



NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: COP 416

COURSE TITLE: COOPERATIVE ACCOUNTING

COURSE MAIN TEXT

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NATIONAL OPEN UNIVERSITY OF NIGERIA
 14/16 AMADU BELLO WAY, VICTORIA ISLAND, LAGOS
 SCHOOL OF MANAGEMENT SCIENCES
 COP415 ASSESSMENT SHEET
 PROGRAMME: B.Sc. COOPERATIVE MANAGEMENT
 COURSE CODE: COP 415
 COURSE TITLE: SEMINAR IN COOPERATIVE 1
 CREDIT: 02 PART A: SEMINAR PRESENTATION
 NAME OF CENTER:
 NAME OF STUDENT:
 MATRIC NO:

S/N	Seminar presentation	Max Score (%)	Facilitator Score (%)	Head/Coordinator, Hq. Score(%)	Remark
i.	Content mastery: • Relevance and Comprehensiveness • Correctness	10			
ii.	Comportment of the presenter	5			
iii.	• Confidence • Demonstration of boldness to address the audience	10			
iv.	• Response to questions • Ease attending to audience's questions and observation	10			
v.	Communication- Correction of grammer • Fluency and Simplicity	10			
vi.	Dressing-Simplicity and neatness	5			
	Grand total 50%	50%			
	Facilitator name and signature				

PART B: ASSESSMENT OF TERM PAPER

S/N	Term Paper Report Feature	Max Score (%)	/Coordinator, Hq. Score(%)	Remark
i.	Literature review • Relevancy of cited works • Comprehensiveness of the review • Extensive of the sources – textual, interact, journals, government report etc.	15		
ii.	Summary, conclusion and recommendation:	10		
iii.	Referencing: • Materials – correctly cited using the APA format, Comprehensive cited	10		
iv.	Others: • Typing/Neatness/consistency of character • Overall impression	5		
v.	Applicability: • Relevance of the topic to the course • Applicability of findings	10		
	Total = maximum Mark = 50%	50%		
	Total = maximum Mark = 100%			

COP418 ASSESSMENT SHEET
 PROGRAMME: B.Sc. COOPERATIVE MANAGEMENT
 COURSE CODE: COP 418
 COURSE TITLE: SEMINAR IN COOPERATIVE II
 CREDIT: 02 PART A: SEMINAR PRESENTATION
 NAME OF CENTER:
 NAME OF STUDENT:
 MATRIC NO:

S/N	Seminar presentation	Max Score (%)	Facilitator Score (%)	Head/Coordinator, Hq. Score(%)	Remark
I	Content mastery: <ul style="list-style-type: none"> • Relevance and Comprehensiveness • Correctness 	10			
II	Comportment of the presenter	5			
iii	<ul style="list-style-type: none"> • Confidence • Demonstration of boldness to address the audience 	10			
Iv	<ul style="list-style-type: none"> • Response to questions • Ease attending to audience's questions and observation 	10			
V	Communication- Correction of grammer <ul style="list-style-type: none"> • Fluency and Simplicity 	10			
Vi	Dressing-Simplicity and neatness	10			
	Grand total 50%	50			
	Facilitator name and signature				

PART B: ASSESSMENT OF TERM PAPER

S/N	Term Paper Report Feature	Max Score (%)	/Coordinator, Hq. Score(%)	Remark
I	Literature review <ul style="list-style-type: none"> • Relevancy of cited works • Comprehensiveness of the review • Extensive of the sources – textual, interact, journals, government report etc. 	15		
i	Summary, conclusion and recommendation:	10		
vi	Referencing: <ul style="list-style-type: none"> • Materials – correctly cited using the APA format, Comprehensive cited 	10		
vi	Others: <ul style="list-style-type: none"> • Typing/Neatness/consistency of character • Overall impression 	5		
vi	Applicability: <ul style="list-style-type: none"> • Relevance of the topic to the course • Applicability of findings 	10		
	Total = maximum Mark = 50%	50%		
	Total = maximum Mark = 100%	100%		

TSM 447 ASSESSMENT SHEET

PROGRAMME: B.Sc. TOURISM STUDIES

COURSE CODE: TSM 447

COURSE TITLE: SEMINAR IN TOURISM STUDIES

CREDIT: 02 PART A: SEMINAR PRESENTATION

NAME OF CENTER:

NAME OF STUDENT:

MATRIC NO:

S/N	Seminar presentation	Max Score (%)	Facilitator Score (%)	Head/Coordinator, Hq. Score(%)	Remark
1	Content mastery: <ul style="list-style-type: none"> • Relevance and Comprehensiveness • Correctness 				
2	Comportment of the presenter				
3	<ul style="list-style-type: none"> • Confidence • Demonstration of boldness to address the audience 				
4	<ul style="list-style-type: none"> • Response to questions • Ease attending to audience's question 				
5	Communication- Correction of grammer <ul style="list-style-type: none"> • Fluency and Simplicity 				
6	Dressing-Simplicity and neatness				
	Grand total 50%				
	Facilitator name and signature				

PART B: ASSESSMENT OF TERM PAPER

S/N	Term Paper Report Feature	Max Score (%)	/Coordinator, Hq. Score(%)	Remark
1	Literature review <ul style="list-style-type: none"> • Relevancy of cited works • Comprehensiveness of the review • Extensive of the sources – textual, interact, journals, government report etc. 	15		
2	Summary, conclusion and recommendation:	10		
3	Referencing: <ul style="list-style-type: none"> • Materials – correctly cited using the APA format, Comprehensive cited 	10		
4	Others: <ul style="list-style-type: none"> • Typing/Neatness/consistency of character • Overall impression 	5		
5	Applicability: <ul style="list-style-type: none"> • Relevance of the topic to the course • Applicability of findings 	10		
	Total = maximum Mark = 50%	50		
	Total = maximum Mark = 100%	100		

NATIONAL OPEN UNIVERSITY OF NIGERIA

14/16 AMADU BELLO WAY, VICTORIA ISLAND, LAGOS

SCHOOL OF MANAGEMENT SCIENCES

ENT 412 ASSESSMENT SHEET

PROGRAMME: B.Sc. ENTERPRENUERSHIP AND BUSINESS MANAGEMENT

COURSE CODE: ENT 412

COURSE TITLE: SEMINAR IN ENTERPRENUERSHIP AND BUSINESS MANAGEMENT CREDIT: 02 PART A: SEMINAR PRESENTATION

NAME OF CENTER:

NAME OF STUDENT:

MATRIC NO:

S/N	Seminar presentation	Max Score (%)	Facilitator Score (%)	Head/Coordinator, Hq. Score(%)	Remark
1	Content mastery: <ul style="list-style-type: none"> • Relevance and Comprehensiveness • Correctness 	10			
2	Comportment of the presenter	5			
3	<ul style="list-style-type: none"> • Confidence • Demonstration of boldness to address the audience 	10			
4	<ul style="list-style-type: none"> • Response to questions • Ease attending to audience's questions and observation 	10			
5	Communication- Correction of grammer <ul style="list-style-type: none"> • Fluency and Simplicity 	5			
6	Dressing-Simplicity and neatness	10			
	Grand total 50%	50%			
	Facilitator name and signature				

PART B: ASSESSMENT OF TERM PAPER

S/N	Term Paper Report Feature	Max Score (%)	/Coordinator, Hq. Score(%)	Remark
1	Literature review <ul style="list-style-type: none"> • Relevancy of cited works • Comprehensiveness of the review • Extensive of the sources – textual, interact, journals, government report etc. 	15		
2	Summary, conclusion and recommendation:	10		
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5	Applicability: <ul style="list-style-type: none"> • Relevance of the topic to the course • Applicability of findings 	10		
	Total = maximum Mark = 50%	50%		
	Total = maximum Mark = 100%	100%		

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Module 1

Unit 1: Overview of Cooperative Accounting

Unit 2: Overview of Accounting

Unit 3: Basic Book-keeping

Unit 4: The Cash book, Petty Cash Book, and the Imprest System

Unit 5: Financial Statements

Unit 1: OVERVIEW OF COOPERATIVE ACCOUNTING

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- 1.0 Introduction
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1.0 INTRODUCTION

Financial reports are used to evaluate past operations and are the basis for management and operating decisions on future projects. The board of directors use the reports for feedback on the financial status of the cooperative, to evaluate progress and to make informed decisions about future operations. Managers need accurate and timely information to run the day-to-day operations. Creditors examine the financial reports when considering loans to the cooperative and accountants need accurate records to prepare tax documents. Accurate and current records are also important to members of the cooperative. Records should show the net profit, the level of each member's patronage account and the amount of equity members hold in the cooperative. This facilitates distribution of patronage refunds and ensures that the cooperative is operating according to cooperative principles.

In this unit, therefore, we shall look at the concept of cooperatives/the cooperative society as well as make an overview of cooperative accounting.

2.0 OBJECTIVES

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

- (i) Explain the concept of Cooperatives/Cooperative Society;
- (ii) Explain cooperative accounting;
- (iii) Enumerate and explain the various reports in cooperative accounting;
- (iv) Discuss the importance of accounting in Cooperatives.

3.0 MAIN CONTENT

3.1 CONCEPT OF COOPERATIVES/COOPERATIVE SOCIETY

There are certain organizations which undertake business activities with the prime objective of providing service to the members. Although some amount of profit is essential to survive in the market, their main intention is not to generate profit and grow. They pool available resources from the members, utilize the same in the best possible manner, and the benefits are shared by the members.

The term “co-operation” is derived from the Latin word “co-operari”, where the word “co” means “with” and “operari” means “to work”. Thus, co-operation means working together. So, those who want to work together with some common economic objective can form a society which is termed “co-operative society”. It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help as well as mutual help. The main objective is to provide support to members. Nobody joins a cooperative society to earn profit. People come forward as a group, pool their individual resources, utilize them in the best possible manner, and derive some common benefit out of it.

Types of cooperative societies include the following:

- (i) Consumers’ cooperative society
- (ii) Producers’ cooperative society
- (iii) Cooperative marketing society
- (iv) Cooperative credit society
- (v) Cooperative farming society
- (vi) Housing cooperative society

3.2 COOPERATIVE ACCOUNTING

The cooperative’s accounting system is a method of recording and reporting the financial results of its business transactions. The bookkeeper records the business transactions of the cooperative in a daily journal. These records are then used to generate various financial reports that provide an historical record of the cooperative’s business activity.

Three financial reports commonly used in business are the balance sheet, income statement, and the statement of cash flows. They report the financial position of the cooperative, its performance over a given time period, and its ability to meet cash obligations. They are the basis for planning future operations. Each report contains different, but interrelated information that together give a complete picture of the financial operations of the cooperative. Managers, bookkeepers and board members should be able to understand and interpret these reports so they can make informed business decisions about the future of the cooperative.

The balance sheet is used to report the financial position of the cooperative at a given point in time, usually at the end of a month, quarter, or year. It shows the assets owned by the cooperative balanced against its liabilities and member equity. Assets are listed on the left-hand side of a balance sheet while liabilities and member equity are listed on the right-hand side. Total assets, or resources owned by the cooperative, must always equal the total liabilities and equity, or obligations of the cooperative.

Assets = Liabilities + Equity

Assets: Resources owned by the cooperative

Liabilities: Debts owed by the cooperative

Equity: Member’s interest in the cooperative

Assets are shown as current assets and fixed assets. Current assets include cash and those assets that are expected to be converted into cash within one year, such as saleable inventory and accounts receivable. Fixed assets are items the cooperative will use during normal operations, such as buildings, machinery, and equipment. Liabilities are shown in two categories—current or long-term. Current liabilities are those paid within 1 year such as accounts payable, short-term operating loans, or the current portion of long-term loans. Those due beyond the next 12 months, such as mortgages, are long-term liabilities. The equity section of the balance sheet shows the amount of capital the members have invested in the cooperative through stock purchases, allocated reserves, and per-unit retains.

The income statement (or profit and loss account) reports the results of all business transactions of the cooperative that occurred during a certain time period, such as month, quarter or year. It shows the total dollar revenue of the cooperative, the total expenses, and the resulting net income (or loss). Revenue is the dollar amount earned by the cooperative from operations. It can come from several sources, such as selling merchandise in a supply cooperative, charging members for services or marketing their products. In multi-functional cooperatives it is useful to separate the revenue from each function on the income statement.

Gross revenue is the total profit the cooperative received from providing goods and services to members that can be used for business expenses. Expenses are the costs incurred to provide services to members. They vary according to the industry, services provided, and structure of the cooperative. They should be categorized to determine the costs incurred to operate each phase of the cooperative. Administrative costs include the salaries of sales staff, management, and office personnel. Others are office supplies, insurance, accountant fees, and advertising. These expenses are not directly linked to operations, but are the support services it provides. Some are considered fixed costs of operations because they do not vary with the level of output.

In respect of statement of cash flows, only those accounts that result in cash flowing in or out of the cooperative during the accounting period are included on the statement of cash flows. This report shows the change that occurred in amount of cash from the opening to the closing of the cooperative's balance sheets. Three categories on the statement of cash flows are: operations, investment transactions, and financing transactions. Cash flow from operations gives the net cash from providing goods and services to members and all other cash flows not from investment or financing transactions. This includes net income, adjustments to net income, and changes in balance sheet items. Adjustments to net income offset the non-cash items included on the income statement that do not result in an actual inflow or outflow of cash, such as depreciation, a gain (loss) from the sale of an asset, and deferred taxes. Changes in balance sheet items are assets and liabilities where changes result in positive or negative cash flows, such as accounts receivable, accounts payable, patronage refunds payable, or other accrued expenses. Cash flow from investment transactions include the purchase or sale of property and equipment, the purchase or redemption of equity in other organizations, and payments from long-term investments. Cash flow from financing transactions include the acquisition or redemption of loans, the sale of capital stock, redemption of member equities or payment of patronage refunds.

In summary, the financial statements that are prepared in the cooperative accounting are same with financial statements that are made in other companies.

SELF-ASSESSMENT EXERCISE

Explain the concept of cooperatives.

3.3 VARIOUS REPORTS IN COOPERATIVE ACCOUNTING

Here, we wish to highlight the sample reports in cooperative accounting as follows:

- (i) Operational Reports
 - Daily collection report
 - Summary of Daily collection report
 - Monthly collection report

Summary of booklets
Pre-collection list
Collection efficiency report
Daily cash disbursement report
Over-payment/withdrawal report
Monthly loan released report
Schedule of delinquents report
Schedule of payments report
Repayment report

- (ii) General Ledger Reports
 - Trial balance report
 - Financial condition report
 - Financial condition monthly comparative
 - Financial condition yearly comparative
- (iii) Subsidiary Ledger Reports
 - Members master list
 - Members statement of account
 - Members subsidiary ledger statement
 - Subsidiary ledger status
- (iv) Computation Reports
 - Savings interest computation report
 - Distribution of dividend and patronage refund report

4.0 CONCLUSION

The main objective of the cooperative form of business organization is to provide service rather than to earn profit. The cooperative society is the only alternative to protect the weaker sections of the society and to protect the economic interest of the people. In certain situations when it is not possible to achieve the target by individual effort, collective effort in the form of cooperative society is preferred. Cooperative accounting is not different from the accounting for non-business organizations.

5.0 SUMMARY

In this Unit, we have been able to consider that:
A cooperative society is a voluntary association of individuals having common needs who join hands for the achievement of common economic interest. Its aim is to serve the interest of the poorer sections of society through mutual help;
The cooperative's accounting system is a method of recording and reporting the financial results of its business transactions;
Cooperative accounting is not different from the accounting for non-business organizations and other business organizations.

6.0 TUTOR- MARKED ASSIGNMENT

1. Mention and explain the various reports in cooperative accounting.

7.0 REFERENCES/FURTHER READING

Chukwu, S. C. (2005). Economics of Cooperative Business Enterprise. Germany: Mabing.

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UNIT 2 AN OVERVIEW OF ACCOUNTING

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 An Overview of Accounting
 - 3.1 Definition of Accounting
 - 3.2 Accounting: "A Science or An Art"
 - 3.3 The Accounting Cycle
 - 3.4 Accounting Concepts and Conventions
 - 3.5 Purpose / Uses of Accounting
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignments
- 7.0 Reference and Further Readings

1.0 INTRODUCTION

This unit will cover the meaning of Accounting, and consider, whether Accounting is a science or an art. Derived from the definition, the accounting cycle will be explained before considering the concepts and conventions which guide in accounts preparation. Lastly, the purpose and uses of accounts will be discussed with emphasis on the categories of user groups of accounting or financial information.

2.0 OBJECTIVES

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

- Explain the meaning of accounting;
- Say whether accounting is a science or an art;
- Explain the accounting cycle;
- Enumerate and explain accounting concepts and conventions;
- Discuss the uses of accounting.

