**FINANCIAL ACCOUNTING SS 2**

**SECOND TERM**

**SCHEME OF WORK**

**WEEK TOPIC**

1 – 2 Departmental Accounts

3 - 4 Manufacturing Accounts

5 Capital and Revenue Expenditure

6 - 7 Disposal of Fixed Assets

8 Accounting Concepts and Conventions

9 - 10 Introduction to Accounting Ratios

**WEEK ONE AND TWO**

**TOPIC: DEPARTMENTAL ACCOUNTS**

**CONTENT**

Meaning of Departmental Accounts

Expenses and Apportionment

Final Accounts

**Meaning of Departmental Accounts**

In large organizations, operations are often divided into separate departments due to the high volume of transactions and a wide range of product lines. This division makes it convenient and essential for accounting purposes to segregate operations into different departments. This division helps the organization manage operations and maintain accountability.

In departmentalized organizations, the accounting process involves maintaining separate journal and ledger books for each department. This includes separate cash books, purchase and sales books, stock records, returns records, and personal ledgers for each department.

At the end of the financial year, accountants consolidate the separate journal and ledger books to integrate, compare, and determine the performance of each department (see final accounts).

Final Accounts of a Departmentalized Enterprise

The trading, profit, and loss accounts of each department in a departmentalized organization are prepared separately but in a combined format known as the "Departmental Trading, Profit, and Loss Account."

The purpose of the departmental trading and profit and loss account is to compare the trading results of different departments. This information assists the business owner in formulating policies, providing insights into departments that perform well, and identifying those that may need improvement.

Note: The balance sheet follows the standard procedure and is not presented in a combined format.

***Format***

**Departmental Trading, Profit and loss Account for the**

**year ended 31st Dec. 19xx**

**A B C Total A B C Total**

**N N N N N N N N**

Opening stock x x x x Sales x x x x

Add purchases x x x x Returns I.R x x x (x)

Inter dept. T/f x x x -

X x x x

Less clo. Stock (x) (x) (x) (x)

Cost of sales x x x x

Gross profit c/d x x x x

X x x x x x x x

Expenses G/P b/d x x x x

Wages & Salaries x x x x Dis. Rec. x x x x

Rent x x x x

Commission x x x x

Depreciation x x x x

Motor expenses x x x x

Net profit c/d x x x x

X x x x x x x x

**INTER DEPARTMENTAL TRANSFER AND APPORTIONMENT OF EXPENSES**

***Inter Departmental Transfer:*** Sometimes goods purchased by one department may be transferred to another department by reason of sales and such purchases transferred is deducted from the department giving it out and is added to the department receiving it.

***Apportionment of Expenses:*** Expenses are usually not separated to reflect expenses incurred by each department. As a result of this, there is need for apportionment (i.e division). Expenses must therefore be adjusted and then apportioned for each of the departments.

***Methods***

a. **Turnover Basis:** This is the use of sales (i.e Turnover as a basis of sharing (i.e sharing ratio).

b. **Floor Space Basis:** This uses the area of floor space occupied as the basis of sharing i.e sharing ratio.

c. **Number of Articles Sold Basis:** Ratio used is the items sold.

d. **Direct Analysis Basis:** Ratio used here is specified.

e. **Equality Basis:** The ratio used here is the number of departments existing.

**EVALUATION**

1. What is departmental account?.

2. State four reasons why organizations separate their operations into different departments.

**ILLUSTRATION**

Below is the trial balance of Akinbode Electronic shop for the year end 31st December, 2006.

N N

Sales: Dept E 30,000

Dept F 20,000

Stock (1/1/2006): Dept E 800

Dept F 750

Purchases: Dept E 22,000

Dept F 18,500

Commission 1,500

Salaries 800

Insurance premium 1,000

Stationery 450

Discount allowed 100

Discount received 350

Sundry expenses 110

Stock at close: Dept E 1,100

Dept F 900

***NOTE***

1. The total floor area occupied by each departments is Dept: E (2/5)

F (3/5)

1. Apportionment basis are:
2. Commission, discount allowed – sales ratio
3. Discount received – purchases ratio
4. Insurance – floor area
5. Other – equal apportionment

***Solution***

**AKINBODE’S DEPARTMENT TRADING, PROFIT AND LOSS ACCOUN FOR THE YEAR END 31SY DEC. 2006**

**DEPT E DEPT F DEPT E DEPT F**

Stock (1/1/2006) 800 750 Sales 30,000 20,000

Purchases 22,000 18,500

Cost of goods avail. 22,800 19,250

Less stock (31/12) (1,100) (900)

