the due date. In that case, the bill is said to have been retired and the drawee is allowed some discount on account of early payment and such a discount is termed as 'Rebate'.

6.0 TUTOR MARKED ASSIGNMENT

On June 1, 2016, A owes B N12000. On the same date A draws two bills of N8000 and N4000 for two months and three months respectively. The first bill was endorsed to C on June 5 and the second bill was retained. Both the bills were retired on July, 2016; A got a rebate of 6% p.a. on both the bills.

Required:
Record the above transaction in the books of A, B and C.

7.0 REFERENCES/FURTHER READING

Set Textbooks

You are advice to acquire the following textbooks and any other that could assist you in his course.

- Financial Accounting by A.R Jennings
- Fundamentals of Financial Accounting 1 & 2: A Simplified Approach (Revised Edition, IFRS Compliant) by Uche Lucy Onyekwelu
- Financial Accounting Manual: A Test and Examination Pack for Students by Uche Lucy Onyekwelu