3.0 AN OVERVIEW OF ACCOUNTING

3.1 Definition of Accounting

Accounting can be viewed from different perspectives by authors, teachers and practitioners, but can best be thought of as a process of handling information of economic or financial in nature. This information forms the basis for financial reporting. The process could be seen in the light of the following:

- As an activity performed by Accountants and their supporting staff;
- As a system comprising several inter related and interdependent parts;
- As a technique of management for planning and control purposes, and
- As a discipline of study.

Accounting is basically a service function designed to inform management and other interested parties like analysts, investors, creditors, shareholders, about the financial implications and their effects on the organisation.

From the foregoing, therefore, Accounting can be said to be the language of business; it can be seen as a management tool, as their reports provide the basis for planning, and initiating control measures.

A generally accepted definition of Accounting has it that it is “the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in part at best, of a financial character, and interpreting the result thereof”.

At this point, let us mention the two major branches of accounting, which are:

- Financial accounting
- Management accounting.

Self-Assessment Exercise

Explain what Accounting means.

3.2 Accounting: A Science or An Art?

Arguments exist as to whether Accounting is a science or an art. Interestingly, these arguments reveal some features of accounting which may be of benefit, especially, to a new entrant into the discipline, to understand its methodology. Accounting is not a natural science like chemistry or physics, although by the benevolence of more modern definitions of science, it is scientific to the extent that it applies scientific methods of observation, experiment and measurement in the course of processing financial information for use by management.

On the other hand, art stresses the human attributes of imagination and judgement.

Accounting tends to draw from both science and art, but cannot be said to belong to either one. As a science, it is a body of organised knowledge and uses systematic procedures to obtain results. However, it is not an exact science because its results are not conclusive. For example, given the same set of economic data, two Accountants can reach different conclusions. On the other hand, it is not an exact art because it employs a great deal of human skill rather than judgement.

From the foregoing, accounting can be referred to as a management science because it is a tool of management for planning and control. It can be called a social science as well. In conclusion, therefore, accounting is neither science nor art in the strictest sense of it.

Self-Assessment Exercise

Is accounting a science or an art?

3.3 The Accounting Cycle

From the generally accepted definition of accounting in 3.1 above, derives the Accounting Cycle, which refers to series of stages necessary to produce the financial reports. The stages are:

- identifying of transactions
- measuring of economic changes
- recording of transactions in the relevant books
- communicating of financial information associated with economic events.

Please, note that the objective of the Accounting system is to produce financial reports about the organisation.

Self-Assessment Exercise

Explain the Accounting Cycle.

3.4 Accounting Concepts and Conventions

There are seven basic concepts or principles in Accounting, modified by three conventions, which have been adopted as a general guide to practice.

3.4.1 The Business Entity Concept

This concept suggests that the business is separate from the owner. Therefore, all accounts are kept in respect of the business entities which are distinct from persons who own or manage them. It then follows that the personal financial affairs of the owners are never intermingled with those of the business for which the accounting is being performed.

3.4.2 Money as a common unit of Account

This concept speaks to the fact that accounts are expressed in monetary terms which can be added or subtracted. This gives a meaningful financial description. The implication of this concept is that any information that cannot be measured in naira terms, such as the quality and experience of workers, is usually not included in the financial statements.

3.4.3 The Cost Concept

The historical cost concept, as this may be called, says that assets (resources acquired by a business) are reflected at cost, which means that for their subsequent treatment in the measurement of the income of the business, the price paid on such acquisitions form the basis instead of their real or market values.

3.4.4 The Going Concern Concept

This concept assumes that the business will continue operations for the foreseeable future, that is, it has no plans to either liquidate or cut down significantly any major line of its operations in the nearest future.

3.4.5 The Accrual Concept

The concept accommodates all revenues and expenses to be received or charged in a given accounting period irrespective of what is actually received or paid.

3.4.6 The Concept of Duality

The duality concept determines that the financial situation of the enterprise be represented in terms of the basic accounting equation. Thus, it recognises that each transaction involves two entries in the same set of accounts, that is, every credit must have a corresponding debit and vice versa. This will be treated in details under the Double Entry system.

3.4.7 Realization Concept

The realization concept assumes that revenue is earned on the day which it is realised, and that is, when goods are transferred to the customer in exchange for a valuable consideration.

3.4.8 Accounting Conventions

You will recall that we said that there are three conventions which guide the application of the concepts in practice, and they are as follows:

- Conservatism / Prudence

Here, the profit is understated while all possible losses are anticipated and taken into books, all possible future profits will be ignored.

- Consistency

There should be consistency in the use of a particular accounting method for a reasonable period of time so that comparisons between accounting periods will be meaningful.

- Materiality

The size of an amount will influence its treatment in the books of account, depending on individual entities. Therefore, what may be considered material in any circumstance is judgemental.

Self-Assessment Exercise

Name and discuss four accounting concepts and two conventions.

3.5 Purpose / Uses of Accounting

We can categorise the various uses of accounts and their user groups as follows:

- Direct Users

The direct uses of accounts made by the managers and shareholders are for planning and control purposes. While the managers use accounting information to assess the viability of the business and to make future decisions, shareholders require the information to know whether the business is doing well or not, profit-wise.

- Indirect Users

Those in this group include financial analysts, creditors, investors, tax authorities, employees and customers. For example, the prospective investor would like to be assured of the security and profitability of his investment; the creditor will determine whether a business will be able to pay its debt as and when due; the employees will even use the information to bargain for a better package; and the tax authorities will be able to calculate the tax liabilities.

Self-Assessment Exercise

Discuss the user groups of accounting information.

4.0 CONCLUSION

Accounting can be regarded as the language of business. The information, when generated, serves both as tool for planning and control, and evidence of financial position. Shareholders, managers, financial analysts, creditors, investors and the tax authorities, use accounting information as of benefit.

5.0 SUMMARY

In this unit, we have defined accounting and classified it into two major branches. We have also explained that Accounting is neither a science nor an art, but can best be regarded as a management science discipline.

Attempts were made to explain the accounting cycle. Also, we discussed the seven accounting concepts and three conventions. Lastly, the uses of accounting information were discussed under the categories of the direct and indirect users.

6.0 TUTOR-MARKED ASSIGNMENTS

1. Define accounting and explain its major processes.
2. Identify the major users of accounting information and explain the types of decisions for which each group may require accounting information.

7.0 REFERENCE AND FURTHER READINGS

Anao, A.R. (1989). An Introduction to Financial Accounting. Ibadan: Longman Nigeria Limited.

Flynn, David et. Al. (2000) . Fundamental Accounting 4th Edition, Kenwyn: Juta & Co. Limited.

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UNIT 3 BASIC BOOK KEEPING

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Basic Book-keeping
 - 3.1 Meaning of Book-Keeping
 - 3.2 Objectives of Book-Keeping
 - 3.3 Books of Account
 - 3.4 Accounting Information Generating Process
 - 3.5 The Double Entry System
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignments
- 7.0 Reference and Further Readings

1.0 INTRODUCTION

This unit is packaged to deal with preliminary matters relating to recording procedures in Accounting – Basic Book-keeping and the Double Entry System. Here, we shall discuss the meaning and objectives of book-keeping. What are books of account? And how do we explain the Accounting Information Generating Process? These questions would receive answers in this unit. In addition, we would explain and apply the principles of the double entry system in recording business transactions.

2.0 OBJECTIVES

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

- Define book-keeping;
- Discuss the objectives of book-keeping;
- Discuss the books of account;
- Explain the Accounting Information Generating process;
- Describe and apply the principles of double entry system of book-keeping.

3.0 BASIC BOOK-KEEPING

3.1 Definition of Book-Keeping

Book-keeping which resulted from a practical business need, can be said to be a subset of Accounting or a record-making place of the accounting process. It can be defined as “the act of recording all money

transactions so that the financial position of an undertaking and its relationship to both its proprietors and to outside persons can be readily ascertained". It is important to note that book-keeping lays emphasis on regular and systematic method of recording, how the records are maintained in the books, the right classification and summarisation so that the users of accounts can find the information contained in the books meaningful. The transactions for which record are maintained and the nature and scope of the records themselves differ from business to business.

Self-Assessment Exercise

What is book-keeping?

3.2 Objectives of Book-Keeping

From the meaning of book-keeping given in 3.1 above, the objectives of book-keeping include the following:

- To provide information about the conduct and position of the business;
- To provide a permanent and systematic record of financial transactions;
- To provide record for the value of various items of transactions;
- To ensure the arithmetical accuracy of financial records;
- To ascertain the financial worth of an undertaking at any given time;
- To provide records of profit or loss at any given time;
- To assist in the detection of fraud and other irregularities;
- To provide financial records for comparative purposes;
- To provide aid to planning and control;
- To provide a basis for taxation.

Self-Assessment Exercise

Discuss the objectives of Book-keeping.

3.3 Books of Account

The Books of account consist of the subsidiary books and the ledger. Recording of transactions start from the subsidiary books to the ledger.

Subsidiary Books

The subsidiary books, the Day books, books of original entry, and the books of prime entry all mean one and the same thing. These books exist to provide periodic totals for posting into the ledger. Please, note that transactions are not normally posted from the source documents (invoices, receipts, etc.) directly to the ledger.

Subsidiary books are books into which transactions are recorded on a daily basis from the source documents and from which postings are made periodically to the relevant accounts in the ledger. This practice prevents the ledger from containing too many details.

The subsidiary books normally used in financial accounting are:

- o Sales Day book (or sales journal) for recording credit sales.
- o Purchase Day book (or purchases journal) for recording credit purchases.
- o Returns Inward Day book (or returns inward journal or sales returns day book) for recording returns from customers.
- o Returns Outward Day book (or returns outward journal or purchases returns day book) for recording returns to suppliers.
- o Cash book for recording receipt and payment of money.
- o Journal proper for recording other transactions like:
 - the purchase and sale of fixed assets on credit;
 - opening entries;
 - correction of errors;
 - transfer from one account to another;
 - taking of goods by the owner from the business for his private use;
 - end-of-period adjustments; and
 - any other transaction which cannot be recorded in any of the other subsidiary books.

Illustration: Purchase of fixed asset on credit

Ndale Systems Limited purchased a motor vehicle on credit at a cost of N1.8 million from Coscharis Motors on 31st October, 2005.

The journal to record this transaction will appear as follows:

	DR	CR	
	N	N	=
Motor Vehicle Account	1,800,000		=
Coscharis Account		1,800,000	

Being cost of motor vehicle purchased on credit from Coscharis Motors on 31st October, 2005.

Ledger

The ledger is the main or principal book of account where accounts are maintained for income, assets, expenses as well as individuals (or organisations) who may be debtors or creditors to the firm. Entries made or posted into the ledger (usually in summarised form) are expected to be preserved over a reasonable period. As we said earlier, the ledger is written-up periodically, and is the ultimate destination of all entries made in the subsidiary books.

Below is an example of a Ledger Account:

Dr. Motor Vehicle Account
Cr..

Date	Particulars	Folio	Amount	Date	Particular	Folio	Amount

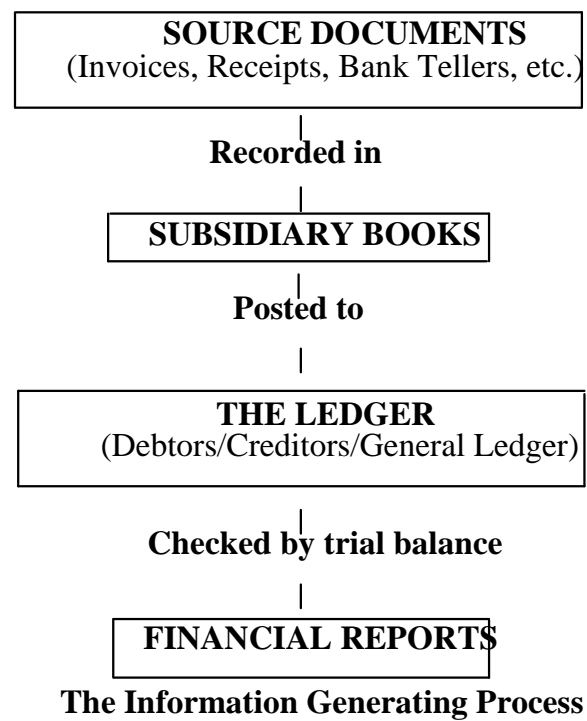
Self-Assessment Exercise

Discuss the Books of Account with emphasis on the relationship/correlation between the books of original entry and the ledger.

3.4 Accounting Information Generating Process

This process involves a sequence of activities from gathering, sorting and extracting data, from the source documents, to the preparation of

financial reports. This process is clerical, fairly routine and at times mechanistic. The figure below says it all about the nature and sequence of the activities involved:



Self-Assessment Exercise

Explain the Accounting Information Generating Process.

3.5 The Double Entry System

The Double Entry system of book-keeping hinges on the “Duality Concept” which we explained in Unit 2. Recognising that every transaction involves the “receiving” and the “giving” of values, the double entry system (or principle) requires that the dual effect of every transaction should be recorded. For every debit entry, there is a corresponding credit entry and vice versa. Let us note here that credit is given to the giver of the value always while the receiver is debited. Therefore, every transaction has to be recorded twice between accounts in the same set of books to ensure that a complete record is obtained. This principle has its origin from the Italian merchants of the 14th century.

Let us illustrate with the following example:

Olabisi & Company Limited sells a generator to Mrs. A.J. Thompson for N2,000.00 only.

This is a sales transaction where there is a purchaser and a seller. The company is parting with a generator and receiving cash in return; Mrs. Thompson is giving away cash and getting a generator in return. With the double entry rule in mind – “debit the receiver, credit the giver”, we shall record the sales transaction as follows:

In Thompson’s Books:

Dr.	Purchases Account	Cr.
	Olabisi & Co 12,000.00 (Cash)	

Dr.	Cash Account	Cr.
	Olabisi & Co 12,000.00 (Purchases)	

In Olabisi’s Books:

Dr.	Cash Account	Cr.
	Thompson 12,000.00 (Purchases)	

Dr.	Purchases Account	Cr.
	Thompson 12,000.00 (Cash)	

In double entry system of recording, it is necessary to analyse the effect of each transaction in respect of “who gives and who receives” to determine who to debit and who to credit. As a guide in posting ledger account, entries on the DEBIT side increases in assets, expenses and

losses while entries on the CREDIT side increases in liabilities, income and profits.

Self-Assessment Exercise

Describe the double entry system of book-keeping.

4.0 CONCLUSION

Book-keeping can be seen as a record-making phase of the accounting process, the activity of which, amongst others, provide meaningful information about the conduct and position of the business to users of accounts. The information generating process of accounts involves a sequence of activities from gathering, sorting and extracting data from the source documents to the preparation of financial reports. Necessary entries, made in both the books of original entry and the ledgers, should obey the double entry principle of book-keeping which identifies the “giver” and “receiver” in every transaction and “debits” or “credits” accordingly. The double entry system has the added advantage of maintaining a complete record of transactions both from the viewpoint of the business and those the business deals with.

5.0 SUMMARY

We have seen book-keeping as laying emphasis on the regular and systematic method of recording that provide information to users of accounts. We also considered the objectives of book-keeping in details. In addition, we were able to explain the accounting information generating process as well as answer that the books of account consist of the subsidiary books and the ledger. Finally, the principle of double entry has told us that for every debit, there must be a corresponding credit entry, and this forms the basis of recording economic transactions to show the effect which is either an increase or a decrease in the particular account concerned.

6.0 TUTOR-MARKED ASSIGNMENTS

1. Define book-keeping and discuss its objectives.
2. (a) Explain the double entry system of recording transactions.
(b) Indicate which account should be debited or credited in the following transactions:
 - (i) Cash paid into business by owner;
 - (ii) Rent paid by owner of business;
 - (iii) Purchase of goods for cash;

- (iv) Sale of goods on credit to OKC;
- (v) Purchase of motor vehicle on credit from OMOBA Motors Ltd;
- (vi) Payment of electricity expenses;
- (vii) Cash withdrawn from business by owner;
- (viii) Receipt of loan from Benevolent Bank;
- (ix) Cash received from OKC (Credit customer); and
- (x) Remittance to OMOBA Motors Ltd. (Creditor).

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UNIT 4 THE CASH BOOK, PETTY CASH BOOK AND THE IMPREST SYSTEM

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 The Cash Book, Petty Cash Book and the Imprest System
 - 3.1 Nature and Uses of the Cash Book
 - 3.2 Treatment of items in the Cash Book
 - 3.3 Columnar Cash Books
 - 3.4 The Petty Cash Book and Voucher
 - 3.5 The Imprest System
 - 3.6 Posting the Petty Cash Book
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignments
- 7.0 Reference and Further Readings

1.0 INTRODUCTION

In Unit 3, we listed the cash book as one of the books of prime entry. It is also a ledger. The existence of the cash book in any organisation, be it profit-making or non-profit making, needs not be overstressed because of dealings with money (cash-in-hand or cash-at-bank). And the recording procedures for cash using the cash book become very essential. This unit will deal with the nature and uses of the cash book as well as the treatment of items in the cash book. Columnar cash books will be explained and demonstrated also. Furthermore, the petty cash book and the imprest system will not be left out.

