**FINANCIAL ACCOUNTING SS 2**

**THIRD TERM**

**SCHEME OF WORK**

**WEEK TOPICS**

1-3 Single Entry and Incomplete Records

4-5 Control Accounts

6-8 Accounts of Non-Profit-Making Organizations

9 Joint Venture Accounts

10 Consignment Accounts

**WEEK ONE**

**TOPIC**: **SINGLE ENTRY AND INCOMPLETE RECORDS**

**CONTENT**: (i) Introduction (ii) Steps Involved in preparing a P&L A/C and Balance Sheet from Incomplete Records (iii) Example

i. **Introduction:**

Most businesses maintain records of their receipts and payments. These records typically include bank paying-in book counterfoils, cheque book counterfoils, bank statements, as well as copies of supplier invoices and sales invoices. From these records, it is possible to prepare a Profit and Loss Account (P&L A/C) and a Balance Sheet.

**Steps Involved in Preparing a P&L A/C and Balance Sheet from Incomplete Records:**

The necessary steps for preparing a P&L A/C and Balance Sheet from incomplete records are as follows:

Step 1: Begin by preparing an opening statement of affairs to determine the opening capital.

Step 2: Prepare a receipt and payments A/C.

Step 3: If necessary, prepare control accounts for debtors and creditors to calculate sales and purchases. The sales and purchase figures are required to balance the accounts.

Step 4: Adjust the receipts and payments accounts for prepayments and accruals at the beginning and end of the accounting period.

Step 5: Calculate provisions for doubtful debts, depreciation, and other adjustments not covered above.

Step 6: Based on the information available, prepare the P&L A/C and Balance Sheet.

Example:

Azim has maintained limited records for his business, which include bank pay-in-book counterfoils, cheque book counterfoils, and records of debtors and creditors. From these records, it is possible to summarize his bank transactions for the year ending 31/12/03:

- Amount paid into the bank: N8000

- Cheques drawn: Payment to suppliers N2430, rent N600, electricity N320, postage and stationery N80, purchase of shop fittings N480, cheques drawn for personal expenses N2700.

Azim banked all his takings after paying the following in cash:

- Creditor for supplies N400

- Sundry expenses N115.

At the beginning of the year (1st January, 2003), Azim estimated his assets and liabilities as follows:

- Shop fittings N1600

- Stock N1960

- Debtors N240

- Rent prepaid N80

- Bank balance N1500

- Cash in hand N50

- Creditors for goods N420

- Electricity owing N130.

By 31st December, 2003, Azim listed his assets and liabilities as:

- Shop fittings N1800

- Stock N1520

- Debtors N380

- Rent prepaid N50

- Bank balance N2640

- Cash in hand N50

- Creditors for goods N390

- Electricity owing N225.

Your task is to prepare Azim's profit and loss accounts for the year ending 31 December 2003 and his Balance Sheet as of that date.

**Solution:**

**Step 1:** Opening statement of Affairs

N N

Assets

Shop fittings 1600

Stock 1960

Debtors 240

Rent prepaid 80

Bank 1500

Cash in hand 50

5,430

Less Liabilities

Creditors for goods 420

Electricity owing 130 550­­

CAPITAL AT 1ST JAN. 2003 4,880

**Step 2:** Receipts and payments Account. This includes only those amounts actually received and spent. It is a cash book summary with columns for cash and bank.

Cash Bank Cash Bank

N N N N

1/1/03 Balance b/f 50 1500 Trade

Takings Creditors 400 2430

(8000+460+115) 8515 Rent 600

Cash 8000 Electricity 320

Postage and

Stationery 80

Shop fittings 480

Sundry Exps. 115

Drawings

(2700+250) 2,950

Bank C 8,000

Balance c/d 50 2640

8565 9500 8565 9,500

N250 is money not accounted for and is treated as Azim’s drawing.