Cost of sales 21,700 17,350

Gross profit c/d 8,300 2,650

30,000 20,000 30,000 20,000

Expenses G/P b/d 8,300 2,650

Commission 900 600 D/R 190 160

Salaries 400 400

Insurance 400 600

Stationeries 225 225

Discount allowed 60 40

Sundry expenses 55 55

Net profit 6,450 890

8,490 2,810 8,490 2,810

***Apportionment Basis***

a. Sales Ratio

Dept. E: 30,000: Dept. F: 20,000 = 50,000

= 30,000/50,000 = 20,000/50,000

b. Purchases Ratio

Dept. E: N22,000 Dept. F: 18,500 = 40,500

= 22.000/40.500 = 18,500/40,500

c. Floor area already given Dept. E 2/5; Dept. 3/5

d. Other expenses = equally = (÷ 2) or 50%; 50%

***Evaluation***

1. Discuss the term inter-departmental transfer.

2. Explain any four bases of apportionment of common expenditure in a profit and loss account of a department store.

***READING ASSIGNMENT***

1. Essential Financial Accounting by O.A. Longe page 160-171

2. Comprehensive Accounting for S.S. by J.U. Anyaele

**GENERAL EVALUATION QUESTIONS**

1. Explain five errors that would affect the agreement of the trial balance
2. List and explain three classifications of ledger accounts
3. List ten accounts found in the nominal ledger
4. State the purpose of departmental accounts
5. List six items each found in the asset and liability sides of the balance sheet of a sole trader

**WEEKEND ASSIGNMENT**

Use the information provided below to answer question 1 – 4

***WB LTD is departmentalized as follows:***

DEPARTMENT

W X Y Z

Purchases 625,000 375,000 125,000 325,000

The company use purchases figure to apportion the following expenses to the various departments’ expenses:

Amount

N

Commission paid 9,000

Salaries 60,000

General expenses 20,000

Insurance 1,000

1. What is the proportion of commission paid to be charged to dept W?

(a) N3,879 (b) N,2328 (c) N 2,017 (d) N776

2. How much of the commission paid shall be charged to dept Z? (a) N 431 (b) N 776

(c) N 2,017 (d) N 2,328

3. What is the proportion of salary to be charged to dept X? (a) N25,862

(b) N15,517 (c) N13,448 (d) N5,173

4. What is the proportion of general expenses to be charged t dept “Y”

(a) N8,621 (b) N5,172 (c) N1,724 (d) N776

5. Insurance premium on business premises should be apportioned on the basis of (a) sale

(b) purchases (c) carriage outwards (d) floor space occupied per department

**THEORY**

1. List six items of expenses and their basis of apportionment into departments.

2. State and explain four advantages of department accounts.

**WEEK THREE AND FOUR DATE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**TOPIC: MANUFACTURING ACCOUNTS**

**CONTENT**

* Meaning of Manufacturing Accounts
* Purpose of Manufacturing Account
* Element of Cost of Production
* Layout of Manufacturing Account
* Transfer Pricing
* Practical Illustration

**MEANING OF MANUFACTURING ACCOUNTS**

Manufacturing can simply be described as the transformation of raw materials into finished goods e.g. manufacturing companies like Nestle, Cadbury, PZ e.tc. These manufacturing firms do manufacture their goods or product before they are sold to their customer. They do not buy to sell but produce what they sell.

There manufacturing companies prepare a final accounts called Manufacturing Account.

**PURPOSE OF MANUFACTURING ACCOUNTS**

Manufacturing Account are prepared to ascertain the cost of goods manufactured during the financial

year. Therefore manufacturing accounts have the following purposes.

1. To ascertain the cost of production
2. To determine the profit on the manufacturing process.

**ELEMENTS OF COST OF PRODUCTION**

1. **COST OF PRODUCTION:** This is the total expenditure incurred in the production of goods. Production costs include **PRIME COST + FACTORY OVERHEADS**
2. **PRIME COST:** These are cost directly related in the production process. It is also called Direct Cost which include: Direct materials, direct labour, direct expenses and any other direct expenditure.
3. Direct materials cost: These are cost of raw materials
4. Direct labour cost: These are cost of labour wages paid
5. Direct expenses: These are cost of other expenditure incurred in the production process.
6. **FACTORY OVERHEADS:** These are cost incurred in the running of the factory but not directly related to the production process. It is also called **INDIRECT COST.**  They include; factory rent and rates, depreciation of plant and machinery. Indirect wages, upkeep of factory building

**Format of Manufacturing Trading Profit and Loss Account**

N N N

Opening stock of raw material x Cost of production x

Add purchases of raw material x

Carriage inward of raw material x x

X

Loss closing stock or raw material net (x)