2.0 OBJECTIVES

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

- Discuss the nature and uses of the cash book;
- Distinguish between the treatments given to various items in the cash book;
- Demonstrate the columnar cash books;
- Define a petty cash book and the imprest system;
- Effect posting in the petty cash book using the petty cash vouchers.

3.0 THE CASH BOOK, PETTY CASH BOOK AND THE IMPREST SYSTEM

3.1 Nature and Uses of the Cash Book

One of the main books of account is the cash book. Kindly recall that we had said earlier that the cash book is both a subsidiary book and a ledger. It is a book of prime entry where cash receipts and payments are recorded immediately after transactions have taken place and on daily basis, and a ledger where the daily recorded transactions are summarised periodically and transferred to the final accounts. From the foregoing, please note that the cash book is not posted into the ledger but balanced and the relevant figures carried to the balance sheet. Usually, the cashier maintains the cash book. The operation of a cash book is very important in accounting because it provides a means of controlling the amount held at all times. The dual use of the cash book in an organisation becomes clear when we consider or take cognisance of the fact that cash constitutes the most fluid form of asset of the organisation which is easily prone to losses or abuses.

Self-Assessed Exercise

Explain the dual use of the cash book.

3.2 Treatment of items in the Cash Book

Contra Entry:

Contra entry is when the double entry for a transaction appears on both sides of the cash book. Therefore, contra entries do not require recording in another account because entry has taken place within the cash book. These entries are made when surplus cash is transferred to the bank or the withdrawal of cash from the bank for use. The entries here will be to credit cash and debit bank or debit cash and credit bank in the columnar cash book which we shall consider in 3.3.

Cash

Cash receipts are debited in the cash column while payments are credited in the cash column.

Cheques

Cheques received from customers are debited in the bank column while cheques issued to suppliers are credited.

Cash Discounts

Cash discounts are rebates granted to a buyer or debtor for making cash payments within a shorter time period than the normal credit period. This implies that the seller accepts an amount smaller than the invoice value in full settlement of the account. If it is a two – column cash book (to be considered shortly), they are posted directly to the ledger but if it is 3 three – column cash book, they will be recorded in the cash book.

Self-Assessed Exercise

Explain the treatment of any two items in the cash book.

3.3 Columnar Cash Books

Single – Column Cash Book

Dr.				Cash Account				Cr.
Date	Particulars	Folio	Amount (N)	Date	Particular	Folio	Amount (N)	

The above is a format for the single – column cash book, which is like a ledger account with one column each for debit and credit; thus, making provision for cash transaction only. This is used to record the receipts and payments of cash, typical of small businesses whose transactions do not involve cheques/bank.

Two – Column Cash Book

This is the commonest form of cash book. As the name implies, the two – column cash book makes provision for two columns, one each for cash and bank transactions. The format is shown as follows:

Dr.					Cash Account					Cr.
Date	Particulars	Folio	Cash	Bank	Date	Particular	Folio	Cash	Bank	

Here, all cash and cheque receipts are debited in the appropriate column while payments by cash and cheque are credited accordingly. The cash book is usually balanced at the end of the month.

Example:

Bello Trading Company brought forward balances of N2,000.00 and N13,200.00 for cash and bank respectively, from June, 2004 account. The following transactions took place:

= N

July 2	Cheque received	11,500.00
July 3	Cash sales	8,200.00
July 6	Paid rent by cash	3,500.00
July 7	Banked part of cash	5,000.00
July 14	Cash sales (paid through the Bank)	4,000.00
July 23	Paid by cheque	17,700.00
July 29	Cash withdrawal for use	12,000.00
July 31	Wages paid in cash	11,800.00

You are required to write-up a two-column cash book for this company and balance off at the end of July, 2004.

n:

Bello Trading Company

Cash Account Cr.

Particulars	Folio	Cash	Bank	Date	Particular	Folio	Cash	Bank
Balance b/f		2,000.00	3,000.00		6/7/04	Rent		
								3,500.00
Cheque	11,500.00			7/7/04	Bank			
es	8,200.00			23/7/04	Cheque	5,000.00	17,700.00	
sh	5,000.00			29/7/04	Cash	12,000.00		
ales	4,000.00			31/7/04	Wages			
ank	12,000.00			31/7/04	Balance c/d	11,800.0	4,000.00	
		22,200.00	33,700.0					
		0						33,700.0
								1,900.00
Balance b/d	1,900.00							
								22,200.0
								0
			4,000.00					

Three – Column Cash Book

A three-column cash book, as the name suggests, makes provision for a third column (in addition to the two columns for cash and bank) for recording cash discounts allowed to customers and received from suppliers. Discounts allowed to debtors are listed as debits while those received from credits are credited.

The discount columns save time although they are not part of the double entry system because they are not expected to balance each and also in posting out. Total debits, at the end of the period, are debited to the Discount Allowed account while the total credits are transferred to the Discount Received account. The corresponding entries are usually made in the various personal ledger accounts of debtors and creditors. We shall illustrate the three-column cash book now.

Example:

Mike started a small business with N80,000.00 on January 2, 2005 which he paid into a bank account for the business on the same date. His transactions for the rest of the month were as follows:

5/1/05 Purchases by cheque N27,300.00
6/1/05 Credit purchases N25,200.00
Electricity paid by cheque N500.00; Rent N700.00 by cheque
7/1/05 Drew cash for office use N1,200.00
Sales by cheque N42,520.00
Sales by cash N480.00
Sales on credit N50,000.00
8/1/05 Paid creditors by cheque N15,100.00 and received discount of N300.00
9/1/05 Cash sales N17,115.00; cash wages paid N500.00
10/1/05 Paid into bank the sales made on 9/1/05; Stationery bought by cash N50.00
12/1/05 Received from customers cheques for N39,200.00 and allowed discount of N800.00
15/1/05 Drew cash from bank for office use N200.00
16/1/05 Servicing and repairs by cash N120.00
Purchases by cash N20,000.00
Purchases by cheque N5,000.00
Purchases on credit N45,000.00
20/1/05 Sales by cash N37,500.00
Sales by cheques N17,000.00
22/1/05 Paid creditors N27,900.00 by cheque and received discount of N100.00

Cash sales N2,000.00 which was immediately lodged into the bank.

24/1/05 Payments by cheque:

Rent N1,200.00 =

Rates N300.00 =

Wages N2,000.00

28/1/05 Salaries by cheque N3,600.00

30/1/05 Cash lodged into bank N10,000.00

31/1/05 Drew cheque for petty cash N200,00

Required:

Three – column cash book of Mike for the month of January, 2005.

Self-Assessment Exercise

Discuss the columnar cash books, pointing out their major differences.

3.4 The Petty Cash Book and Voucher

It is certain that in almost every organisation, there will be a great deal of small cash payments to be made. Records of these payments could be kept separate from the main cash book. The petty cash book is a record, in columnar format, of small cash payments made on a day-to-day basis. The columnar ruling of the petty cash books is designed to enable small payments to be analysed according to expenditure head and posted in totals to the ledger periodically. This book is maintained by the petty cashier under the supervision of the main cashier.

The petty cash voucher shows the amount of money required the purpose and nature of expenditure involved, and the account to be charged. The petty cash voucher is required before making any payment. It must be duly authorised before payment is made out of the petty cash float. The format of the voucher varies from organisation to organisation. However, it is the instrument from which posting is done to the petty cash book.

Self-Assessment Exercise

Explain the petty cash book and the petty cash voucher.

3.5 The Imprest System

This is basically a system of funding petty cash which reimburses the petty cashier with the total amount expended. By this, the total amount which the petty cashier has is restored to the float (fixed amount) with which he started. Therefore, total payments added to the imprest balance will, at all times, remain equal to the float.

Self-Assessment Exercise

What is the Imprest System?

3.6 Posting the Petty Cash Book

We shall use the following exercise to illustrate posting into the petty cash book:

The following is a summary of petty cash transactions of a business organisation for the month of June, 2004. The business maintains a petty cash float of N5,000.00.

N

June 1	Petty cash float given to petty cashier		
June 3	Postages	200	
June 5	Transport fare	450	
June 8	Cleaning materials	350	
June 9	Stationery	170	
June 14	Petrol for delivery van	880	
June 16	Taxi fare	390	
June 20	Postages	180	
June 21	Disinfectant for cleaning toilet	280	
June 23	Petrol for general manager's car	660	
June 24	Service of delivery van	400	
June 28	Writing materials	310	
June 30	Transport fare	120	

You are required to rule up a petty cash book with columns for Postages, Transport, Travelling, Cleaning, Stationery and Motor Expenses and enter the month's transactions, entering the re-imbursment on 30th June, 2004 necessary to restore the imprest.

The double entry for the disbursements during June, 2004 will be completed by posting the total of each of the payments columns to the debit of the appropriate ledger accounts. For example, N380.00 will be debited to postages account, N960.00 debited to transport and travelling account and so on.

Self-Assessment Exercise

Explain how posting is made in the petty cash book.

4.0 CONCLUSION

The cash book is both a book of original entry and a ledger. Entries into the cash book must obey the double entry principle. The cash book provides a means of controlling cash. To take care of sundry small day-to-day cash payments in an organisation, the petty cash book becomes relevant. It plays the role of a subsidiary book. The funding of petty cash is through the imprest system.

5.0 SUMMARY

We have discussed the nature and uses of the cash book as well as distinguished between the treatments given to various items in the cash book. Also, we explained and demonstrated the use of the columnar cash books. Furthermore, we considered the usefulness of the petty cash book and voucher, as well as the imprest system. Amongst other advantages, the imprest system enables control to be kept over the series of frequent small expenditure of the organisation because all petty cash disbursements must be duly authorised/approved.

6.0 TUTOR-MARKED ASSIGNMENTS

1. Discuss the advantages of the imprest system.
2. Adekoye Nigeria Ltd. operates its petty cash account on the imprest system. It maintains its imprest at a figure of N56,000 on the first day of each month. At 31 May, 2002, the petty cashier had a balance of N3,100 at hand.

During the month of June, 2002, the following petty cash transactions arose:

1st	Paid bus fares	900
2nd	Bought stationery	4,800
7th	Bought trade journals	2,400
8th	Bus fare	1,280

11th	Bought stationery items	2,320
12th	Bought printer ribbon	740
14th	Postage	1,160
15th	Paid for newspapers	1,800
16th	Repair of giant stapling machine	700
18th	Bought postage stamps	4,000
20th	Bought wrapping paper	1,100
22nd	Biro pens	3,600
25th	Paper clips	1,440
28th	Repair of computer printer	1,200
29th	Transport fare	2,300

You are required to draw up a petty cash book with analysis columns for transport and travelling, stationery, journals, and newspapers, postage, and general expenses.

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UNIT 5 FINANCIAL STATEMENTS

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- 7.0 Reference and Further Readings

1.0 INTRODUCTION

In Unit 2, we learnt that accounting is a service function which is designed to inform management and other interested parties (like the investors, analysts, creditors, shareholders) about the financial implications and their effects on the organisation. Therefore, the generated accounting information are presented to various interested parties for their respective decisions.

How are the accounting information presented?

This will be the focus of Unit 5. We shall find out that accounting information are presented through the medium of periodic financial statements or financial reports, done in consonance with specified accounting and legal standards relating to the style and content of presentation. We shall look at the objectives and structure of financial reports, and discuss the Trading and Profit and Loss Account, and the Balance Sheet, under the structure. Also, capital and revenue components of the structure will be explained. Finally, we shall consider the treatment of account receivable and payable items of the reports.

2.0 OBJECTIVES

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

- Discuss the objectives and structure of financial reports;
- Discuss the components, and demonstrate the formats of the Trading and Profit and Loss Account and the Balance Sheet

- Distinguish between the capital and revenue items of the financial statements; and
- Discuss the difference between Accounts receivable and accounts payable.

3.0 FINANCIAL STATEMENTS

3.1 Objectives and Structure of Financial Reports

The periodic financial reports comprise two major statements – the Trading and Profit and Loss Account, and the Balance Sheet. While the Trading and Profit and Loss account measures the net income or surplus arising from the operations during the period under review, in order to know how actual profits compared with the expected, the balance sheet discloses the financial position of the enterprise (relating to the assets, liabilities and capital) as at a particular date, usually the last day of the accounting period.

The Trading and Profit and Loss account provides the yardstick for measuring the extent to which an enterprise has succeeded in attaining its profit making objective. It also shows the relationship between costs and revenues which serve as basis for decision aimed at improving future performance.

Self-Assessed Exercise

Discuss the objectives and structure of financial reports.

3.2 Trading and Profit and Loss Account

The Trading and Profit and Loss account matches a period's revenues with the costs associated with generating those revenues. Two components of the trading and profit and loss account are:

- Trading account which discloses gross profit;
- Profit and Loss account which discloses the net profit.

However, for a manufacturer, it is also useful to prepare "Manufacturing Account" which we shall consider later.

Gross profit is the difference between sales proceeds and the cost of goods sold in a trading account while net profit is the gross profit less the expenses of the business in the profit and loss account.

The trading and profit and loss account of a sole trader (concerned with buying and selling) using the vertical format would appear as follows:

Trading and Profit and Loss account for the period ended 30/6/xx

	N	N		
Sales	X			
Opening Stock	X			
Add: Purchases	X			
Available Stock	X		=	
Less: Closing Stock		X		
Cost of Sales		X	—	
Gross Profit		X		—
Less: Wages	X			
Rent	X			
Sundry expenses	X			
Total Expenses		X	—	
Net Profit	X			—

3.3 The Balance Sheet

The balance sheet, which is often prepared on the historical cost basis, can be seen as a collection of the residual values of assets, liabilities and capital carried over from one accounting period into the next, to continue the running of the enterprise as a going concern. Thus, the balance sheet lists a business's assets, liabilities and capital at a particular point in time.

Assets are stated at book value, which may be historical or market value, but not at realisable value (Book value is the amount of money that was paid to acquire a particular asset while the net realisable value of an asset is the money that might be possible to get by selling the asset).

Fixed Asset is any asset, tangible or intangible, acquired for retention by an entity for the purpose of providing a service to the business, and not held for resale in the normal course of trading.

The balance sheet of a sole trader using the vertical format would appear as follows:

Balance Sheet as at 30/6/x					
	N	N			
Fixed Assets:					
Vehicles		X			
Current Assets:					
Stock		X			
Debtors		X			
Cash at bank			X		
Cash in hand			X		
	X			—	
Less: Current Liabilities:					
Creditors		X			
Net current assets (CA less CL)			X	—	
Total Assets		X			—
Capital Account:					
Balance at beginning of period	X				
Add: Net Profit for period	X				
	X			—	
Less: Drawings for period		X			
Retained profit		X		—	
Balance at end of period			X		—

Let us look at an example:

The following trial balance was extracted from the books of Alaba Enterprises on 31st December, 2004:

		Dr.	Cr.
		N	N
Purchases	368,400		
Sales	517,900		
Drawings	14,100		
Returns inwards	7,300		
Returns outwards	6,200		
Discount allowed	10,200		
Discount received	8,400		
Debtors	45,000		
Creditors	57,100		
Stock	34,300		
Freehold Premises at cost	46,000		

Motor Vehicles at cost	12,000		
Provision for depreciation on motor vehicles		4,500	
Provision for depreciation on furniture		1,000	
Cash at bank	5,000		
Cash in hand	1,900		
Salaries	40,600		
Carriage inwards	22,200		
Carriage outwards	10,300		
Printing Stationery	3,600		
Electricity and water	14,900		
Insurance	6,800		
General Expenses	34,800		
Provision for bad debt		200	
Bad debt written off		400	
Capital	70,000		
Rent received		3,800	
Commission received		11,200	
	68,300	68,300	

The following information should be taken into account:

- (i) Stock 31st December, 2004 was valued at N31,800
- (ii) Accrued expenses at 31/12/04 were salaries N1,800, and electricity N80
- (iii) Prepaid expenses at 31/12/04 were insurance N400 and general expenses N500
- (iv) Adjust provision for bad debt to 2% of debtors and create provision for discount allowable at 1% of debtors.
- (v) Commission due but yet to be received on 31/12/04 amounted to N800
- (vi) Charge depreciation on fixed assets as follows:
 - Furniture 20% on cost
 - Motor vehicles 10% on cost
- (vii) Rent received in advance at 31/12/04 amounted to N200
- (viii) Goods costing N1,200 were taken by owner for private use. This was yet to be recorded in the cash book.