**Step 3:** Debtors and creditors controls accounts

**Debtors Control A/C Creditors Control A/C**

N N N N

1/1/03 Bal b/f 240 31/12/03 Cash 8515

Bal b/f N380 31/12 Bank1/1/03 Bal b/f 420

Sales (2) 8655 and Cash 2830 Purchase(3) 2800

8895 8895 Bal b/f 390

3220 3220

**Steps 4:** Adjustment for Prepayment and Accounts

Rent A/C N Electricity A/C

N N N

Prepaid Cash 320 1/1/03

At 31/12/03 50 Owing Accrued b/f 130

1/1/03 P&L ac 31/12/03 225 P&L A/C 415

Prepaid b/f 80 (payable for) 545 545

Cash 600 the year 630

680 680

N

**Steps 5:** Calculate depreciation of shop fitting: Shop fittings at valuation 1/1/03 1600

Add fittings purchased in the year 480

2080

Shop fittings at valuation 31/12/03 1800

Therefore Depreciation for the year = 280

**Step 6:** **AZIM**

Trading and profit and loss accounts for the year

Ended 31 December 2003

N N

Sales 8655

Less cost of sales

Stock at 1st Jan 1960

Add Purchases 2800

Less closing stock 4700

Less stock at 31/12 1520 3240

Gross Profit 5415

Less: EXPENSES

Rent 630

Electricity 415

Postage and stationery 80

Sundry expenses 115

Depreciation – shop fitting 280 1520

**NET PROFIT**  3,895

Balance sheet at 31st December, 2008

$ $ $

Fixed assets: shop fitting 1800

**CURRENT ASSETS**

Stock 1520

Trade debtors 380

Rent prepaid 50

Bank 2640

Cash 50

4640

**LESS CURRENT LIABILITIES**

Trade creditors 390

Electricity owing 229 615 4025

5825

Capital at 1st Jan. 4880

Profit for the year 3895

8775

Less drawings 2925

5825

**EVALUATION QUESTIONS**

1. What is the purpose of the opening statement of affairs in complete records?

2. What is the debtors control account prepared to reveal?

**READING ASSIGNMENT**

1. Essential Financial Accounting by O.A. Longe Page 371 - 384

2. Accounting by Harold Randall Page 279 – 290

**WEEKEND ASSIGNMENT**

1. Debtors control account reveals (a) debtors (b) creditors (c) cash received (d)sales
2. In incomplete records creditors control account is prepared to reveal (a) sundry creditors (b) purchases (c) cash paid to creditors (d) discount received
3. In adjustment accounts prepaid rent A/C should have \_\_\_\_\_\_\_ balance (a) credit (b) Debit (c) both debit and credit (d) either debit or credits
4. In adjusting for final account, accrued wages should have \_\_\_\_\_\_ balance (a) debit (b) credit (c) debit and credit (d) debit or credit
5. Calculation of provisions for doubtful debts, depreciation, etc is done in step \_\_\_\_ in other to prepare P&L a/c and balance sheet from incomplete records (a) 1 (b) 2 (c) 5 (d) 6

Theory

1. List and explain the six steps necessary to prepare a P&L a/c and balance sheet from incomplete records.

2. Prepare debtors and creditors control accounts formats and highlight what each of them reveals.

**GENERAL EVALUATION QUESTIONS**

1. State three characteristics of single entry accounting system
2. List four disadvantages of single entry accounting system
3. List five steps of converting single entry accounting system to double entry system
4. Explain five differences between a trial balance and a balance sheet
5. State eight items that will cause a disagreement between the Cash Book balance and the Bank Statement balance

**WEEK FOUR**

**TOPIC:- CONTROL ACCOUNT**

i. Definition of Control Accounts

ii. Advantages of Control Accounts

iii. Division of control and their format

**Note**

Control accounts is the extraction of trial balance from individual ledger account of a large organization. Generally speaking, large organizations prepare different types of ledger accounts, but error might occur when preparing these ledgers. To locate the error easily individual trial balance need to be opened for each ledger account, anyone that fails to agree indicates that there are errors. Control account is an easy way to locate errors from ledger account. Control account is also called self balancing ledge.

**ADVANTAGES OF CONTROL ACCOUNT**

1. It helps in locating errors
2. It saves time
3. It can be used to detect missing figures
4. Fraud becomes difficult when control accounts are prepared
5. It is used to check accuracy of balance of the ledgers
6. The total debtors and creditors can be easily calculated.