Cost of raw material consumed x

Add direct wages x

Royalties x

Direct expenses x

Prime cost x

Factory overheads: x

Factory power x

Factory rent & rates x

Indirect wages x

Factory insurance x

Depreciation of P & M x

Fuel and power x

Lubricants x x

X

**Add** opening stock W.I.P X

X

**Less** closing stock W.IP X

Cost of production **x** x

**Manufacturing Trading, Profit and loss Account contd**

N N N N

Opening stock of finished goods x sales x

Add cost of production x

Cost of good available for sale x

**Less** closing stock of finished goods (x)

Cost of goods sold x

Gross profit c/d X

X x

Expenses Gross profit b/d x

Selling & distribution Discount received x

Carriage outward x x

Commission sales x

Salesmen salaries x x

Administration exp

Admin salaries x

Office rent x

Office insurance x

Office lighting x

Depreciation of

Office machinery x x

X

Net profit c/d x

X x

**TRANSFER PRICING**

In the trading account, the cost of production is charged to determine profit on sales. The changing of cost of production of goods may be done in two ways.

1. Actual factory cost
2. Current market values

When goods manufactured are charged at the current market value to the trading account, the main objective is obtain profit on the manufacturing process. The manufacturing accounts will then have to show a balance which represents a profit or loss on production and this is transferred to profit and loss account.

**EVALUATION**

1. State four classifications of costs revealed by manufacturing accounts.

2. State two reasons for the preparation of manufacturing accounts.

**PRACTICAL ILLUSTRATIONS**

The following information was extracted from the books of Tasty Enterprises for the year ended 31st December 1991

N

Manufactured goods 9,740

Raw materials 3,000

Discount allowed 3,740

Depreciation on plant and machinery 13,000

Printing and stationery 930

Purchases: Manufactured goods 12,740

Carriage inwards 500

Debtors 21,740

Cash at bank 1,710

Purchases of raw material 87,260

Office rent and rates 6,500

Repairs to machinery 2,500

Plant and machinery 75,200

Factory electricity 5,790

Carriage inwards (raw materials) 3,410

Office salaries 9,400

Carriage outwards 2,330

Factory rent and rates 22,710

Cash in hand 570

Manufacturing wages 110,290

Sales 299,420

Capital 77,820

Creditors 21,790

***Additional***

(a) Stock on 31st Dec 1991

Manufactured goods N27,940

Raw material N 2,000

(b) Goods manufactured to be posted to the sales department at net realizable value of N271,500

You are required to prepare manufacturing trading profit and loss account for year ended 31st Dec. 1991.

**SOLUTION: TASTY ENTERPRISES**

**Manufacturing Trading Profit and Loss Account for the year ended 31st December, 1991.**

**Dr N N N N**

Opening stock of r.m 3,000 Transfer cost 271,500

Add. Purchases of r.m 87,260

Carriage of raw mat. 3,410 90,670

93,670

Less closing stock of r.m 2,000

91,670

Manufacturing wages 110,290

Prime cost 201,960

Factory overheads

Depreciation p&m 13,000

Repair to machinery 2,500

Electricity 5,790

Factory rent and rates 22,710 44,000

Production cost 245,960

Gross profit on production 25,540

**271,500 271,500**

Opening stock of finished gds 9,740Sales 299,470

Add: Transfer cost 271,500

Purchases of finished gds 12,740

Carriage inwards 500 284,740

Cost of goods available 294,480

for sales

**TASTY ENTERPRISES**

Manufacturing Trading Profit and Loss Account for the year ended 31st December, 1991.

N N N N

Cost of goods available 294,480 Sales b/f 299,420

for sale b/f

Less closing stock 27,940

Cost of goods sold 266,540

Gross profit c/d 32,880

299,420 299,420

Expenses Gross profit b/d 32,880

Discount allowed 3,740 Profit on manufacture 25,540

Office rent & rates 6,500

Office salaries 9,400

Carriage outward 2,330

Printing & stationary 930

Net profit 35,520

58,420 58,420

**EVALUATION**

1. What is factory overhead?

2. What is prime cost?

3. Define cost of production by way of formula

**GENERAL EVALUATION QUESTIONS**

1. Explain three differences between a trial balance and a balance sheet
2. State four reasons for disagreement between a bank statement balance and cash book balance
3. List five methods of providing for depreciation
4. State five reasons for making provision for depreciation
5. List six factors to be considered in computing the depreciation on fixed assets

**READING ASSIGMENT**

Essential Financial Accounting for S.S. by O.A. Longe page 160-171

**WEEKEND ASSIGNMENT**

1. The following is the main objective of a manufacturing account (a) to ascertain gross profit (b) to ascertain net profit (c) to ascertain profit on asset (d) to ascertain cost of production

2. The cost components of manufacturing directly related in the per unit of good produced is called (a) factory cost (b) cost of production (c) prime cost (d) fixed cost.