Using the vertical formats, you are required to prepare the Trading and Profit and Loss Account for the year ended 31st December, 2004 and Balance Sheet as at that date.

Using the vertical formats

Alaba Enterprises

**Trading and Profit and Loss Account for the year ended 31st
December 2004**

	N	N		
Sales	517,900			
Less: Returns inwards		(7,300)		
Net Sales	510,600			_____
Less: Cost of goods sold				
Opening stock (Note 1)	34,300			
Purchases (368,400 – 1,200)	367,200			
Returns outwards	(6,200)			
Carriage inwards	22,200			
Cost of goods available for sale	417,500		_____	
Closing stock	(31,800)	385,700		
Gross Profit	124,900		_____	_____
Add: Other incomes				
Discount received	8,400			
Rent received (3,800 – 200)	3,600			
Commission (11,200 + 800)	12,000			
	24,000		_____	
	148,900		_____	
Less: Expenses				
Discount allowed	10,200			
Salaries (40,600 + 1,800)	42,400			
Printing and stationery	3,600			
Carriage outwards	10,300			
Electricity and water (14,900 + 80)	14,980			
Insurance (6,800 – 400)	6,400			
General expenses (34,800 – 500)	34,300			
Bad debt	400			
Increase in provision for bad debt		700		
Provision for discount allowable [1% x (45,000 – 900)]	441			
Depreciation:				
Motor vehicles (10% x 12,000)	1,200			
Furniture (20% x 2,500)	500	(125,421)		
Net Profit	23,489_		_____	_____

Alaba Enterprises

Balance Sheet as at 31st December 2004

	N	N	N	
	Cost	Acc. Depn.	NBV	
Fixed Assets				
Freehold premises	46,000	-	46,000	
Motor vehicles	12,000	5,700	6,300	
Furniture	2,500	1,500	1,000	
	60,500	7,200	53,300	_____
Current Assets				
Stock	31,800			
Debtors	45,000			
Provision for bad debt (900)			
Provision for discount all.		441		
	43,659			_____
Prepayments (400 + 500)			900	
Accrued Income			800	
Cash at bank			5,000	
Cash in hand			1,900	
	84,059			_____
Current Liabilities				
Creditors	57,100			
Accruals (1,800 + 80)		1,880		
Interest received in advance		200	59,180	
WORKING CAPITAL		24,879		_____
Net Assets		78,179		_____
Financed By				
Owner's Equity				
Capital at 1/1/04		70,000		
Add: Net Profit		23,479		
		93,479		_____
Less: Drawings (14,100 + 1,200)		15,300		_____
		78,179		_____

The following points should be noted regarding the solution above:

1. Unless otherwise stated, the stock shown on the trial balance is the opening stock while the closing stock is disclosed as additional information to the trial balance.
2. The adjustments required per the additional information to the trial balance are as follows:

Additional information No.	Nature of adjustment
(i)	Closing stock
(ii)	Accrued expenses (or accruals)
(iii)	Prepaid expenses (or prepayments)
(iv)	Provision for bad debt and provision for discount on debtors
(v)	Accrued income
(vi)	Depreciation on fixed assets
(vii)	Income received in advance
(viii)	Drawings

Self-Assessment Exercise

The following is the trial balance of Bamijoko Enterprises as at 31st December 2002:

Dr. N	Cr. N	
	5,000	Capital
	1,000	Loan
	1,000	Bank overdraft
	4,000	Plant and machinery
	1,000	Furniture and fittings
	30,000	Sales
	17,500	Purchases
	500	Carriage inwards
	1,000	Stock in trade (opening balance)
	400	Returns inwards (sales returns)
	300	Returns outwards (purchases returns)
	800	Discounts allowed
	600	Discounts received
	250	Rent
	120	Telephone
	6,000	Wages and salaries
	100	Lighting and power
	360	Insurance premium
	50	Sundry expenses
	3,000	Cash at bank
	380	Cash on hand
	300	Provision for bad and doubtful debts
	2,880	Sundry creditors
		Provision for depreciation:

Plant and machinery	800	
Furniture and fittings	120	
		42,000

Additional information:

- (i) Stock in trade as at 31 December 2002 was N1,300
- (ii) Rent outstanding as at December 2002 was N50
- (iii) Insurance premium relating to 2003 was N120
- (iv) Write off bad debts amounting to N400 and increase provision for doubtful debts to N500.
- (v) Provide 10 percent for depreciation on plant and machinery for the current year.
- (vi) Provide 5 percent for depreciation on furniture and fittings for the current year.

Required:

- (a) Prepare a Trading and Profit and Loss account for the year 2002
- (b) Extract a Balance Sheet for Bamijoko Enterprises as at 31st December 2002

3.4 Capital and Revenue Items

The ability to measure capital and revenue as well as the inter-relationship between them, is very important in accounting practice because capital generates revenue and it is this ability to generate revenue that gives value to capital. There are capital and revenue items of receipts as well as capital and revenue expenditure items. It is very important to distinguish between these items as their treatment differ in the books of account. It is also necessary in the determination of profit made by the enterprises and explain why certain items go to the Trading and Profit and Loss account and others go to the Balance Sheet.

Capital and Revenue Receipts

Capital receipts comprise the initial capital paid by the owner(s) of the business as well as loans and proceeds of sale of any of the assets.

On the other hand, revenue receipts are the cash received from sales of goods, discounts received, commission, interest on investment and all such monies arising from rendering services or in the normal course of business transactions in the current period.

Capital and Revenue Expenditure

“Capital expenditure consists of expenditure, the benefit of which is not fully consumed in one period, but spread over several periods”. These are fixed assets like land and buildings and new factory which are acquired for the purpose of earning income or increasing the earning capacity of the business.

Revenue expenditure are those incurred in one period of account and whose full benefit is consumed within the same period. Examples include travelling and fuelling expenses, repairs, postages, interest on loan and salaries and wages. Usually, it is the revenue expenditure that is charged against revenue receipts to determine the profit made by a business in a given accounting year.

Self-Assessment Exercise

1. What do you understand by capital receipts? Give two examples.
2. Distinguish between capital and revenue expenditures and give three examples of each.

3.5 Treatment of Account Receivable and Payable

Accounts receivable, also known as “Debtors”, is given rise to when allowance is made for payments to be effected sometime later after the sales transactions have been concluded and the goods changed ownership for the reasons that buyers need goods and services that they cannot pay for immediately, and sellers sell more through credit sales. Credit sales are recorded in the sales journal and accounts receivables are current assets to the organisation.

Accounts payable, on the other hand, are normally current liabilities to the enterprise. They are also known as “Creditors” which arise as a result of credit purchase transactions. Accurate record of accounts payable is important to avoid an omission that will lead to an overstatement of profit. Credit purchase transactions are recorded in the purchase journal.

Self-Assessed Exercise

Discuss the difference between accounts receivable and accounts payable.

4.0 CONCLUSION

Financial reports – basically, the Trading and Profit and Loss account and the Balance Sheet – are necessary to inform management and other interested outside parties about the performance as well as the financial position of the enterprise which form the basis for their respective decisions. Capital and revenue items would need to be distinguished or categorised properly to enable the financial reports give a true reflection of the financial affairs. Also, due care should be taken in deciding on, and recording matters, relating to accounts payable and accounts receivable in order to have a good relationship between current assets, current liabilities and profit.

5.0 SUMMARY

We have seen and discussed how accounting information is presented to all interested parties by focusing on the Trading and Profit and Loss account as well as the Balance Sheet. While the trading and profit and loss account ascertains the gross profit on sales and the net profit or loss for the period, the balance sheet ascertains the financial position of the business at the end of the accounting period. Also, the capital and revenue items of the financial reports have been discussed with emphasis on their proper distinction, recognition and recording. Lastly, we considered the treatment of account receivable and account payment items.

6.0 TUTOR-MARKED ASSIGNMENTS

The following trial balance is drawn from the books of Tukur Mills, a sole proprietorship.

		Dr.	Cr.
		N	N
Capital	21,000		
Drawings	7,100		
Sales	86,400		
Purchases	55,500		
Rent (Office)	2,520		
Travelling Expenses	940		
Insurance on purchases	240		
Carriage inwards	130		
Carriage outwards	150		
Insurance (Fire, etc.)	120		
Salaries	6,260		
Wages	920		
Bank charges	33		

General expenses	108	
Creditors	5,300	
Motor vehicle	9,800	
Furniture and fixtures	3,600	
Stock in trade (at the beginning of period)	5,900	
Sundry and trade debtors	7,200	
Cash at bank	12,084	
Cash on hand	95	_____
	112,700	112,700 _____

Additional information:

- (a) The value of closing stock is N6,400
- (b) Accrued salaries of N366 have not been paid as at December 31, 1999 and not yet recorded in the books
- (c) Sales of N1,200 made on account of Yaro Stores on December 20 were omitted in the record keeping process.

You are to ignore depreciation on motor vehicle, and furniture and fixtures.

Required:

- (a) Prepare a Trading and Profit and Loss account for Tukur Mills
- (b) Extract a Balance Sheet for Tukur Mills as at December, 1999

7.0 REFERENCE AND FURTHER READINGS

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MODULE 2

UNIT 1: BANK RECONCILIATION STATEMENTS

Table of Contents

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Bank Reconciliation Statements
 - 3.1 Bank Statements and Reconciliation
 - 3.2 The Bank Reconciliation Statement
 - 3.3 Method of Bank Reconciliation
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignments
- 7.0 Reference and Further Readings

1.0 INTRODUCTION

In Unit 4, we considered the Two-Column Cash Book which provides two columns, one each for cash and bank transactions. Therefore, this cash book brings together the cash and bank accounts maintained by an organisation. Usually, the business transacts with the bank while the bank transacts with the business. The cash book records all the business transactions with the bank, and for all the bank's transactions with the business, a bank statement records the proceedings. However, the balance on the cash book is rarely if ever the same as the balance on the bank statement. Therefore, in this unit, we shall examine the need to agree our bank balance obtained from the cash book to the bank statement balance issued by the bank. Also, we shall consider the factors that are responsible for the differences in both balances, how they are treated and how reconciliation statements are prepared.

2.0 OBJECTIVES

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

- Explain why the bank balance obtained from the cash book differs from the bank statement;
- Discuss the need for bank reconciliation statements;
- Prepare the bank reconciliation statements to agree with the two balances.

3.0 BANK RECONCILIATION STATEMENTS

3.1 Bank Statements and Bank Reconciliation

Banks send monthly or periodical statements to their customers – individuals, associations, corporate entities, etc. A bank statement shows details of bank's transactions (deposits, withdrawals and charges) with their customers during a given period. At the end of the period to which the statement relates, it would indicate the balance in the account taking note of the credits (deposits) and debits (withdrawals and charges).

Earlier in the introduction, we noted that it is difficult for the cash book balance to agree with the balance on the bank statement, why?

One reason can be attributed to timing differences. For example, a cheque payment may be recorded in the cash book when it is issued. The bank only records such a cheque when it is paid by the bank, which may be several days or even weeks later (unpresented cheque). Other examples are outstanding deposits and uncredited lodgements.

Secondly, some items may appear in the bank statement but yet to be entered in the cash book, and these include bank charges, bank interest paid (on overdrafts) or received (on deposits), standing orders and direct debits, credit transfers (where a receipt has been paid direct into the organisation's bank account), cheques returned unpaid, and unauthorised debits due to genuine mistakes or fraud.

Therefore, bank reconciliation is the process of investigating the difference in both balances and attempt to agree them.

Self-Assessment Exercise

Explain why the cash book is rarely if ever the same as the balance on the bank statement.

3.2 The Bank Reconciliation Statement

This is a statement prepared to agree the balances of both the bank statement and the cash book. Apart from this function, the bank reconciliation statement helps to ensure that:

- All deposits and withdrawals have been entered correctly.
- No unauthorised debits have been made in the account.
- Frauds and errors are detected early and corrected.

The reconciliation process is to verify the entries by ticking the credit side of the bank statement to the debit side of the cash book and vice versa. Any unticked entries in either the statement or the cash book represents items given as examples in explaining the reasons why balances in the statement and the cash book don't agree. The items could be treated as follows:

Unpresented Cheques have been deducted in the cash book ~~already but not in the~~ bank statement. Either we add it back to cash book balance or deduct from bank statement balance.

Direct debits are either added to cash book balance or ~~deducted from~~ bank statement balance.

Uncredited lodgements are either added to the statement ~~balance or deducted from~~ cash book balance.

Frauds and errors should be investigated and corrected.

Self-Assessment Exercise

1. Define the bank reconciliation statement.
2. Discuss the bank reconciliation process.

3.3 Methods of Bank Reconciliation

There are two methods of bank reconciliation:

Update the cash book by recording items in the bank statement not in it, and then, reconcile the adjusted cash book balance to the statement balance.

Do straight reconciliation.

We shall demonstrate both methods in the following illustration:

On 31 July, 2004, Adekunle Ajani received a bank statement which showed a balance of N198,000 whereas the bank column of the cash book showed a balance of N140,000. After comparing the entries in both, the following items were revealed as accounting for the difference:

29 July 2004 Dividend received from ABC Ltd. credited by bank not yet recorded in the cash book amounts to N16,000.

30 July 2004 Payment of N10,000 by standing order not yet recorded in the cash book.

30 July 2004 Transfer charges (N300) and bank commission (N700) not yet recorded in the cash book.

31 July 2004 Interest of N24,000 credited by bank not yet entered into the cash book.

31 July 2004 Cheque Nos. 311, 316 and 317 in favour S. Kasali, John Dans and Dennis Kay for N6,000, N16,000 and N7,000 respectively, have not been presented for payment.

You are required to prepare a bank reconciliation statement.

Method I:

Adekunle Ajani

Dr. Adjusted Cash Account (Bank Column)

Cr.				Dr.			
Date	Particulars	Folio	Amount	Date	Particular	Folio	Amount
	Balance as given	140,000.00			Payment by order	10,000.00	
29/7/04	Dividend (ABC Ltd.)		16,000.00		Transfer Charges		300.00
31/7/04	Interest (bank)				24,000.00		700.00
					Balance c/d	169,000.00	
							180,000.00
	Balance b/d						169,000.00

Bank Reconciliation Statement

N N
Balance as per Bank Statement 198,000.00

Less: Unpresented cheques:
S. Kasali (311) 6,000.00
John Dans (316) 16,000.00
Dennis Kay (317) 7,000.00 29,000.00

Balance as per adjusted Cash Book N169,000.00

Method II: A Straight Reconciliation

N N
Balance as per Bank Statement 198,000.00

Add: Direct Debits:
Transfer charges 300.00

Bank Commission	700.00		
Payment by order	10,000.00	11,000.00	
	209,000.00		
Less: Unpresented cheques	29,000.00		
Less: Direct Credits:			
ABC Ltd. Dividend	16,000.00		
Bank Interest	24,000.00	69,000.00	
Balance as per Cash Book		NT40,000.00	

Self-Assessment Exercise

Prepare a bank reconciliation statement using the following particulars:

30 April 2002	Bank statement balance	N780,000
	Cash book balance	N680,000
	Cheques drawn not presented for payment	N300,000
	Cheques paid into bank not yet credited	N200,000

4.0 CONCLUSION

We wish to conclude that usually, the balance on the cash book and the bank statement do rarely agree with each other, due to timing differences as well as the fact that some items may appear in the bank statement but yet to be recorded in the cash book. A process of bank reconciliation which involves investigating the differences in both balances is employed to agree the balances. This leads to the generation of a bank reconciliation statement.

5.0 SUMMARY

In this unit, we have examined the need to agree our cash book balance to the bank statement balance. We considered, also, reasons for the differences in both balances, and how they could be reconciled. Two methods were employed to illustrate/demonstrate how bank reconciliation statements are drawn.

6.0 TUTOR- MARKED ASSIGNMENTS

1. Discuss the need for bank reconciliation.
2. The following cash book and bank statement relates to the firm of Onyeka Enterprises for the month of June 2002.

Dr.

CASH BOOK

Cr.