**Division of control accounts**

Basically control accounts is divided into two: Sales Ledger Control Account and Purchases Ledger Control Accounts.

1. Sales Ledger Control Account: This account recorded all account debtors control account.
2. Purchases Ledger Control Account: This account recorded all account of creditor. It is also called Total Creditors Control account.

**EVALUATION**

1. What is a control account?

2. List four advantages of control account.

**Format**

**Sales Ledger Control Account**

**N N**

1990 Jan Balance b/f X 1990 Jan. Cash from customers X Credits sales X Cheque from customers X

Debit note issued X Returns inward X

Interest charged X Bad debts X

Dishonour cheque X Discount allowed X

Discount disallowed X Credit notes issued X

Carriage outwards X Bills Receivable X

Set offs X

Balance c/d X

X X

**Purchase Ledger Control Account**

**N N**

1990 Jan. Cash to supplier X 1990 Jan. Balance b/f X

Cheque to suppliers X Credit purchases X

Returns outwards X Discount received withdrawn received X

Credit notes received X Cash refunds X

Discounts received X

Set offs X

Bills payable X

Balance c/d X X

XX XX

**Note**: The closing balance of sale ledger control account represents debtors which will appear in balance sheet under current assets. While closing balance of purchase ledger control account represents creditors which will appear in balance under current liability.

Evaluation

1. Define the term control account and mention two divisions of control account.
2. Mention five advantages of control account.

**Reading Assignment**

Essential Financial Accounting by O.A. Longe 187-189

**GENERAL EVALUATION QUESTIONS**

1 List seven types of errors a trial balance will not reveal

2 Explain the term apportionment in departmental accounts

3 List six uses of control account

4 Explain the components of prime cost

5 List five items found in the total creditors control account

**WEEKEND ASSIGNMENT**

1. Another name for control account is (a) sale ledger (b) purchase ledger (c) self balancing ledger (d) general ledger.

Used the information and options provided, Under it to answer question

2-5

1. Credit Sales
2. Discount received
3. Return Outward
4. Credit Purchase

The above items are recorded under

(a) Purchase ledger control account

(b) General ledger control account

(c) Proper Journal Control account

(d) Sales Ledger Control account

**SECTION B**

Draw up the typical format of

(1) Total debtors control account

(2) Total creditors control account

**WEEK FIVE**

**TOPIC: CONTROL ACCOUNT**

**Illustration**: The following balance were extracted from the books of Olotun Enterprises on 30th October, 1993 N

Purchase 1993 7,532

Purchase ledger 1/10/93 7,948

Sales ledger 1/10/93 90,454

Sales day book 77,530

Returns outwards 3,960

Returns inwards 14,180

Cheque received from customers 56,680

Cheque paid to suppliers 61,860

Cash overpaid to supplier 240

Discount allowed 3,774

Discount received 2,678

Credit notes received 280

Debit notes issue 530

prepare

(a) Sales ledger control account

(b) Purchase ledger control account

EVALUATION

1. Draw up the format of Sales Ledger Control Account with ten items.

2. Draw up the format of Purchases Ledger Control Account with twelve items.

**Sales Ledger Control Account**

N N

1993 Oct. Balance b/f 7,948 1993 Oct. Return inwards 14,180

Sales 77,530 Cheques received from customers 56,680

Debit notes issued 530 Discount allowed 3,774

Balance c/d 11,374

86,008 86,008

**Purchase Ledger Control Account**  N N

1993 Oct.Returns Outwards 3,960 1993 Oct. Balance b/f 7,532 Cheques paid to supply 61,860 Purchases 90,454 Credit note received 280 Cash over paid 240

Discount received 2,678

Balance c/d 29,448

98,226 98,226

**EVALUATION QUESTION**

1. Explain what is meant by the following (a) Total debtors control account (b) Total creditors control account.
2. State three reasons for preparing Control Accounts.