3. Cost of production is also called (a) factory overhead (b) factory expenses (c) manufacturing cost (d) prime cost

4. Prime cost can also be described as (a) indirect cost (b) direct cost

(c) fixed cost (d) variable cost

5. Royalties is an example of \_\_\_\_\_\_\_\_ cost (a) factory cost (b) indirect cost (c) prime cost (d) selling and distribution

**THEORY**

1. Write short note on:

a. Prime cost

b. Factory overhead

2. Distinguish between

a. Work in progress (W.I.P) and finished goods

b. Prime cost and factory overhead.

**WEEK FIVE DATE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**TOPIC: CAPITAL AND REVENUE EXPENDITURE**

**CONTENT**

* Definition of Capital and Revenue Expenditure
* Distinct between Capital and revenue expenditure
* Effects of Overstatement and Understatement of Capital and Revenue Eexpenditure
* Statement of Capital and Revenue Expenditure

1. **Capital Expenditure:** Capital expenditure are payment made on items of capital nature. They are expenses which add to the value of fixed assets. Capital expenditure therefore can simply be described as the expenditure that consist of cost of fixed assets and other associated costs.

E.g: (a) Cost of purchase (b) Cost of delivery

(c) Installation cost (d) Legal costs of purchase

(e) Architect fees. (f) Cost of demolition before new building is sited

(g) Cost of inspection and test of fixed asset before use.

1. **Revenue Expenditure:** Revenue expenditures are payments made on running the daily activities of business enterprises. They are expenses which do not add to the value of fixed assets but are for maintenance and repairs of fixed assets and to generally run the business on daily basis.
2. Eg: (a) Cost of maintenance of fixed assets (b) Cost of repairs

(c) Payment of rents and rates (d) Payment of wages and salaries

(e) Cost of transportation etc.

Distinction between Capital and Revenue Expenditure

**CAPITAL EXPENDITURE REVENUE EXPENDITURE**

|  |  |
| --- | --- |
| 1. Capital expenditure consist of cost of fixed assets and other associated cost. | Revenue expenditure consist of cost of maintenance or repairs of fixed assets |
| 2. Capital expenditure are incurred in long term projects | Revenue expenditure are incurred daily weekly, monthly and yearly and are better describe as Recurrent |
| Capital expenditure are expenses that result in increases of value of fixed assets in the balance sheet | Revenue expenditure are expenses chargeable to the profit and loss accounts |
| Capital expenditure are made on capital items which are long term and have enduring influence on profit of the organization | Revenue expenditure are made on revenue items which are shore term and have a temporary influence on the profit of the organization |

**EFFECTS OF OVERSTATEMENT AND UNDERSTATEMENT OF CAPITAL AND REVENUE EXPENDITURE.**

Capital and revenue expenditure when wrongly posted or interpreted or wrongly mistaken for each other, will have a great effect of overstatement or understanding on profit.

**Example**

Capital expenditure overstated has the following effect

1. Overstatements of profit because revenue expenditure must have been understand.
2. Overstatement of value of fixed asset

Revenue Expenditure understated has the following effects:

1. Understatement of profit
2. Understatement of value of fixed assets

**STATEMENTS OF CAPITAL AND REVENUE EXPENDITURE**

These are prepared to show the distinction between them mostly in government office.

**ILLUSTRATION**

The Federal Ministry of Health incurred in 1989 the following:

**N**

Construction of hospital ward 28, 500, 000

Purchase of beds 920, 000

Repairs of ambulances 25, 000

Salaries and wages 31, 000, 000

Maintenance of vehicles 7, 500, 000

Purchases of petrol and lubricants 800, 000

Purchase of theater equipment 7, 920, 000

Construction of boreholes 1, 200, 000

Purchases of drugs 10, 550, 000

Purchases of vaccines 1, 330, 000

Maintenance of mortuary buildings 670, 000

Purchase of incubators 3, 800, 000

Purchase of X-ray machines 4, 200, 000

**Prepare statements of**

* 1. Capital expenditure
  2. Revenue expenditure

**Solution**

Statement of Capital Expenditure

Particulars **N**

Construction of hospital ward 28, 500, 000

Purchase of beds 920, 000

Purchase of theater equipment 7, 920, 000

Construction of boreholes 1, 200, 000

Purchase of incubators 3, 800, 000

Purchase of X-ray machines 4, 200, 000

Total 46, 540, 000

Statement of Revenue Expenditure

Particulars **N**

Repairs pf ambulances 25, 000

Salaries and wages 31, 000, 000

Maintenance of vehicles 7, 500, 000

Purchases of petrol and lubricants 800, 000

Purchases of drugs 10, 550, 000

Purchases of vaccines 1, 330, 000

Maintenance of mortuary buildings 670, 000

Total 51, 875, 000

**Reading Assignment**

Essentials Financial Accounting for S.S by A.O Longe page 186-192

**GENERAL EVALUATION QUESTIONS**

1. State five reasons why organizations separate their operations into different departments
2. List six errors that will not affect the agreement of the trial balance
3. Explain four classifications of cost found in the preparation of manufacturing accounts
4. Explain the following (a) prime cost (b) work – in – progress (c) manufacturing profit
5. List five prime books of account used in recording financial transactions