Date	Particulars	Folio	Amount	Date	Particular	Folio	Amount
1/6/02	Balance b/fwd	12	000 .00	2/6/02	Cheq ue – Oweh		800.00
3/6/02	Cash	1,000	0.00	2/6/02	Cheq ue – Peter		300.00
5/6/02	Cheq ue - Ko nbe		170.00	6/6/02	Cheq ue – Bello		210.00
7/6/02	Cheq ue – Ladi		440.00	8/6/02	Cheq ue – Smart		730.00
9/6/02	Cheq ue – Michael		310.00	10/6/02	Cheq ue – Thomas		2,240.00
11/6/02	Cheq ue - Nwafa		720.00	12/6/02	Balance c/d	13,360	0.00
			<u>14,640.00</u>				<u>14,640.00</u>
	Balance b/d	169,000	.00				

ONYEKA ENTERPRISES**Bank Statement as at 12th June 2002**

	Dr.	Cr.	Balance
1/6	Balance		12,000.00 Cr.
2/6	Cheque No. 5554	800.00	11,200.00 Cr
3/6	Cash	1,000.00	12,200.00 Cr.
4/6	COT	40.00	12,160.00 Cr.
5/6	Cheque deposits	170.00	12,330.00 Cr.
6/6	Cheque No. 5555	300.00	12,030.00 Cr.
7/6	Cheque deposit	440.00	12,470.00 Cr.
8/6	Cheque deposit (by Yinka)	1,200.00	13,670.00 Cr.
9/6	Cheque dishonoured	170.00	13,500.00 Cr.
11/6	Standing Order (Insurance Prem)	1,120.00	12,380.00 Cr.
12/6	Cheque No. 5556	210.00	12,170.00 Cr.

You are required to:

- Adjust the Cash Book
- Prepare a Bank Reconciliation Statement.

7.0 REFERENCE AND FURTHER READINGS

ACCA (2004) . Preparing Financial Statements. Middlesex: A. T. Foulks Lynch Limited.

Akplu, H.F. (1985). Introduction to Accounting. London: Macmillan Publishers Limited.

Wood, Frank (1990). Business Accounting I 5th Edition London: Longman Company Limited.

UNIT 2: ACCOUNTS OF SOLE PROPRIETORSHIPS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Accounts of Sole Proprietorships
 - 3.1 Characteristics of one – man business
 - 3.2 Equity of a sole proprietorship
 - 3.3 Drawings
 - 3.4 Nature of Tax
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignments
- 7.0 Reference and Further Readings

1.0 INTRODUCTION

The content as well as the form of presentation of financial statements vary according to the nature of the organisation – sole proprietorships, partnerships, limited liability companies, government departments, clubs, associations, non-governmental organisations – because the different organisations are subject to different laws and norms which, amongst other things, prescribe the minimum information required to be disclosed in the respective financial statements.

Kindly refer to unit 5 and recall that the formats for the presentation of the Trading and Profit and Loss account, and the Balance Sheet, were those for a sole trader (sole proprietorship). Like other profit-oriented organisations, it is very necessary to keep and maintain accounts for sole proprietorships which enable the operators to ascertain the profits earned or losses incurred. Various reasons could be adduced as to why the operators would want to have an idea of profits earned such as:

- (i) To ascertain or assess the capacity to obtain loans from banks or private individuals;
- (ii) To assist them to make future plans;
- (iii) To know how attractive their ventures are to prospective investors or would-be buyers;
- (iv) To know the profit for income tax purposes;
- (v) To know whether the concerns are doing well or not.

This unit will give attention to the characteristics, equity and drawings of/in sole proprietorships as well as their nature of tax.

2.0 OBJECTIVES

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

- Discuss the characteristics of one-man business;
- Explain the equity composition of sole proprietorship;
- Explain “drawings” in relation to sole proprietorship;
- Discuss the nature of tax in one-man business.

3.0 ACCOUNTS OF SOLE PROPRIETORSHIPS

3.1 Characteristics of One – man business

One – man business (or sole proprietorship business), as the name implies, is a business concern owned by one person who often is also engaged actively in the running of the business. The sole owner subscribes to all of the equity capital of the business which in most cases are raised from personal savings or soft loans obtained from relations and friends. All incomes also accrue to the owner.

Other characteristics of one – man business include the following:

- (i) A sole proprietorship has no distinct legal entity. Even when it is registered by the Corporate Affairs Commission under the Companies and Allied Matters Act, the owner and the business cannot be separated;
- (ii) The owner has freedom to deal with the organisation's assets without any restrictions imposed by law;
- (iii) Because of the limited amount of assets which a sole proprietorship business controls, it is often small and can be recognised easily;
- (iv) Its capacity to borrow (especially from banks) is limited by the asset base;
- (v) It has very high risk because of the inseparability of the owner with the business;
- (vi) The business outfit often goes by the name of the owner, and operates within a confined location, usually, not more than two branches;
- (vii) The structure is fairly simplistic in nature.

From the foregoing, it would appear that the compact nature of the sole proprietorship business should not present much difficulty in its accounting. However and often times, smallness may impede the ability of the business to engage capable/competent hands to carry out the accounting function and ensure good financial control. Consequently, the accounting records kept may be incomplete and lack the essential

ingredients. These may impinge on the preparation of acceptable financial statements.

Self Assessment Exercise

Discuss the characteristics of a sole proprietorship business.

3.2 Equity of a sole proprietorship

As mentioned above, the sole owner subscribes to all of the equity of the business. The equity is made up of capital contributions in cash or kind at commencement or at a later date by self through personal savings, relations and friends, and all profits earned in the business since its inception but which have not been withdrawn. This can be shown in the annual balance sheet as follows:

	N	
Capital b/f	XX	—
Add: Amount introduced during the year	X	
Profit earned during the year	X	
	XX	—
Less: Drawings during the year	X	
Capital c/f	XX	—
		—

It is very clear, therefore, that the capital of a sole proprietor is not fixed but varies from year to year depending on the:

- (i) Amount of capital introduced;
- (ii) Amount of profit earned;
- (iii) Extent of drawings;
- (iv) Degree of disinvestment (where fixed asset of reasonable value is taken out of the business for personal use).

Let us quickly say that there is no legal restrictions on drawings; prudence is the watchword. Also, the proprietor is free to increase the capital position at anytime. However, this flexible position of the sole proprietor in his unrestricted rights in dealings that affect the equity of the firm and the absence of legal ties could be disadvantageous in terms of the ability of the business to enter into certain types of transactions – especially, borrowing-where it would appear that the rights of the other party may suffer. With this situation, the sole proprietor would be constrained in his ability to obtain capital or to grow.

Self Assessment Exercise

The capital of a sole proprietor is not fixed but varies from year to year. Explain this statement.

3.3 Drawings

The sole proprietor's drawings during the year affect the equity. Drawings speak to the periodic withdrawals made by a sole proprietor (who is actively engaged in the management of the business) in anticipation of profits. As we stated earlier, drawings are not regulated and tend to fluctuate from month to month depending on the personal commitments of the proprietor. Drawings can also be taken in kind when the owner takes out some of the goods which the business trades in.

Self-Assessed Exercise

Explain the features of drawings.

3.4 Nature of Tax

A business which has a legal entity normally pays tax on its income just as any natural person does. In the case of sole proprietorship, however, since it is not a legal entity, it is not bound to pay tax. Recall that here is a situation where the business cannot be separated from the owner, and that being the case, the income of the business is considered to be that of the owner for tax purposes. The sole proprietor is required to declare such income, amongst others, in the annual tax returns for personal income tax assessment and payment.

Self-Assessment Exercise

What are the tax implications for a sole proprietor?

4.0 CONCLUSION

The sole proprietorship business has no legal entity; both the business and the owner are inseparable. The owner subscribes to all of the equity of the business and the capital varies from year to year. The proprietor makes periodic withdrawals known as "drawings" in anticipation of profits to attend to his personal commitments. The business is not liable to tax because of its legal status. Instead, the owner is taxed as a person based on the income of the business.

5.0 SUMMARY

In this unit, we have looked at some guides necessary to keep the accounts of sole proprietorships. Apart from discussing the characteristics of one – man business, we considered the equity composition. Furthermore, we explained drawings in relation to sole

proprietorship, and discussed the nature of tax. The proprietor and not the business is liable to tax.

6.0 TUTOR-MARKED ASSIGNMENTS

1. What do you understand by sole proprietorship?
2. The following trial balance is extracted from the books of Cornerstone Enterprises, a sole proprietorship, specialised in manufactured goods.

	Dr.	Cr.		
Capital account		15,000		
Drawings account		7,600		
Purchases	40,000			
Sales		65,000		
Discounts (allowed and r eceived)	3,200		2,000	
Rent of office	1,440			
Rent of warehouse	1,200			
Travelling expenses	600			
Insurance (against fire, etc.)		150		
Transit insurance on goods purchased		180		
Office (salaries)	3,200			
Wages	600			
Carriage inwards		108		
Carriage outwards		120		
Furniture and Fixtur es		4,500		
Stock at beginning of per iod	3,800			
Sundry debtors	500			
Trade debtors	8,000			
Sundry and trade creditors			4,200	
Cash at bank	10,810			
Cash in hand		50		
Bank charges		22		
General expenses		120		
	86,200			
			86,200	

Additional information:

- (a) All furniture and fixtures were acquired in the month of January, 2004. It was decided that depreciation should be charged for 2004 at the rate of 10% on cost.
- (b) The value of closing stock was N3,000.00

- (c) A further examination of the records revealed that the following had not been recorded in the books before extracting the above trial balance:
- (i) Wages amounting to N120.00 had accrued by December 31, 2004 but were not paid.
 - (ii) Accrued office salaries of N400.00 had not been paid as at the end of 2004.
 - (iii) Purchases of N2,000.00 made on account in 2004 were omitted in the records.
 - (iv) General expenses of N60.00 accruing as at December 31, 2004, were not recorded.
 - (v) Goods amounting to N1,400.00 were taken out of the business during the year by the proprietor.
- (d) Prepaid rent on warehouse amounted to N300.00.
(e) Provision for doubtful debt is to be 5% of trade debt.

You are required to:

- (a) Make relevant adjusting entries to the ledger balances.
- (b) Extract an adjusted trial balance.
- (c) Prepare a trading and profit and loss account for the year 2004 (skip closing journal entries).
- (d) Prepare a balance sheet for Cornerstone Enterprises as at December 31, 2004, and show the up-to-date capital position.

7.0 REFERENCE AND FURTHER READINGS

Anao, A.R. (1993). An Introduction to Financial Accounting. Ibadan: Longman Nigeria Limited.

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UNIT 3: INTRODUCING PARTNERSHIPS ACCOUNTS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Companies and Partnership Contrasted
 - 3.2 Admission of a new partner
 - 3.3 Profit ratio after admission of a new partner
 - 3.4 Goodwill in partnerships
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignments
- 7.0 Reference and Further Readings

1.0 INTRODUCTION

A partnership is generally defined as a legal relationship between two or more persons where each person contributes something in order to carry on a lawful business with a view of profit which is to be shared between the partners in a proportion agreed upon by them. Therefore, for a partnership to exist:

- the association must be engaged in a business which may be a trade or a profession;
- the trade or the profession must be carried on together, jointly, for the benefit of all the partners; and
- there must be an intention to earn a profit.

The above description, therefore, distinguishes a partnership from a political, religious, social, or philanthropic club or association. A partnership agreement, which need not necessarily be in written form (although it is advisable or wiser that any agreements between the partners be reduced to writing as this will tend to lead to fewer possibilities of misunderstandings and disagreements between partners), will govern the relationships between the partners, including:

- name of organisation, the type of business, and duration;
- capital to be introduced by partners;
- division of profits between parties, including salaries since not all the partners may be employed by the partnership on a full-time basis. Such salaries will be normal operating expenses;
- drawings by partners;

arrangements for dissolution, or on the death or retirement of partners;
settling of disputes;
preparation and audit of accounts.

At this juncture, it is necessary to note that, although the partnership agreement creates a legal relationship between the partners, the partnership itself is not a legal entity.

With the above background, the unit (being the first part of the three to consider Accounts of Partnerships) will attempt to distinguish companies from partnerships. The unit will also consider accounting treatments relative to admission of a new partner, profit ratio after admission of a new partner as well as goodwill in partnerships.

2.0 OBJECTIVES

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

- Distinguish between companies and partnerships;
- Explain the accounting treatments relative to admission of a new partner ;
- Work out the profit ratio after admission of a new partner;
- Discuss goodwill in partnerships.

3.0 ACCOUNTS OF PARTNERSHIP

3.1 Companies and Partnerships Contrasted

Let us attempt to outline the distinguishing features/characteristics of limited liability companies and partnerships as follows:

S/N	COMPANIES	S/N	PARTNERSHIPS
1.	Separate legal entity which is not affected by changes in its membership.	1.	No separate legal entity – not a juristic person.
2.	Shareholders have limited liability for debts – limited to the amount he agreed to pay for shares allotted.	2.	The liability of each member for debts of the firm is unlimited. Partners are jointly and severally liable for debts.
3.	Rights of management are delegated to the directors.	3.	Every member can partake in the management of the business.
4.	Powers and duties of directors are spelt out in	4.	The rights of partners themselves are governed by

	the Articles of Association and can be varied by passing a special resolution of the company in a general meeting.	the partnership agreement which can be varied.
5.	The authorised capital is fixed by the Memorandum of Association.	Capital is contributed by the partners by agreement. The amount, which is not fixed, can be increased by undrawn profits or reduced by losses and withdrawals.
6.	Shares are freely transferable in public companies; in private companies, shares are transferable subject to restrictions imposed by the Articles of Association.	The share in a partnership cannot be transferred except by the consent of all partners.
7.	Audit is compulsory, and copies of accounts are filed with the Corporate Affairs Commission (CAC) annually.	Audit is not compulsory; copies of accounts are not filed with the Corporate Affairs Commission.
8.	Profits are distributed in the form of dividend.	Profits are distributed as per agreed ratios; drawings may be made by mutual agreement for accruing profits.
9.	Profits are subject to Company Income Tax.	Profits are subject to Personal Income Tax; partnership is not taxed.
10.	Unlimited life.	Partnerships have limited life.

Self-Assessment Exercise

Distinguish between limited liability companies and partnerships.

3.2 Admission of a new Partner

Before we look at the different dimensions of admitting a new member relative to the accounting procedure, let us start from the very beginning when establishing the partnership. Each partner contributes an amount of capital. A fundamental principle for the accounting treatment is that all aspects of an individual partner's contributions, charges to and charges by the partnership must be accounted for separately. Recall that

in the books of the sole proprietor, two accounts are opened for the owner:

Capital account;
Drawings account.

However, in the books of the partnership, three accounts will be opened for each of the partners, namely:

a capital account;
a drawings account;
a current account.

Partners capital accounts are referred to as “fixed capital accounts” because they are not used to record drawings or shares of profits but rather:

capital introduced or withdrawn by new or retiring partners;
revaluation adjustments.

Current accounts are used to deal with the regular transactions between the partners and the firm. Most commonly, these transactions are share of profits, interest on capital and partners salaries. Drawings are made against the partners share of anticipated profits. Drawings account is debited and cash credited to record drawings. At year end, drawings account is closed off to the individual partner's current account and crediting drawings account. Let us note that drawings do not mean appropriation of profit.

Now let us look at the accounting procedures involved in the different dimensions of introducing or admitting a new partner.

(i) A new partner is admitted into the business when the capital

base of the partnership is not affected:

An existing interest in a partnership (that is, each partner's share of the total capital and of the profits) can be acquired by a new partner through direct purchase from the existing partners. This means that the assets and liabilities (capital base) of the partnership remain unchanged even though a new partner is admitted.

An Example:

Peter, James and John, being partners agree to sell N60,000 interests to Andrew on equal basis (N20,000 each). The capital accounts of the partners prior to the purchase reflected the

following balances: Peter – N50,000; James – N100,000 and John – N150,000.

The journal entries for the above will be:

	N	N
	Dr.	Cr.
Peter		20,000
James		20,000
John		20,000
Andrew		60,000

(Being the transfer of partnership capital to a new partner)

By the above journal, the capital account of the three old partners is reduced by N20,000 each and a new capital account is set up for Andrew (the new partner). Note that the admission of Andrew does not bring new cash into the partnership; the cash paid by Andrew to acquire the interests goes to the individual old partners. Total partnership capital and assets remain the same; what has changed is the structure of the partnership capital – Peter: N30,000; James – N80,000; John – N130,000; Andrew – N60,000.

(ii) A new partner can be admitted through an additional investment in the partnership:

This dimension increases total partnership capital and assets. The under listed steps should be followed to determine the appropriate entries in the partnership accounts when a new partner invests in the partnership:

- o Determine the total amount of the agreed capital after the new investment.
- o Ascertain the new partner's share of the capital to arrive at the proper credit to the new partner's capital account.
- o Adjust the capital accounts of the partners if the asset values are changed or if bonuses are given to old or new partners.
- o Adjust the book values of the partnership assets, especially, if the total capital of existing partners plus the capital invested by the new partner does not equal the agreed capital arrived at in bullet 1 above. (The acquisition of a new partnership interest by investment can be effected at book value. Alternatively, the interest can be purchased at more or less than the book value).

An Example:

Osagie and Haruna are partners with N55,000 and N35,000 balances in the capital accounts respectively (after adjustment of assets to market value). Profits and losses are divided 60% to Osagie and 40% to Haruna. A new partner, Jumbo acquires $\frac{1}{4}$ interest in profits and in the capital by investing additional assets. The profit ratios specified in the new partnership agreement are 45%, 30% and 25% for Osagie, Haruna and Jumbo respectively. Effect the appropriate entries.