**READING ASSIGNMENT**

Essential Financial Accounting by O.A. Longe Page 188-191

**GENERAL EVALUATION QUESTIONS**

1 What is a petty cash book?

2 Explain the imprest system as used in petty cash accounting

3 State four advantages of operating a petty cash system

4 State two reasons for separating capital expenditure from revenue

expenditure

5 Explain two factors which must be considered in determining whether any

particular item is capital or revenue expenditure

**WEEKEND ASSIGNMENT**

Use the following information and options provided under it to answer question 1-5

1. Bill receivable
2. Bill payable
3. Dishonour Cheque
4. Credit notes issued
5. Credits notes received

The above items are recorded under

(a) General ledger control account

(b) Purchase Control account

(c) Proper Journal Control account

(d) Sales ledger control account

**SECTION B**

The following were extracted from Abiona enterprises on 1st January, 1980

Purchase ledger balance: Debit N 570

Credit N13,252

Sales ledger balance: Debit N12,520

Credit N221

Totals for the year: N

Purchase Journal 170,198

Sales Journal 224,608

Return Inward 5,002

Return Outward Journal 3,123

Cheques Paid to suppliers 146,800

Cheques received from customers 189,120

Provision for bad debts 7,000

Cash received from customers 5,000

Discount allowed 6,112

Discount received 3,300

Cash sales 4,500

Cash paid to suppliers 550

Bad debt written off 399

Customers cheque dishonoured 419

Ayo was both debtor and creditor by N725 and N550 respectively. Set this off in the account.

Prepare:- (a) Sale ledger control account

(b) Purchase ledger control account

**WEEK SIX**

**TOPIC**: **ACCOUNTS OF NON-PROFIT – MAKING ORGANIZATIONS**

**WHAT ARE NON-PROFIT MAKING ORGANIZATIONS?**

Non-profit-making organizations exist to provide services for their members. Example are. Sports and social clubs, dramatic societies, music clubs, etc.

Making a profit is not their main purpose, although many carry on fund – raising activities to provide more or more services for the members. The organization is owned by all its members and not by just one person or a few of the members.

Records of money received and spent are usually kept by a member who is not a trained bookkeeper or accountant. Besides, these records of money received and spent, usually no other records are kept. Because of this his topics is an extension of incomplete records treated in the previous weeks.

**SPECIAL FEATURES OF THE ACCOUNTS OF NON-PROFIT MAKING ORGANIZATIONS**

1. An Income and Expenditure Account takes the place of the profit and loss Account (2). The words Surplus of Income Over Expenditure are used in place of Net profit. (3). The works Excess of Expenditure Over Income are used in place of net loss. (4). The term Accumulated Fund is used in place of capital Account. (5). A trading Account is only prepared for an activity that is in the nature of trading and carried on to increase the club’s funds.

**THE TREATMENT OF INCOME:**

Income of a club should be treated in the club’s accounts as follows:-

1. **SUBSCRIPTIONS**

The amount credited to the income and Expenditure Account should equal the annual subscription per member multiplied by the number of members. It may be helpful to prepare a subscriptions account as workings to decide how much should be credited to the Income and Expenditure Account Subscriptions in Arrears and subscriptions is advance should normally be treated as accruals and prepayments. However, each club has its own policy for treating subscriptions in arrears or in advance. The two possible policies are as follows:-

(i) Cash basis: The amount actually received in the year is credited to income and Expenditure Account. This may include subscription for a previous year or paid in advance for the next year.

(ii) Accrual Basis:- All subscription due for the year including those not yet received are credited to the income and expenditure Account it will usually be the Club’s policy to write off as bad debts, subscriptions that are not received the year after they were due.

1. **Life subscription and entry fees**

Life subscription and entry fees are received as lump sums but should not be credited in full to the income and expenditure Account when received. The club should have a policy of spreading it his income over a period of say, five years. The amount received should be credited to a deferred Income account and credited to income and Expenditure Account equal annual installments over a period determined by the club committee

1. **Donations**

Donations and legacies to a club are usually made for particular purposes, e.g. towards the cost of a new hall or equipment. Such a donation should be credited to an account opened for the purpose and expenditure on it debited to the account. Money received for special purpose should be placed in a separate bank account to ensure that it is not spent on other things.

1. **Supporting Activities**

There are some supporting activities to a club’s main purpose. They raise money to supplement income from subscription. If they involved some sort of trading, a Trading Account should be prepared for them as part of the annual accounts, and the profit or loss should be transferred to the income and expenditure Account.