**WEEKEND ASSIGNMENT**

1. Purchase of lubricant oil is an example of (a) Revenue expenditure (b) Capital Expenditure (c) Accrued Expenses (d) Running cost
2. Purchase of Fixed Assets is an example of (a) running cost (b) accrued expenses (c) revenue expenditure (d) capital expenditure
3. Revenue expenditure can better be described as (a) recurrent expenses (b) ordinary expenses (c) general expenses (d) yearly expenses.
4. Revenue expenditure when understated has the following effects on the profit (a) understatement of profit (b) overstatement of profit (c) set profit of equilibrium to expenses (d) results in negative profit.
5. The followings are example of capital expenditure except \_\_\_\_\_\_\_ (a) cost of fixed assets ( b) installation cost of equipments (c) maintenance cost of assets (d) delivery cost of fixed assets

**THEORY**

1. Define revenue expenditure and give ten example
2. What is capital expenditure? Give ten examples.

**WEEK SIX AND SEVEN DATE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**TOPIC: DISPOSAL OF FIXED ASSETS**

**CONTENT**

* Meaning and definition of disposal of fixed asset
* Methods of disposal of fixed assets and their format.
* Practical illustration.

**MEANING AND DEFINITION OF DISPOSAL OF FIXED ASSETS.**

Fixed assets can be sold in the course of the business due to one reason or the other. The sale of fixed assets is recorded in an account called Assets Disposal Account and it is meant to show the profit or loss made on the sales of such a fixed asset. The accounting procedures on the sale of fixed asset are shown below.

**METHOD OF DISPOSAL OF FIXED ASSET**

There are two methods of recording disposal of fixed asset. They are the old and new methods of depreciation, on the asset sold

**The old method:**

Which depreciation has been credited to the asset account and the asset is disposed, then:

a. For sale of asset:

i. Debit cash book

ii. Credit asset account

b. If there is profit on sale:

i. Debit asset account

ii. Credit profit and loss account

c. If here is loss on sale:

i. Debit profit & loss account

ii. Credit asset account.

**Example**

**DR Asset account CR**

N N

19xx Bal b/d x 19xx Cash book x

Profit x

xx xx

**DR Cash book CR**

N N

19xx Asset x

**DR** **Profit & Loss Account CR**

N N

19xx Loss on sale of asset x Profit on sale of asset x

**New method**

Where depreciation has been carried to provision for depreciation account. It is best dealt with by opening a disposal account to which the original cost of assets and accumulated depreciation are transferred.

1. For cost price of assets:
2. Debit asset disposal account
3. Credit asset account
4. For accumulated depreciation:
5. Debit provision for depreciation account
6. Credit asset disposals account
7. For cash or cheque received on sale:
8. Debit cash book

ii. Credit asset disposal

1. For profit on sale:
2. Debit asset disposal account
3. Credit profit and loss account
4. For loss on sale:
5. Debit profit and loss account
6. Credit asset disposal account

**Example**

**DR Asset Account CR**

N N

19xx Cash x 19xx Asset disposal x

**DR Provision for depreciation account CR**

19xx Asset disposal x 19xx Accumulated Bal b/d x

**DR Asset Disposal Account CR**

N N

19xx Cost of asset x 19xx Cash realized x

19xx Profit x 19xx Prov. For dep. x

X x

**DR Cash Book CR**

N N

19xx Asset disposal x

**DR Profit & Loss Account CR**

N N Profit on sale of asset x

**EVALUATION**

1. State seven methods of charging depreciation on fixed assets

2. Explain five factors that are taken into consideration in determining annual depreciation charge.

**Practical illustration**

A motor car was bought for N30,000, it is to be depreciated at 25% on cost for 3 years and was sold for N10,000 at the end of the 3rd year. Prepare necessary account for the asset disposed off.