With investment at book value, Jumbo pays in N30,000 for $\frac{1}{4}$ interest. The new total capital and assets is N120,000. Jumbo's share in the book value is N30,000 and this is equal to the cash brought in. No further adjustments are required since the total assets are equal to the new agreed capital.

The journal entries will be:

	N	N
	Dr.	Cr.
Cash		30,000
Jumbo		30,000

(Being Jumbo's admission to a 25% interest in a total capital of N120,000)

(iii) A new partner is admitted with a bonus credited to the old partners:

The partners (Osagie and Haruna) agreed that the total capital and total assets are to be N125,000, and the new partner, Jumbo, pays in N35,000 an amount, greater than the recorded value of his capital (N31,250). Jumbo is paying a bonus of N3,750 to the partnership (in expectation of superior profit performance), which is divided between Osagie and Haruna in the profit sharing ratio that existed between them.

The relevant entries are:

	N	N
	Dr.	Cr.
Cash		35,000
Osagie: Capital		2,250
Haruna: Capital		1,500
Jumbo: Capital		31,250

(Being Jumbo's admission by investment in a total capital of N125,000)

(iv) A new partner is admitted with Goodwill credited to the old partners:

As in (iii) above, Jumbo pays in N35,000 for $\frac{1}{4}$ interest, which payment exceeds the book value of his proportionate share of tangible assets. The partners agreed that Goodwill is to be recorded, with its value determined from Jumbo's contribution.

Let us make the following deductions:

- o Jumbo contributed N35,000 for $\frac{1}{4}$ interest in total capital. Therefore total capital after his contribution is N140,000 (N35,000 x 4).
- o The assets of the old partnership were valued at N90,000. So the total tangible assets are now:

		N
Assets	90,000	
Cash (New investment)	35,000	
	125,000	=====

- o The difference between the total capital and the total tangible assets of the partnership is the value of goodwill, that is, N15,000 (140,000 – N125,000) which belongs to the old partnership and is to be shared between Osagie and Haruna in the profit ratio. (Goodwill will be treated in details in 3.4).

The following entries are relevant:

	Dr.	Cr.
	N	N
Goodwill		15,000
Osagie: Capital		9,000
Haruna: Capital		6,000

(Being Goodwill determined by Jumbo's admission)

Jumbo's investment will be recorded in the journal as follows:

	Dr.	Cr.
	N	N
Cash		35,000
Jumbo: Capital		35,000

(Being Jumbo's admission to a 25% interest in the total capital of N140,000)

Note: The partner's profit ratio remains as specified in the new agreement.

Self-Assessment Exercise

1. Explain the different scenarios of admitting a new partner.
2. What are the steps to be taken in determining the appropriate entries in the partnership accounts when a new partner invests in the partnership?

3.3 Profit Ratio after admission of a new Partner

Here, we shall consider the method for calculating the profit and loss sharing ratio for partners after the admission of a new partner since the old sharing ratio would have been overtaken by events. The old partners, in some cases, may wish to retain their former relative positions. Sometimes too, they may prefer changes. However, whatever is the case, the new profit ratio has to be determined/established and included in the revised agreement.

An Example:

Jerome and Shedrack, being partners in business, share profits and losses in the ratio of 60% and 40% respectively. The partners agreed to admit Lambert to a 25% interest. You are required to determine the new profit sharing ratio for the partners.

The calculation will be as follows:

Total net profits	100%	
Less: Lambert's share	25%	
Balance for Jerome and Shedrack	75%	—
Ratio for Jerome (60% of 75%)	45%	—
Ratio for Shedrack (40% of 75%)	30%	

Therefore, the new profits ratio is 45%, 30% and 25% for Jerome, Shedrack and Lambert.

Self-Assessment Exercise

If Kay and Ker's profits ratio in the partnership business before admitting Kan to a 15% interest was 70% and 30% respectively, what will be the partners' new sharing ratio after Kan was admitted?

3.4 Goodwill in Partnerships

We shall consider the meaning, valuation and treatment of goodwill relative to the partnerships.

Goodwill refers to the benefit and advantage of the good name, reputation and connection of a business which can be valued and expressed in monetary terms. It is a force that attracts customers; it makes a new partner to contribute capital over and above the saleable values of the tangible assets.

The goodwill possessed by a firm may be due to, among others, the:

- Monopoly enjoyed by the business;
- Reputation of the company in terms of quality of goods and services;
- Management skill and reputation of the partners, and the value of the labour force;
- Location of the business premises;
- Possession of the trade marks, patents, or well-known businesses name over the years.

In the valuation of goodwill, custom plays a great role in many sorts of business. Let us discuss a few of the methods:

(i) **The average profits of a given number of past years multiplied by an agreed number:**

Thus, it is common to learn of three years purchase of the net profits as the basis for valuing goodwill. For example, if the average net profit made by XYZ Company for the past five (5) years is N2,000 per annum, on the basis of three years purchase of the net profits, goodwill will be valued at N6,000 (N2,000 x 3). Please, note that this method is purely arbitrary.

(ii) **The average gross income of the business for a number of past years multiplied by an agreed number:**

Professional firms usually adopt this method.

(iii) The value of the business:

The value of the business is estimated by reference to the expected earnings and the yield required, and from the figure arrived at, the value of the net tangible assets is deducted, the difference being taken to represent the value of goodwill.

For example, the estimated future accrued profits of the partnership (less partners remuneration of N2,500) is N7,500. If yield at 10% per annum is expected and the value of the tangible assets is N50,000, what is the value of the goodwill?

Capital value of business (7,500 x 10)	N75,000	
Less: Value of tangible assets	N50,000	
Value of goodwill	N25,000	=====

Kindly refer to 3.2 for the treatment of goodwill in partnership accounts.

Self-Assessment Exercise

Define goodwill and discuss the methods of its valuation.

4.0 CONCLUSION

Although the partnership agreement or deed creates a legal relationship between the partners, the partnership itself is not a juristic person. Each partner, in the partnership books, has a capital account, drawings account and a current account. When a new partner is admitted, the profit sharing ratio of the old partners changes; a new ratio to include the new partner has to be established and included in the revised agreement. Goodwill is an important factor in determining a new partner's contribution to the partnership.

5.0 SUMMARY

We have been able to define partnership, and distinguished between it and company. In the partnership, we have discussed the admission of a new partner under different approaches as well as the accounting procedures. We also looked at the profit ratio after admission of a new partner which has to change and form part of the revised agreement document. Goodwill – an intangible asset, which makes a new partner contribute to the partnership over and above the saleable values of the tangible assets – was discussed as well.

6.0 TUTOR-MARKED ASSIGNMENTS

1. (a) Define Goodwill.
(b) What are the contributing factors to the goodwill possessed by a firm?
2. Alabo and Rotimi have N100,000 and N90,000 respectively. Their profit sharing ratio are 55% and 45% respectively. The profit sharing ratio in the new partnership agreement if Alfa is to be admitted on the payment of N120,000, which is to be 1/6 of the total new capital, as his interest, will be 48%, 35% and 17% for Alabo, Rotimi and Alfa respectively.

You are required to show the asset of the old and new partnership and the goodwill. Also, show the old partners shares of goodwill since it was agreed that it should be shared in their profit and loss sharing ratio.

7.0 REFERENCE AND FURTHER READINGS

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UNIT 4: MANUFACTURING ACCOUNTS

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1.0 INTRODUCTION

The final accounts prepared in the previous units have been those for firms that engage in trading activities (buying and selling) or those for the non-profit organisations and profit-oriented firms as well, whose functions are limited to rendering services. The goods (merchandise) are valued at the actual cost to the firm, usually obtained from the supplier's invoice. However, there are firms whose main activity is in the manufacture of goods for sale. For these concerns, in addition to the trading and profit and loss account, a manufacturing account is prepared.

The manufacturing firm transforms basic raw materials into marketable goods, and during the manufacturing process, costs are incurred in order to complete the products. These end products are valued at cost to the firm, usually the aggregate of the manufacturing costs. Obviously, at the end of the accounting period, stock or inventory in this kind of concern will be at various stages of completion since manufacturing is a continuous process. Three stages of completion can be identified:

- Raw materials (unprocessed and uncompleted stock)
- Work-in-progress (partly – completed stock)
- Finished goods (completed stock)

The main difference between the trading and profit and loss account of a manufacturing business and a trading firm is the ascertainment of cost of goods manufactured as against the cost of goods purchased for reselling.

In this unit therefore, we shall highlight the objectives of a manufacturing account. We shall also classify the manufacturing costs and draw a line of division between them and the non-manufacturing

costs. In addition, we shall discuss the valuation of closing stock/ work-in-progress in accordance with the basic principles. Lastly, we shall look into the matter of ascertaining profit or loss on manufacture to determine the relative advantage of manufacturing instead of buying the goods for resale.

2.0 OBJECTIVES

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

- Explain the objectives of a manufacturing account;
- Discuss the classification of manufacturing costs;
- Distinguish between manufacturing costs and non-manufacturing costs;
- Explain the valuation of closing stock relative to manufacturing concerns;
- Ascertain the profit or loss on manufacture;
- Prepare a manufacturing account.

3.0 MANUFACTURING ACCOUNTS

3.1 Objectives of a Manufacturing Account

When a firm engages in manufacture, there arises the need to ascertain the cost of manufacture as a basis for fixing the eventual selling price. This need is met by the manufacturing account, which is prepared in such situation in addition to the normal trading and profit and loss accounts. Therefore the aims of the manufacturing account are:

- to disclose the total cost of manufacture;
- to enable the firm to determine the relative efficiency of its manufacturing activity separate from its trading activities. This is achieved by computing the profit or loss arising from manufacture on one hand as distinct from its selling operations.

Self-Assessment Exercise

Explain the objectives of a manufacturing account.

3.2 Classification of Manufacturing Costs

There is an obvious link with the costing records because the costs in the manufacturing account are involved with production, and the concepts of the manufacturing account are in fact really costing concepts.

Therefore, we shall examine the main elements and divisions of cost as used in costing.

Manufacturing (or production) costs are the costs incurred by a manufacturer in the process of transforming raw materials into finished products, which should be distinguished from non-manufacturing costs such as administrative and selling/distribution expenses.

The classification can be done as follows:

Direct or Prime Cost

- o Direct materials
- o Direct labour
- o Direct expenses

Indirect or Factory/Works Overhead Expenses

By “direct” is meant that the materials, labour and expenses involved can be traced to the particular unit of goods produced. Factory overhead expenses consist of all those expenses which are not easily traceable to the units being manufactured. Examples include wages of cleaners and crane drivers, rent and rates of the factory, depreciation of plant and machinery used in the factory and factory power. To summarise, therefore, direct costs and factory overhead make up the manufacturing or production cost.

However, to ascertain the total costs, which guide in fixing the relevant selling price, the non-manufacturing costs of administrative and selling/distribution expenses, are added to the manufacturing costs.

Administrative expenses include such items as manager's salaries, legal and accounting charges, the depreciation of accountancy machinery and secretarial salaries.

Selling and distribution expenses are items such as salesmen's salaries and commission, carriage outwards, depreciation of delivery vans, advertising and display expenses.

In the manufacturing account, the manufacturing cost of goods completed during the accounting period is ascertained. This means that all the elements of the production cost – direct materials, direct labour, direct expenses and factory overhead expenses – are charged to the manufacturing account. All administrative and selling and distribution expenses are charged to the profit and loss account. You are to note that the manufacturing account is concerned with the production cost of goods completed in the year irrespective of when work started on them.

Therefore, semi-finished goods (work-in-progress) must be taken into account.

Self-Assessment Exercise

1. Attempt a classification of the production costs with examples.
2. Distinguish between manufacturing and non-manufacturing costs.

3.3 Valuation of Closing Stock

The inventory of a manufacturing concern may comprise raw materials, work-in-progress and finished goods at any one time. It is often necessary to ascertain accurately the cost at which work-in-progress is carried over from one period to another.

The basic principle followed in valuing stock is to relate to each type of stock a proportion of the total cost incurred up to the level where the stock accrues. Thus,

raw materials are valued at the cost of purchase (if lower than current market price);

finished goods are valued as a proportion of the total cost of production;

semi-finished goods (work-in-progress) are valued at prime cost only (although debate had it that it might have been more accurate to attribute to them a proportion of factory overhead once they have received some benefits from these indirect costs).

At this juncture, let us illustrate the preparation of a manufacturing, trading and profit and loss account.

Example:

The following are extracted from the trial balance of TEKI LTD, a manufacturing outfit, in respect of the year ended 30th September, 1993:

	N	=
Opening stock:		
Raw material	12,500	
Work-in-progress	8,600	
Finished goods	14,800	
Purchase of raw materials	68,200	
Carriage inwards	3,410	
Factory wages	18,390	
Rent of factory	4,800	
Factory general expenses	8,360	
Salaries of factory supervisors	8,740	
Salaries of salesmen and office staff	22,570	

Rent of office	5,400	
Insurance of factory equipment		2,840
Bad debts	960	
Office general expenses	12,930	
Depreciation:		
Factory equipment	16,280	
Office and distribution equipment		14,880
Sales less returns	215,000	
Power and lighting (factory)	5,610	
Power and lighting (general)	3,200	

Closing stocks were valued at the following amounts at year end:

Raw materials	14,480
Work-in-progress	10,250
Finished goods	18,390

Work-in-progress is normally valued in this firm at prime cost plus a portion of factory overheads.

You are required to prepare the manufacturing, trading, and profit and loss accounts as at end of year.

Solution:

**TEKI LTD.
MANUFACTURING, TRADING AND PROFIT AND LOSS
ACCOUNT
FOR THE YEAR ENDED 30TH SEPTEMBER, 1993**

	N	N	
Raw materials:			
Opening stock		12,500	
Purchases	68,200		
Carriage inwards		3,410	
	84,110		_____
Less: Closing stock		14,480	
Cost of materials consumed		69,630	_____
Direct Wages	18,390		
PRIME COST	88,020		_____
Add: Factory overheads			
Rent on factory	4,800		
Supervisors salaries	8,740		
Insurance of equipment	2,840		
Power and lighting	5,610		
Factory general expenses	8,360		
Depreciation of equipment	16,280		
		46,630	_____

COST OF PRODUCTION	134,650		
Add: Opening work-in-progress	8,600		
Less: Closing work-in-progress	10,250		
COST OF GOODS COMPLETED	133,000		<u> </u>
Sales	215,000		
Finished goods:			
Opening stock	14,800		
Cost of goods completed	133,000		
Less closing stock	18,390		
Cost of Goods Sold	129,410	<u> </u>	
GROSS PROFIT	85,590		<u> </u>
Less: Administrative, Selling and Distribution Expenses			
Office and salesmen's salaries	22,570		
Rent on office space	5,400		
Power and lighting	3,200		
Office general expenses	12,930		
Bad debts	960		
Depreciation	14,880		59,940
NET PROFIT	N25,650	<u> </u>	<u> </u>

Self-Assessment Exercise

Explain the basic principle in valuing closing stock, and how each type of closing stock in a manufacturing concern should be valued.

3.4 Ascertainment of Profit or Loss on Manufacture

In the last example, we disclosed a composite gross profit of N85,590, which represents what was realised from both manufacturing and selling operations. When we desire to ascertain the relative advantage of manufacturing instead of buying the goods for resale, the manufacturing account will have to be restructured so as to disclose separately the gross profit or loss accruing from manufacturing as well as trading operations. The profit or loss on manufacture is ascertained on the basis of the opportunity cost principle, that is, by referring to what the firm would have spent in purchasing instead of manufacturing the goods. Thus, if the total purchase value is more than the cost of manufacture, a gross profit on manufacture has resulted.

On the other hand, a loss will arise if the manufacturing cost exceeds purchase cost. Therefore, it requires that finished goods are taken out of the factory at the estimated market value (purchase cost) instead of the actual cost of production. Thus, the estimated market value is credited to the manufacturing account and debited to the trading account. A credit balance represents a gross profit on manufacturing while a debit

balance represents a loss. The difference is then transferred to the profit and loss account as appropriate.

Example:

Let us assume the same data as in the previous example. Let us also assume that the firm likes to ascertain the relative efficiency of its manufacturing operations, and estimates that had it not manufactured the goods, it would have purchased the total volume which it finished during the period at a cost of N150,000.00.

We are required to prepare the manufacturing, trading and profit and loss accounts of TEKI LTD, showing separately, the profit or loss on manufacturing as against selling operations.