Non-trading activities, such as social get together, outings and dinner – dances may be dealt with in the income and Expenditure Account with the income and costs being grouped together as follows:-

N N

Annual dinner-dance

Sale of tickets 600

Less: hire of band (100)

Catering and drinks (240)

NET RECEIPTS 260

**EVALUATION:**

State and explain five special features of the account of non-profit-making organizations.

**READING ASSIGNMENT:** Financial Accounting with Ease by Onatowokan Oluyombo Page 185-187.

**WEEKEND ASSIGNMENT**

1. Which of the following is NOT a source of revenue to a non-profits-making organization? (a) Donation (b) Entry fee (c) fine (d) Provision
2. Subscriptions prepaid is (a) current capital (b) current liabilities (c) fixed asset (d) working capital

1. Subscription outstanding is (a) current asset (b) current liabilities (c) working capital (d) fixed asset
2. The capital of a non-profit organization is referred to as (a) Net profit (b) gross profit (c) accumulated fund (d) net deficiency
3. For a non-profit-making organization the equivalent of a profit and loss account in a profit-making business concern is (a) trading account (b) receipt and payment (c) accumulated fund (d) income and expenditure account

**THEORY QUESTION**

1. List and explain five special characteristics of the accounts of non-profit-making organizations.

2. Write short notes on:-

(i) Subscriptions prepaid (ii) Subscriptions accrued (iii) donations

**GENERAL EVALUATION QUESTIONS**

1. List five methods of providing for depreciation of fixed assets
2. State five reasons for making provision for depreciation of fixed assets
3. List eight errors that will affect the agreement of the trial balance
4. Give five reasons for preparing departmental accounts
5. List and explain five classifications of the Ledger

**WEEK SEVEN AND EIGHT**

**TOPIC: PREPARATION OF ACCOUNTS OF NON-PROFIT-MAKING ORGANIZATIONS-PRACTICAL ILLUSTRATION**

**Example**

The star sports and social club provides recreational activities, refreshments and social events for its members. Its assets and liabilities at 31st December, 2003 were as follows

**Fixed Assets N**

Pavilion 120,000

Club sports equipment 40,000

Motor roller 2,000

**Current Assets**

Stock of equipment for sale to members 4,000

Annual subscription owing 1,200

Bank balance 6,730

**Current liabilities**

Creditors for equipment for sale to members 1,300

Annual subscription received in advance 800

Life subscriptions fund 1,750

In the year ended 31st December, 2003 the club’s cash receipts and payments were as follows.

**Receipts**

Annual subscriptions N18,000

Proceeds from sale of equipment N12,000

Sale of tickets for dinner-dance N4,400. Refreshment and bar takings N2660. Life members subscription N400

**Payments**

Caretaker’s wages N8,000. Repairs to club equipment N1,700 purchase of club equipment N2000. Equipment for sale to members N4000. Heating and lighting N1800. Food for refreshment bar N1400. Secretary’s expenses N840.

Dinner – dance expenses: - Hire of band N 200 - Catering N 1000

Further information

1. At 31st December 2004: annual subscriptions in arrears N1400, annual subscriptions received in advance were N900
2. Stock of equipment for sale to members N200
3. Creditors of equipment for sale to members N900
4. A member donated N5000 to a fund to encourage young people to train for sport. This donation was invested in saving bonds.
5. the club transfers life subscriptions to the income and Expenditure Account in equal installment over five years
6. Depreciation is to be provided on fixed assets by the reducing – balance method as follows:- pavilion 6%. Sport equipment 20%, motor roller 20%. Required (a) prepare the star sport and social club’s income and Expenditure Account for the year ended 31st December, 2004 (b) prepare the club’s balance sheet as at 31st December, 2004

Solution

**Step 1:** Prepare an opening statement of affairs. This will give the balance on the Accumulated fund at 1st January 2004 and will be the starting point for recording the transactions during the year.