**Solution**

Using the straight line method of depreciation

Motor van. N30,000

Yr 1 dep. (25%) 7,500

N 22,500

Yr 2 dep. (25%) 7,500 N15,000

Yr 3 dep. (25%) 7,500

Net Book Value (NBV) N7,500

**Old Method**

**DR Motor van account CR**

N N

Year 1 Cash 30,000 Year 1 Depreciation 7,500

Bal c/d 22,500

30,000 30,000

Yr 2 Bal b/d 22,500 Yr 2 Depreciation 7,500

Bal c/d 15,000

22,500 22,500

Yr 3 Bal b/d 15,000 Yr 3 Depreciation 7,500

Bal c/d 7,500

15,000 15,000

Yr 4 Bal b/d 7,500 Yr 4 Cash book 10,000

Profit sal 2,500

10,000 10,000

**DR Cash Book CR**

N N

Yr 4 Motor van 10,000

**DR Profit And Loss Account CR**

N N

Yr 1 Depreciation 7,500 Profit on sales 2,500

Yr 2 Depreciation 7,500

Yr 3 Depreciation 7,500

**The Modern Method**

**DR Motor van Account CR**

NN

Yr 1 Cash 30,000 Yr 3 Asset disposal 30,000

**DR Provision for depreciation account CR**

N N

yr 1 Bal c/d 7,500 Yr 2 Profit & Loss 7,500

yr 2 Bal c/d 15,000 Yr 2 Bal b/d 7,500

Profit & loss 7,500

15,000 15,000

Year 3 Bal c/d 22,500 Yr 3 Bal b/d 15,000

Profit & loss 7,500

22,500 22,500

Yr 4 Asset disposal 22,500 1/1Yr 4 Balance b/d 22,500

**DR Asset Disposal Account CR**

N N

Yr 1 Cost of assets 30,000 Yr 4 Cash 10,000

Profit 2,500 Prov. For dep. 22,500

32,500 32,500

**DR Profit and loss account CR**

N N

Yr 1 Depreciation 7,500 Profit on sal e. 2,500

Yr 2 Depreciation 7,500

Yr 3 Depreciation 7,500

**EVALUATION**

1. Define disposal of fixed assets.

2. Mention the two methods of disposal of fixed assets.

**READING ASSIGNMENT**

1. Essential Financial Accounting for S.S. by O.A. Longe Page 115 - 127

2. Business Accounting 1 by Frank Wood, Page 82 - 93

3. Financial Accounting with Ease by Yomi Onafowokan, Page 65 – 73

**GENERAL EVALUATION QUESTIONS**

1 What is the difference between depreciation and amortization

2 Give two examples each of assets associated with depreciation and amortization

3 Differentiate between adjustments and closing entries

4 State seven benefits of keeping accounting records in a business

5 List five source documents used in preparing the cash book

**WEEKEND ASSIGNMENT**

1. When fixed assets are sold, it is recorded in \_\_\_\_\_\_\_\_ (a) depreciation accounts (b) disposal account (c) sales account (d) deposits account

2. The following is a method of treating disposal of asset (a) good method (b) bad method (c) old method of depreciation (d) cash book method

3. In the old method, depreciation is \_\_\_\_\_\_\_\_ in the asset account.

(a) debited (b) credited (c) both debited and credited (d) all of the above

4. The double entry posting for profit on sale of fixed asset in the provision method affects the following accounts (a) asset account and provision for depreciation account (b) asset account and profit & loss account (c) assets account and profit & loss account (d) disposal account and profit & loss account

5. Profit and loss account records profit on sale of asset on \_\_\_\_\_\_\_\_\_ side (a) debit (b) credit (c) left (d) right

**THEORY**

1. What is disposal of fixed assets?

2. What are the necessary entries needed to record profit on sale of asset ?

**WEEK EIGHT DATE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**TOPIC: ACCOUNTING CONCEPTS AND CONVENTIONS**

**CONTENT**

* Definition of Concepts and Conventions
* Accounting Concepts
* Accounting Convention

**ACCOUNTING CONCEPTS AND CONVENTIONS**

Accounting concepts and convention are a set of rules or principles that are taken into consideration in the preparation of financial statements. The financial statements include: Trading, profit and loss account as well as the balance sheet. For uniformity of purpose, a generally accepted rules or principles in the form of assumption for its preparation and presentation are adopted, and these are called accounting concepts and conventions.

**ACCOUNTING CONCEPTS**

1. **BUSINESS ENTITY CONCEPT:** The rule here is that the owner and the business are treated separately. Therefore in the preparation of financial statement, the business is recognized as separate and distinct entity, only things that affect the business are recorded and not wealth of the owner(s) apart from those invested.
2. **GOING CONCERN CONCEPT:** Going concern means continuity and not liquidation. That is no reason or fear of discontinuity exists.
3. **MONEY MEASUREMENT CONCEPT:** This concept states that financial statements must reflect only transaction and entries that are capable of being expressed in monetary terms.
4. **COST CONCEPT:** In the preparation of financial statements. Assets are value at cost. It is on cost and not market value because the business is not for sale.
5. **ACCRUAL CONCEPT:** This concept states that expenses and revenue are recognized and reported in the profit and loss account as they are incurred and earned respectively and not as they are paid or received.
6. **MATCHING CONCEPT:** This concept explains that all expenses must be matched and reported against revenue generated at that period to determine the net profit. NB: This is the same as accrual concept
7. **DUAL ASPECT CONCEPT:** This explains the principle of double entry.
8. **REALIZATION CONCEPT:** This concept explains that income in recognized as soon as goods are exchanged for valuable consideration.