Solution:

TEKI LTD.
MANUFACTURING, TRADING AND PROFIT AND LOSS
ACCOUNT
FOR THE YEAR ENDED 30TH SEPTEMBER, 1993

	N	N	N
Estimated market value of finished goods	150,000		
Raw materials:			
Opening stock	12,500		
Purchases	68,200		
Carriage inwards	3,410		
	84,110		
Less: Closing stock	14,480		
Cost of materials consumed	69,630		
Direct Wages	18,390		
PRIME COST	88,020		
Add: Factory overheads			
Rent on factory	4,800		
Supervisors salaries	8,740		
Insurance of equipment	2,840		
Power and lighting	5,610		
Factory general expenses	8,360		
Depreciation of equipment	16,280	46,630	
COST OF PRODUCTION	134,650		
Add: Opening work-in-progress	8,600		
Less: Closing work-in-progress	10,250		
COST OF GOODS COMPLETED	133,000		
Profit on Manufacturing	17,000		
Sales	215,000		

Finished goods:			
Opening stock	14,800		
Market value of finished goods	150,000		
Less closing stock	18,390	146,410	
GROSS PROFIT	68,590		
Less: Administrative, Selling and Distribution Expenses			
Office and salesmen s salar ies	22,570		
Rent on office space	5,400		
Power and lighting	3,200		
Office general expenses	12,930		
Bad debts	960		
Depreciation	14,880		59,940
Net Profit	8,650		
Add Profit on Manufactur e		17,000	
NET PROFIT	N25,650		

Self-Assessment Exercise

How do you ascertain the profit or loss on manufacture?

On what basis is the profit or loss on manufacture ascertained? Explain the basis.

4.0 CONCLUSION

Apart from the trading and profit and loss account, a manufacturing account is prepared for concerns whose main activity is in the manufacture of goods for sale. The goods, because costs are incurred during the manufacturing process, are valued at costs to the firm. The major distinguishing factor between the trading, profit and loss accounts of a manufacturing business and those of a trading firm lies in the ascertainment of cost of goods manufactured as against the cost of goods purchased for resale.

The manufacturing account, thus, aims at disclosing the total cost of manufacture as well as enabling the firm to determine the relative efficiency of manufacturing in place of buying of goods for resale.

5.0 SUMMARY

The manufacturing firm transforms raw materials into finished goods for sale. Costs are incurred, during the manufacturing process, in order to complete the products. A manufacturing account is prepared for a manufacturing company.

In this unit, we have been able to highlight the objectives of a manufacturing account. We have also classified the manufacturing costs, and distinguished between them (manufacturing costs) and the non-manufacturing costs such as administrative, selling and distribution costs. We discussed, in addition, the valuation of the closing stock of a manufacturing concern, emphasising the principle that relates to each type of inventory, a proportion of the total cost incurred up to the level where the stock accrues.

Finally, we discussed the ascertainment of profit or loss on manufacture relative to purchase of finished goods for resale, using the principle of opportunity cost by considering what the firm would have spent in purchasing in place of manufacturing the goods.

6.0 TUTOR-MARKED ASSIGNMENTS

The following is the trial balance of DEDE Manufacturing Ltd. for the year ended 30th September, 2005:

	Dr.	Cr.
	N	N
Bank		31,000
Debtors		79,000
Prepaid expenses		1,000
Inventory at 1/10/2004:		
Raw materials		20,000
Work-in-progress		42,000
Finished goods		28,000
Fixed assets		350,000
Creditors		35,000
Long term loan		100,000
Share capital		300,000
Accumulated profits, 1/10/2004		55,000
Sales		900,000
Materials purchases: Direct	240,000	
Indirect	5,000	
Labour: Direct	190,000	
Indirect	33,000	
Other manufacturing overheads	120,000	
Selling expenses	100,000	
Administrative expenses	90,000	
Interest paid	10,000	
Income tax expense	50,000	
Bad debts	1,000	
	1,390,000	1,390,000

The closing inventory balances are:

Raw materials	19,000
Work-in-progress	40,000
Finished goods	30,000

You are required to prepare for DEDE Manufacturing Ltd for the year ended 30th September, 2005:

- (i) the manufacturing account;
- (ii) the trading and profit and loss account; and
- (iii) the balance sheet.

7.0 REFERENCE AND FURTHER READINGS

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UNIT 5: CONTROL ACCOUNTS

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1.0 INTRODUCTION

The whole process of book-keeping revolves around the idea that the records “balance”, that is, every transaction has a credit and a debit, and the total of the debits equals the total of the credits. In other words, if there are no errors in the records, the trial balance will balance.

When a trial balance does not balance, it shows that errors have been made in the accounting entries which may be difficult and time-consuming to trace, especially in a large business organisation. The problem of errors can be solved by having a control account for each ledger that shall act as a check on the accuracy of the entries in that ledger. Most notably of control accounts are the debtors and creditors control accounts. These are ledger accounts which summarise a large number of transactions, and should be free from errors if the trial balance must agree. Sometimes, a ledger that has a control account is referred to as a self-balancing ledger.

In this unit, therefore, apart from looking at the meaning of control account, we shall consider how control accounts are written-up. Also, we shall explain what advantages control accounts have. And lastly, we shall go into the treatment of certain items in the control account.

2.0 OBJECTIVES

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

- Explain the meaning of control accounts;
- Discuss how control accounts are written-up;
- Explain the advantages of control accounts;

- Give accounting treatment to certain items in the control accounts.

3.0 CONTROL ACCOUNTS

3.1 Meaning of Control Accounts

A control account is an account which contains the summary of entries in the individual accounts in each ledger. Put in another way, a control or total account is a replica, in summarised form, of the accounts in the ledger to which it relates. By logic of extension, therefore, the balance on this account, all things being equal, will be equal to the total of all individual balances in the ledger. The principle of control accounts can be applied to all ledgers but it is usually restricted to sales ledger and purchases ledger.

Self Assessed Exercise

What do you understand by a control account?

3.2 Writing Control Accounts

From the explanation above, we understand that a control account contains the summary of entries in individual accounts. However, the figures posted to the control account are not obtained from the individual accounts themselves. For example, the figures posted to the debtors control account are not obtained from the individual debtors accounts while the figures posted to the creditors control account are not obtained from the individual creditors accounts.

Instead, the total credit sales, total returns from customers, and total discounts allowed figures posted to the debtors control account are obtained from the sales day book, returns inwards day book and discount allowed column of the 3 – column cash book respectively. Similarly, the total credit purchases, total returns to suppliers and total discount received figures posted to the creditors control account are obtained from the purchases day book, returns outwards day book and the discounts received day book of the 3 – column cash book respectively.

It has to be mentioned that the control accounts are memoranda records which implies that the entries in them are not made on the basis of double entry. The double-entries are the ones made in the individual accounts.

At this point, let us summarise the sources of the entries posted to the control accounts:

DEBTORS CONTROL ACCOUNT

Debit Entries	Source
<u>Total credit sales</u>	Sales day book
Dishonoured cheques from customers	Cash book
Interest charged to customers	Journal book
Bill receivable dishonoured	Journal book
Credit Entries	Source
<u>Cheques and cash received from customers</u>	Cash book
Discount allowed	Discount allowed
	column of 3 – column cash book
Bad debt	Journal book
Bills receivable accepted by customers	Journal book
Returns inwards	Returns inwards day book
Purchases ledger contras (set-off)	Journal book

CREDITORS CONTROL ACCOUNT

Debit Entries	Source
<u>Cheques and cash paid to suppliers</u>	Cash book
Discount received	Discount received
	column of cash book
Bills payable accepted in favour of suppliers	Journal book
Returns outwards	Returns outwards day book
Sales ledger contras (set-off)	Journal book
Credit Entries	Source
<u>Total credit purchases</u>	Purchases day book
Dishonoured cheques	Cash book
Interest charged by suppliers	Journal book
Bills payable dishonoured	Journal book

Self-Assessed Exercise

Discuss how control accounts are written-up. Give specific examples of entries and sources.

3.3 Advantages of Control Accounts

From our discussions so far, let us highlight the merits of control accounts as follows:

A control account serves as a check on the accuracy of the entries in the ledger to which it relates. Thus, control accounts make it possible to localise errors to specific ledgers so that precious time is not wasted checking ledgers which have no errors.

Because control accounts are usually put under the charge of a senior official, they serve as a check against error and fraud by the juniors who keep the ledgers.

For management purposes, the balance on the sales ledger control account can be taken to be the total amount owed to creditors. This saves the time and efforts of drawing up the debtors and creditors schedules, thereby, aid the timely preparation of draft periodic accounts.

Self-Assessment Exercise

Discuss the advantages of control accounts.

3.4 Accounting treatment of certain items in Control Accounts

Debtors Control Account

- o Bills receivable – where bills receivable and bills receivable accepted are both given, the later should be used because the obligation of the debtor on a bill arises only when he accepts the bill. However, when only bills receivable is given, it should be interpreted to mean bills receivable accepted.
- o Bills receivable discounted should be disregarded. When a bill is discounted, no entry goes to the debtors account, and invariably, no entry in respect of that would go to the debtors control account.
- o Bills receivable honoured should be disregarded. When a debtor honours a bill receivable, no entry is made to the debtors account, and therefore, no entry need be made to the debtors control account.
- o Bad debt recovered should be ignored unless it had earlier been credited to the debtors control account along with the other sums collected from debtors. In that case, it should be debited to the debtors control account.

- o Provision for bad/doubtful debt and discount allowable should be disregarded because they do not affect the debtors account at all. Therefore, no entry need be made to the debtors control account in respect of these provisions.
- o Cash sales should be disregarded. The entry for cash sale is to debit the cash book and credit the sales account. Since no entry is made to the customer's account, it would not be necessary to make any entry to the debtors control account in respect of cash sales.

Creditors Control Account

- o Where ~~"bills payable"~~ and "bills payable accepted" are both given, the latter should be used because the right of the creditor on a bill arises only when the debtor accepts the bill. However, where only "bills payable" is given, it should be interpreted to mean "bills payable accepted".
- o Bills payable honoured should be ignored because when a bill payable is honoured, no entry is made to the creditors account and, of course, no entry need be made to the creditors control account.
- o Provision for discount receivable should be disregarded because it does not affect the creditors control account.
- o Cash purchases should be disregarded because the related entries have nothing to do with either the creditors account or the creditors control account.

Example:

Maduako, a sole trader, keeps his books so that a sales ledger control account and a purchases ledger control account are shown in his general ledger and balanced at the end of the month. From the following details, show how these two control accounts will appear in the general ledger for the month of December, 1997.

At December, 1997:	N	
Dr. balances in the sales ledger		13,500
Dr. balances in the purchases ledger		415
Cr. Balances in the sales ledger		300
Cr. Balances in the purchases ledger		12,000

For the month of December, 1997:		
- Total credit purchases	17,500	
- Total credit sales	20,000	
- Sales returns and allowances		360
- Purchase returns and allowances		200

- Cash received from trade debtors 7,500
- Cheques received from trade debtors 15,000
- Discounts received from creditors 120
- Payments made to trade creditors 16,400
- Discounts allowed to trade debtors 360
- Bad debts written-off 50
- Provision for doubtful debts 200
- Bills of exchange accepted by trade debtors
of Maduako 4,300
- Sales ledger credit balances transferred to
purchases ledger 80
- Cash purchases 3,000
- Dishonoured bills payable 130
- Dishonoured bills receivable 150
- Cr. balances in the sales ledger 195
- Dr. balances in the purchases ledger 180

Solution:

Dr.	Sales Ledger Control Account		Cr.
N	N		
Balance b/d	13,500	Balance b/d	300
Sales	20,000	Sales returns and Allowances	360
Purchases ledger control	80	Cash	7,500
Bills receivable dishonour ed	150	Bank	15,000
Balance c/d	195	Discounts allowed	360
		Bad debts	50
		Bills receivable	4,300
		Balance c/d	6,055
<u>33,925</u>		<u>33,925</u>	
Balance b/d	6,055	Balance b/d	195

Dr.	Purchases Ledger Control Account		Cr.
	N	N	
	Balance b/d	415	Balance b/d
	Purchases returns and alls.	200	Purchases
	Discount received	120	Sales ledger control
	Bank	16,400	
			Bills payable
			dishonoured
	Bills payable	6,600	Balance c/d
	Balance c/d	6,155	180
	29,890		29,890
	Balance b/d	180	Balance b/d
			6,155

Self Assessment Exercise

Explain the accounting treatment of the following items in the control accounts:

- Bills receivable discounted
- Bills receivable honour ed
- Cash sales
- Bills payable accepted
- Provision for discount receivable
- Cash pur chases
- Total credit sales
- Provision for doubtful debts
- Discounts received from creditors

4.0 CONCLUSION

Having a control account for each ledger that act as a check on the accuracy of the entries in that ledger is a sure way to solve problems which arise from wrong entries. The notable control accounts are the debtors and creditors control accounts. A control account has the advantage of serving as a check on the accuracy of the entries in the ledger to which it relates.

5.0 SUMMARY

We have seen the control (or total) account as one which contains the summar y of entr ies in the individual accounts in each ledger. We have also observed that the figur es posted to the control accounts are not obtained from the individual accounts themselves.

Mention was made that the control accounts are memoranda records which means that the entries in them are not made on the double-entry principle. We have also considered the various advantages which control accounts can offer as well as the accounting treatment given to certain items in the control accounts.

6.0 TUTOR-MARKED ASSIGNMENTS

1. (a) Explain the concept of control account.
(b) What advantages do control accounts offer?
2. Enter the following amounts in the purchases ledger control and sales ledger control accounts in the general ledger, and obtain balances at the end of the period:

N		=
1st Jan.	Purchases ledger control balances	8,650
	Sales ledger control balances	12,390

Summary of transactions during the period:

Purchases journal total	43,270
Sales journal total	72,680
Sales returns journal total	1,460
Purchases returns journal total	1,320
Cash rebate given	240
Cash and cheques received from debtors	69,350
Cash and cheques paid to creditors	45,190
Discounts allowed	150
Discounts received	170
Bad debts written-off	490
Dishonoured cheque received	2,300

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MODULE 3

UNIT 1: ACCOUNTS FROM INCOMPLETE RECORDS

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- 2.0 Objectives
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1.0 INTRODUCTION

“Incomplete accounting records” refers to a situation where the accounting system do not apply the principles of double entry, thus, making it difficult or impossible to draw up the normal trading and profit and loss account as well as produce a trial balance. Two distinguishable situations of this are where no records are kept at all and where partial records are maintained usually in the form of real accounts (cash or fixed assets) but personal and expense accounts are omitted.

This unit will concentrate on the above situations. The essence, if not the quintessence, is to explore the possibility or feasibility of creating something out of nothing – having some idea of the trading results with scanty accounting information.

2.0 OBJECTIVES

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

- Give meaning to the term „incomplete records ;
- Compute the trading results where no records are kept;
- Compute the trading results and net investments in the business where partial records are kept.

3.0 ACCOUNTS FROM INCOMPLETE RECORDS

3.1 Meaning of Incomplete Records

From our introduction above, we can say that “incomplete records” denotes varying degrees of deviation from the standard accounting records which are kept on the „complete principle of double entry. In

other words, it describes records which the trader has not fully completed or where no records at all have been kept of transactions. However, it may still be possible to prepare periodic financial statements if the relevant basic documents are made available from which the required additional information can be obtained. The matter of incomplete accounting records is more often associated with the sole proprietorships.

Self-Assessment Exercise

Explain what you understand by the term „incomplete records under two distinct situations.

3.2 Situation of No Records

Where no records have been kept, the accountant will fall back to a great extent on basic source documents such as receipts, invoices, and bank tellers/statements as well as the entity's transaction files. Some information relating to opening/closing stocks, cash balances, fixed assets, debtors, creditors and the opening capital position can be gotten from the proprietor through interviews.

Also, where there are no reliable records to lay hands on, further interviews with the proprietor may reveal the extent and frequency of cash withdrawals from the business to meet personal obligations as well as cash or assets introduced into the business during the year, to enable the accountant make appropriate estimates.

A „statement of affairs may be prepared as at the start of the period and another as at the close of period if the aim is just to let the proprietor have some approximate idea of the period's trading results and the closing net worth. A „statement of affairs, which is the name given to what would have been called a „balance sheet if it had been drawn from a set of records, is a summary of an entity's assets, liabilities and capital at a particular date. It contains approximate values rather than values disclosed by books of account which have been kept systematically.

A comparison of the net asset position on the two dates (start and close of periods) will show the amount by which the proprietor's capital had increased/decreased during the intervening period. If there were no withdrawals and no new capital introduced during the period, this difference must be of the nature of profit or loss.

To calculate the amount of profit (or loss) realised between the intervening periods from the relevant statements of affairs would

require, firstly, that we find the net increase in the net asset and then add back drawings (if any) and deduct new capital introduced (if any).

Example:

The statement of affairs of Ryzma, a sole proprietor, disclosed capital as at 31st December, 2001 and 2002 as N450,000 and N600,000 respectively. During the year, Ryzma introduced an old delivery van valued at N100,000 but total drawings in cash and goods amounted to N200,000. Compute the net profit for the year.