**EVALUATION**

1. Explain the term “Accounting Concepts”.

2. Explain the following accounting concepts:

(a) going concern (b) money measurement (c) accrual

**ACCOUNTING CONVENTIONS**

1. **MATERIALITY CONVENTION:** This convention states that amount of materials significant n value must be recorded in the preparation of financial statement. This explains why certain economic events are not reported when the amount of their value are insignificant as to affect the financial statement e.g. depreciations of calculator, wall clock e.t.c.
2. **CONVENTION OF CONSERVATISM:** The convention of conservatism states that the principles of treating income and losses as well as valuation of assets.
   1. Income should not be anticipated
   2. All possible losses must be provided for
   3. When more than one method of valuing an asset is evolved, choose the method with less value (i.e. lower of cost) and or market value.
3. **CONSISTENCY CONVENTION:** This states that there should be consistency in the treatment of similar transactions. This implies that similar transaction within the same period and between one period and another must be treated alike, any changes of method may distort the profit calculation.

**EVALUATION**

1. Define the terms accounting concepts and convention
2. Write short notes on the following concepts
   1. Business entity concept b. Matching concept

**READING ASSIGNMENT**

Essentials Financial Accounting for SS by O. A. Longe, Page 198-205

**GENERAL EVALUATION QUESTIONS**

1. List five items expenses related to a departmental account and a base of apportioning each item
2. State eight uses of the General Journal
3. Explain the principle of double entry system
4. Explain the following errors giving an example of each (a) principle (b) compensation (c) omission
5. What is a bank reconciliation statement

**WEEKEND ASSIGNMENT**

1. A generally accepted points of opinion on ways of doing a thing is called \_\_\_ (a) concepts and conventions (b) ideal (c) theories (d) opinion
2. The accounting concept that states the rule of double entry book-keeping is known as \_\_\_\_(a) matching concept (b) accrual concept (c) dual concept (d) cost concept.
3. Going concern assumes that an enterprise continues (a) for life (b) for a short time (c) for relatively long time (d) liquidate.
4. In the case of accounting convention of conservatism, income should \_\_\_\_\_ (a) be anticipated (b) not be anticipated (c) should be overestimated (d) written off
5. The following are examples of accounting concept and convention except (a) dual concept (b) single entry system (c) cost concept (d) money measurement concept.

**THEORY**

1. Explain the following accounting concept (a) Business entity concept (b) Dual concept

2. Explain the following accounting convention (a) Accounting conventions (b) materiality

(c) consistency

**WEEK NINE AND TEN Date: \_\_\_\_\_\_\_\_\_\_**

**TOPIC: INTRODUCTION TO ACCOUNTING RATIOS**

(i). **Margin and Mark Up**

The ability to calculate margin and mark up may be necessary to solve some incomplete record problems.

**MARGIN**

When gross profit is expressed as a fraction or percentages of selling price it is known as margin.

Example: N

Cost price of goods 100

Profit 25

Selling price 125

Then the margin = profit x 100 = 25 x 100 = 20% 0r 1/5

Selling price 1 125 1

**MARK-UP**

When gross profit is expressed as a percentages or fraction of cost of sales it known as mark – up.

In the above example, mark – up is profit x 100 = 25% or ¼

Cost of goods sold 1

Relationship between margin and mark –up

Examples

If mark – up Margin

Is (i) 2 then 2 = 2

5 5 + 2 7

(ii) 1 then 1 = 1

4 4+ 1 5

If margin mark -up

Is (i) 2 then 2 = 2

5 5 – 2 3

(ii) 1 then 1 = 1

3 3– 1 2

(iii) 1 then 1 = 1

7 7 – 1 6

**NB**:- making-up is always greater than margin

**FURTHER EXAMPLES:**

1. Cost of sales: N3000. Margin 25%. Calculate sales revenue.

Solution: margin is 1 therefore Mark-up = 1 = 1

4 4 -1 3

N 3000 X 1 = PROFIT = N1000

3

ThereforeSales revenue = cost + profit = N (3000 + 1000)

= N 4000

**NB:** it is mark-up that is a percentage of cost hence the margin given in the question must be converted to mark-up to solve the above problem.