Solution:

Net change in net worth (capital):	N	
Closing balance	600,000	
Opening balance	450,000	
Difference	150,000	_____
Add: Drawings	200,000	
Less: Capital introduced	100,000	
Net profit for the year	250,000	=====

Let us look at another example:

The following information is disclosed in respect of Rodro & Co., who did not maintain a set of accounting records during the year 1st July, 1992 to 30th June, 1993. You are required to prepare a set of accounts, highlighting the company's profit for the year as well as the closing networth.

	Estimated Values		_____
	As at 1/7/92	As at 30/6/93	
	N	N	
Land and Buildings	25,000	24,000	
Plant and machinery	34,000	30,000	
Office furniture	6,000	7,000	
Motor vehicles	-	4,000	
Stocks	12,000		15,000
Sundry Debtors	8,000	12,000	
Sundry Creditors	13,000	15,000	
Cash	2,000		3,000

During the year, Rodro withdrew cash and goods amounting to N4,500 for his personal use. He, however, brought in sundry assets valued at N3,000. Prepare statement of affairs for Rodro & Co. highlighting the trading results and the financial position of the firm.

Solution:

Dr. Cr. Statement of Affairs as at 1st July, 1992

Date	Particulars	Folio	Amount	Date	Particular	Folio	Amount	
			(N)					(N)
	Net worth (capital)		74,000.00		Land and Buildings		245000.00	
	Creditors		13,000.00		Plant and Machinery		34,000.00	
					Office		12,000.00	
					Furniture		8,000.00	
					Stocks		2,000.00	
					Debtors		87,000.00	
					Cash			
			87,000.00					

Dr. Cr. Statement of Affairs as at 30th June, 1993

Date	Particulars	Folio	Amount	Date	Particular	Folio	Amount	
			(N)					(N)
	Net worth (capital)		80,000.00		Land and Buildings		24,000.00	
	Creditors		15,000.00		Plant and Machinery		30,000.00	
					Motor Vehicles		4,000.00	
					Office Furniture		7,000.00	
					Stocks			15,000.00
					Debtors			12,000.00
					Cash			3,000.00
			95,000.00					95,000.00

Computation of Net Profit

N	
Net worth at 30/6/93	80,000
Less: Net worth at 1/7/92	74,000
Net increase	6,000
Add: Drawings	4,500
Less: New capital introduced	3,000
Net profit for the year	7,500

Self-Assessment Exercise

Explain the difference between „statement of affairs and „balance sheet relative to accounts from incomplete records.
 Explain the computation of trading results in a situation of „No records .

3.3 Situation of Partial Records

Where partial records are kept (which may be referred to as single entry accounts), some concerns are able to keep a cash book for much of their transactions that are carried out in cash or through the bank. However, cash book entries are usually not posted as few or no ledger accounts are kept. In this circumstance, the accountant will have to fall back on basic documents relating to sales, purchases, cash transactions, etc. which may be filed, as well as the management for additional information. It is important to obtain information relating to fixed assets inventory, inventory values, accruals and prepayments. Also, the accountant may have to convert the entire system into a double entry system first before embarking on the preparation of the final accounts.

When the books are kept on the single entry principle, a common problem which arises is the determination of purchases and sales figures in the absence of accounts maintained for these items. However, the total amounts of sales and purchases for a period can be derived once information is given in respect of the outstanding debtors and creditors at the beginning and close of the period, and also, on the total cash movement during the period between the firm and its customers and suppliers.

Example:

Derive the total sales figure from the following information extracted from a firm's cash book and other relevant records:

N		
Total debtors b/f	5,600	
Total cash receipts from debtors and cash sales	153,000	
Total debtors c/f	6,800	

Dr.	Total Debtors Account					Cr.	
Date	Particulars	Fol.	Amount	Date	Particular	Fol.	Amount
	Balance b/f		5,600.00		Cash		
	Sales (balancing figure)		154,200.00		receipts		153,000.00
	Balance b/f		6,800.00		Balance c/f		6,800.00
			159,800.00				159,800.00

Dr.	Sales Account					Cr.	
Date	Particulars	Folio	Amount	Date	Particular	Folio	Amount
	Total Debtors		(N)		account		154,200

Self Assessment Exercise

From the following information relating to a company, you are required to determine the year's purchases:

	N
Total creditors b/f	7,200
Total cash paid to suppliers	98,800
Total creditors c/f	8,400

4.0 CONCLUSION

The concept of "Incomplete accounting records" describes two distinct situations where either no records have been kept at all or where partial records are being maintained. In either case, there is a deviation from the double entry principle. The situations make it difficult or impossible to produce a trial balance or draw up the final accounts at the end of a period. The task of the accountant, given the situations, is to explore all possible avenues to obtain information in order to create something out of nothing.

5.0 SUMMARY

In this unit, we have discussed "Accounts from incomplete records" that denotes deviation from the accounting records which are kept on the complete principle of double entry. We have considered situations where no records are kept and where partial records are maintained with emphasis on the job of the accountant to attempt to make good the situations.

6.0 TUTOR MARKED ASSIGNMENTS

Ms Clark, a shop owner, keeps a cash book and a ledger containing personal accounts for debtors and creditors. At 31st December, 1999 and 31st December, 2000, her assets and liabilities were as follows:

	1999	2000
Petty cash balance	100	125
Bank balance	2,000	5,000
Debtors	10,000	12,000
Creditors	15,000	13,000
Inventory	5,000	6,000
Equipment at carrying value	5,000	7,500

The following additional information are ascertained:

- (i) Drawings during the year amounted to N2,500.
- (ii) During the year, a legacy of N3,000 had been paid into the bank as additional capital.

- (iii) N50,000 had been paid to creditors for purchases.
- (iv) Receipts from debtors amounted to N75,000. All sales were on credit.
- (v) An amount of N1,000 must be written-off as bad debts.
- (vi) Depreciation is to be provided for at 10% on carrying value.
- (vii) Additional equipment was purchased on 1st July, 1999.

You are REQUIRED to prepare in respect of Ms Clark's shop:

- (a) The Trading and Profit and Loss account for the year ended 31st December, 2000 to show the gross profit as well as the net profit.
- (b) The balance sheet as at 31st December, 2000.

7.0 REFERENCE AND FURTHER READINGS

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**UNIT 2: ACCOUNTS OF NON-PROFIT
ORGANISATIONS**

CONTENTS

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- 2.0 Objectives
- 3.0 Accounts of Non-profit Organisations
 - 3.1 Characteristics of Non-profit Organisations
 - 3.2 Clubs and Associations – Accounting Requirements
 - 3.3 Receipts and Payments Accounts
 - 3.4 Income and Expenditure Accounts
- 4.0 Conclusion
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- 6.0 Tutor Marked Assignments
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1.0 INTRODUCTION

Accounting, as a tool for measurement and communication, is relevant to both business and non-business situations, to all forms of organisations, whether they exist to make profit or not. So far in this course, we have assumed accounting situations where the primary goal is profit-making.

A non-profit organisation such as a church association, school, social club, sports club or charitable institution is one which is funded by members' subscriptions or donations and such funds are used to achieve the objectives of the organisations. In its book-keeping, although the basic principles appear the same, the kind of final accounts prepared by a non-profit organisation tend to differ from those prepared by a profit-making outfit.

Therefore, this unit will attempt to explore into the nature of non-profit organisations, their accounting requirements as well as the nature of final accounts prepared by them.

2.0 OBJECTIVES

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

- Explain the characteristics of non-profit organisations;
- Explain the accounting requirements of clubs and associations;
- Prepare receipts and payments accounts;
- Prepare income and expenditure accounts.

3.0 ACCOUNTS OF NON-PROFIT ORGANISATIONS

3.1 Characteristics of Non-profit Organisations

It is the nature of non-profit organisations, as their name implies, to carry on their activities without the profit motive. They may trade or carry on any other type of business but with the aim of rendering service at the minimum cost. This suggests that they may charge for the services just to recover costs with little or no surplus. The surplus (not profit) they may make could be regarded as a by-product.

Usually, by way of capital, there is little permanent investment by members. Any permanent fund is usually the outcome of periodic surpluses of receipts over payments or income over expenditure accumulated over a number of years. Non-profit organisations usually have “Accumulated Fund” (as we shall see later) in place of “Capital”, and as a result, members have no proprietary right which they may withdraw or transfer upon cessation of membership.

The usual sources of revenue for non-profit concerns are fees, periodic subscriptions and donations. At times, some trading activities may be carried out and a little margin made therefrom, for example, sale of magazines or journals, sale of food and drinks in a club house, etc. Also, fund-raising activities like exhibitions and variety nights, may be organised, from time to time, to get money.

The kind of final accounts prepared by non-profit organisations are either „Receipts and Payments accounts or „Income and Expenditure accounts.

Self-Assessment Exercise

Discuss the features of non-profit organisations.

3.2 Clubs and Associations – Accounting Requirements

The final accounts which are presented to members of non-profit organisations usually reports to what extent incomes from all sources were enough to meet the expenses incurred during a particular period. Here, “income” can be viewed or adopted either on cash basis or accrual basis. When the cash basis is adopted, a receipts and payments account is prepared but if situation warrants adopting the accrual basis, an income and expenditure account is prepared. We shall explain these statements shortly.

A balance sheet, as in the case of profit-making concerns, is also usually prepared which shows the summarised values of assets, liabilities and the accumulated fund being carried forward to the next period.

Self-Assessment Exercise

What are the accounting requirements of non-profit organisations?

3.3 Receipts and Payments Accounts

Receipts and payments accounts are merely a summary of the cash book for the period. In other words, it is a summary of all the cash transactions carried out during a period. This may be adopted when a very small non-profit concern carries out transactions on cash basis and does not feel the need for more sophisticated information other than merely being interested in assessing the entity's liquidity position.

As a measure of success or otherwise of the activities of the period, the receipts and payments accounts suffer some drawbacks arising mainly from the exclusive reliance on receipts and payments (cash movements) as the evidence that the transaction has taken place. Thus, they do not adequately disclose the results of the organisation's activities during a period because:

- they do not take account of credit transactions – debtors and creditors are not disclosed;
- they fail to make a distinction between capital and revenue items;
- they take no account of accruals and prepayments.

Example:

Fitness Sports Club was formally established on 1st January, 2004 and was granted the free use of a clubhouse at Kokoma. The following are its financial transactions for the year ended 31st December, 2004 as recorded in the treasurer's only financial record, the cash book:

Dr.		Receipts and Payments Account				Cr.	
Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
			(N)				(N)
	Balance b/d	16,500.00			Wages		1,300.00
	Subscriptions	800.00			Equipment		4,000.00
	Admission fees	1,500.00			Wages		1,300.00
	Proceeds from journal sales	2,000.00			Wages	1,200.00	
	Subscriptions	4,000.00					
	Donations	2,300.00			Balance c/d	19,300.00	
			27,100.00				27,100.00
	Balance b/d	19,300.00					

You are required to prepare a statement of receipts and payments for the year ended 31st December, 2004.

**FITNESS SPORTS CLUB
STATEMENT OF RECEIPTS AND PAYMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2004**

	N	N	—	—
Balance b/d (opening balance)			16,500.00	
Add: Receipts:				
Subscriptions		4,800.00		
Admission fees		1,500.00		
Sales of journals		2,000.00		
Donations	2,300.00		10,600.00	
	27,100.00		—————	—————
Less: Payments:				
Wages		3,800.00		
Equipment		4,000.00	7,800.00	
Balance c/d (closing balance)			19,300.00	————— —————

Explanation:

The statement is prepared on a cash flow basis and reflects only the receipts and payments of cash.

No cognisance is taken of the fact that income and expenditure of a capital nature, such as the purchase of equipment, has taken place.

No cognisance is taken of items such as subscriptions which may be in arrears or prepaid.

Self-Assessed Exercise

Discuss the disadvantages inherent in adopting the receipts and payments accounts as a measure of the performance of non-profit organisations activities during a period.

3.4 Income and Expenditure Accounts

The limitations of the receipts and payments accounts make it necessary for many non-profit organisations to present reports which are prepared on the accrual basis and in accordance with the principles of double entry. Income is recognised once it is realised whether or not proceeds have actually been received. In like manner, all costs would be taken into account once they have been incurred whether or not they have actually been paid. In effect, income and expenditure accounts have to

be prepared on the basis of systematic standard procedures of book-keeping. The income concept, as disclosed by the income and expenditure account, is much more accurate than that disclosed by the receipts and payments account. Note that income and expenditure account, and the profit and loss account are the same in form and structure, but differ conceptually, for example:

In the income and expenditure account, revenue refers to fees, subscriptions, donations received as against "Sales" in the profit and loss account.

The difference between revenue and expenditure is known as "surplus" or "deficit" as against "profit" or "loss".

Example:

Assume that in addition to the transactions recorded in the receipts and payments of Fitness Sports Club in 3.3 above, the following information is made available by the Treasurer:

(i) On 1st January, 2004, the club had the following assets:

Bank Balance	N16,500.00
Equipment at carrying value	6,000.00

(ii) The register of club members shows:

Membership at 1st January, 2004	20	
Joined during the year	5	
Membership at 31st December, 2004	25	—
		—

Club members each pay an annual subscription of N300.00 and new members pay an additional admission fee of N300.00. At 31st December, 2004, one member had already paid his subscription for the year to 31st December, 2005. It is not the club's practice to treat admission fees as income but as a contribution towards accumulated funds.

(iii) At the end of each year, 20% of the carrying value of equipment is to be treated as depreciation.

(iv) The Editor/Marketer of the journal provided documentation indicating that N6,100.00 had been raised and that expenses had totalled N4,100.00.

Required:

Prepare a statement of income and expenditure for the year ended 31st December, 2004, and a balance sheet as at that date.

Solution:

**FITNESS SPORTS CLUB
STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED 31ST DECEMBER, 2004**

	N	N	=	=
Income:				
Subscriptions (25 x N300)	7,500.00			
Sales of journals	6,100.00			
Donations	2,300.00	15,900.00		
Less: Expenses:				
Journal expenses	4,100.00			
Wages	3,800.00			
Depreciation (20% of N10,000)	2,000.00	9,900.00		
Surplus of income over expenditure			6,000.00	

**FITNESS SPORTS CLUB
BALANCE SHEET AS AT 31ST DECEMBER, 2004**

	N	N	=	=
ASSET:				
Fixed Assets:				
Equipment at cost less depreciation (10,000 – 2,000)	8,000.00			
Current Assets:				
Subscriptions in arrears	3,000.00			
Cash at bank	19,300.00			
	22,300.00			
Total Assets	30,300.00			
EQUITY AND LIABILITIES:				
Accumulated Funds:				
Balance beginning of year (16,500 + 6,000)	22,500.00			
Add: Surplus	6,000.00			
Admission fees (5 x 300)	1,500.00			
	30,000.00			

Current Liabilities:

Subscriptions in advance	300.00
Total Equity and Liabilities	<u>30,300.00</u>

Explanation:

The opening accumulated fund of N22,500.00 is the bank balance (16,500) plus the equipment (N6,000) as these were the only assets on hand on 1st January.

The adjustments for subscriptions (nominal account) and depreciation were made.

Self-Assessment Exercise

Distinguish between Receipts and Payments account and Income and Expenditure account relative to non-profit organisations.

4.0 CONCLUSION

We wish to conclude that non-profit organisations, as the name suggests, exist not for profit-making but to achieve the objectives for which they are established. They could be churches, sports clubs, charitable organisations, etc. What appears to be „profit“ at the end of their accounting period is regarded as „surplus“ which results from receipts in excess of payments. Between the profit-making and non-profit organisations, although they adopt similar basic principles of book-keeping, they prepare different final accounts. Non-profit organisations prepare receipts and payments account or income and expenditure account instead of profit and loss account. Also, they have “accumulated fund” in place of “capital” in the balance sheet.

Receipts and payments accounts are not actually accounts but summary statements – summarises all cash transactions carried out during the period. Their major limitation lies on their being prepared on cash basis hence they do not adequately disclose the organisation's results at the end of the period.

On the other hand, the income and expenditure accounts are prepared on accrual basis and according to the principles of double entry. Therefore, cognisance is taken of credit transactions (debtors and creditors), accruals and prepayments as well as the distinction between capital and revenue items.

You are required to:

Prepare the income and expenditure account showing the result for the year ended 30 June, 1997, and the balance sheet as at that date.

7.0 REFERENCE AND FURTHER READINGS

Anao, A.R. (1989). An Introduction to Financial Accounting. Ibadan: Longman Nigeria Limited.

Flynn, David et. Al. (2000). Fundamental Accounting 4th Edition, Kenwyn: Juta & Co. Limited.

Wood, Frank (1990). Business Accounting I 5th Edition London: Pitman Publishing.