1. Sales revenue: N7000. Make-up is 40%. calculate the gross profit.

Solution: mark – up ;. is 2 therefore Margin is 2 = 2

5 5 + 2 7

Therefore Gross profit = 2 x N7000 = N2000

7

1. Maheen provides the following information for the year ended 31st Dec. 2003.

N

Stock at 1st Jan. 2003 9000

Stock at 31st Dec. 2003 11,000

Sales in the year ended 31st 84,000

Maheen sells her goods at a make – up of 331/3. prepare Maheen’s trading account for the year ended 31st Dec. 2003 in as much details as possible.

Solution: This is a good example of a problem that is solved by working backwards

**MAHEEN**

**Trading account for the year ended 31 Dec. 2003**

N N

Sales (given) 84,000

Less cost of sales

Opening stock 1st Jan (given) 9000

Step 4 purchases (balance figure 3) 65000

Step 3 Gods available for sales (balancing figure 2) 74000

Less closing stock at 31 Dec. (given) 11000

Step 2 cost of sales (balancing fig 1) 63,000

Step 1 gross profile (1/4 x N84,000) 21,000

iii. **STOCK LOST IN FIRE OR BY THEFT**

The methods used for preparing account from incomplete records are also used to calculate the value of stock lost in a fire or by theft when detailed stock records have not been kept, or have been destroyed by fire.

You can solve this type of problem by preparing a pro forma “trading Account’ (It is described as “pro forma because it is not prepared like a normal Trading account by transferring balances from ledger accounts.)

**EVALUATION**

1. Define the following accounting terms

(a) Mark-up (b) Margin

2. State the relationship between mark-up and margin.

**Example**

Uwa’s warehouse was burgled on 10th April 2004. the thieves stole most of the stock but left goods worth N1250. Uwa supplies the following information:

Extracts from Uwa’s Balance Sheet at 31 Dec. 2003

Stock N 30,000

Debtors N 40,000

Creditors N 20,000

Extracts from cash Book, 31 Dec. 2003 to 10 April 2004

Receipts from debtors N 176,000

Payments to suppliers N 120,000

Other information

Debtors at 10th April 2004 N 24000

Creditors at 10th April, 2004 N 26,000

Uwa sells his goods at a mark-up of 25%

Required: calculate the cost of the stolen goods

**Solution**: **UWA**

Pro forma Trading Account for the period 1st January, to 10th April 2004

N N

Sales (see wk 1 below) 160,000

Less cost of sales

Stock 1st Jan. 2004 30,000

Purchases (see wk 2 below) 126,000

156,000

Less closing 10/4/04

(Balancing figure) 28,000

Cost of sales 128,000

Gross profit (mark-up is 25% so margin 32,000

Is 20%, (N160,000 x 20%

Therefore Cost of stock stolen = N(28,000 – 12500 = N26,750 i.e. closing stock – stock left after burglary.

**Workings (1)** Debtors Control A/C

N N

1 Jan. Balance b/f 40,000 10 April Cash 176,000

10 April Sales Debtors out-

(balanced fig) 160,000 standing 24,000 200,000 200,000

**Workings (2)** Creditors Control A/C

N N

1 Jan. Bal b/f 20,000

10 April, cash 120,000 10 April purchases

(balancing fig.) 126,000

146,000 146,000

**EVALUATION**

Differentiate between margin and mark-up.

**READING ASSIGNMENT**

Financial Accounting with, Ease by Onatowokan Oluyombo pages 183 – 167

**GENERAL EVALUATION QUESTIONS**

* + - 1. State five features of capital expenditure
      2. State five characteristics of depreciable asset
      3. List five advantages and three disadvantages of the straight line method of calculating depreciation
      4. List ten users of financial accounting information
      5. List six causes of depreciation of fixed assets

**WEEKEND ASSIGNMENT**

1. If mark-up is 40%, then margin is (a) 1/8(b) 45% (c) 1/7 (d) 2/7
2. if margin is 25% and cost of sales is N30,000 then sales revenue is (a)N25,000 (b) N20,000 (c) N35,000 (d) N30,000
3. If margin of a business is 331/3% then its mark-up is (a) 60% (b) 25% (c) 50% (d) 1/3
4. If the sales of a business is N8400 and the business mark-up is 331/3% then the cost of sales is (a) N5000 (b) N6300 (c) N7000 (d) N84000
5. If margin is 1/7 then mark-up is (a) 1/8 (b) 1/9 (c) 1/6 (d) 25%

**THEORY**

1. The sales of a business is N16,000. Its mark-up is ¼. What is its cost of goods sold?
2. If the closing stock of the business in question one above is N2,800, what is the cost of goods available for sale?