**Statement of affairs as at 31st December, 2003.**

Fixed Assets:- N

Pavilion Sport equipment 120,000

Club sports equipment 40,000

Motor roller 20,000

Current Assets

Stock of equipment for sale to members 4,000

Annual subscriptions owing 1,200

Bank balance 6,730

Total Assets 173,930

Current Liabilities

Creditors for equipment for sale to members 1,300

Annual subscription received in advance 800

Life subscription fund 1,700 3,850

**Accumulated fund 1st January, 2004**  170,080

**Step 2:-** prepare a receipt and payments Account. This will summarize all the transactions affecting the Income and Expenditure Account and balance sheet and calculate the bank balance at 31st December, 2004.

**Receipts and payments account for the year ended 31st December, 2004**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | N |  | N |
| 1 Jan. | Balance b/f | 6,730 | 31 Dec. Caretaker’s wages | 8000 |
| 31 Dec. | Annual subscriptions | 18,000 | Repair’s club equipment | 1,700 |
|  | Sales of equipment | 12,000 | Purchase club equipment | 2,000 |
|  | Sales of tickets dinner-dance | 4,400 | Purchase of equipment for resale | 4,000 |
|  | Takings-refreshment | 2,660 | Heating and lighting | 1,800 |
|  | Life membership subscriptions | 400 | Dinner dance hire of band | 200 |
|  |  |  | Catering | 1000 |
|  |  |  | Food for refreshment bar | 14000 |
|  |  |  | Secretary’s expenses | 840 |
|  |  |  | Balance c/d | 23,250 |
|  |  | 44,190 |  | 44,190 |

**Step 3:-** prepare workings to adjust for accruals, prepayments, depreciation and any other items. Show these workings with your answer.

1. **Purchase of equipment for resale**

|  |  |  |  |
| --- | --- | --- | --- |
|  | N |  | N |
| Cash part | 4000 | Creditors b/f (opening bal.) | 1,300 |
| Creditors c/f | 900 | Income and Exp. a/c | 3,600 |
|  | 4,900 |  | 4,900 |

2. **Annual subscriptions A/C**

|  |  |  |  |
| --- | --- | --- | --- |
|  | N |  | N |
| Owing at 1st January | 1,200 | Prepaid | 800 |
| Prepaid at 31st December | 900 | Cash (R & Payt a/c) | 18,000 |
| I & E a/c 9for the up) | 18100 | Owing at 31st December | 1,400 |
|  | 20,200 |  | 20,200 |

3. **Life Subscriptions A/C**

|  |  |  |  |
| --- | --- | --- | --- |
|  | N |  | N |
| I & Exp. A/C (1/5 x 2/50 ) | 430 | B/F | 1,700 |
| Balance c/f | 1,720 | Cash received (i.e. additional) | 400 |
|  | 2,150 |  | 2,150 |

4. **Club Sport equipment A/C**

|  |  |  |  |
| --- | --- | --- | --- |
|  | N |  | N |
| Bal b/f | 40,000 | I & Exp a/c (20% x 4200) | 8,400 |
| Cash (addition) | 2,000 | Bal c/d | 33,600 |
|  | 42,000 |  | 42,000 |

**Step 4:**  The income and expenditure A/C and Balance sheet may now be copied out from steps 1, 2 and 3. As the sale of equipment to members is trading, a trading A/C should be prepared even though the question did not ask for it.

If steps 1, 2 and 3 have been carefully carried out, preparing the income & Expenditure A/C and balance sheet is now only copying exercise and can be completed in little time.

**Sales of equipment A/C**

|  |  |  |
| --- | --- | --- |
| Sales | N | N |
| Less: Cost of sales |  | 1,200 |
| Stock 1st January | 4000 |  |
| Purchase (wk. 1) | 3,600 |  |
|  | 7,600 |  |
| Less closing stock 31/12/04 | 2000 | 5,600 |
| Profit on sales of equipment (transferred to income and expenditure account) |  | 6,400 |

**STAR SPORTS AND SOCIAL CLUB**

**INCOME & EXPENDITURE ACCOUNT FOR THE YOUR ENDED 31/12/04**

|  |  |  |  |
| --- | --- | --- | --- |
|  | N | N | N |
| Annual subscriptions (wks. 2) |  |  | 18,000 |
| Life subscription (wks. 3) |  |  | 430 |
| Profit on sale of equipment |  |  | 6,400 |
| Dinner/dance:- |  |  |  |
| Sales of ticket |  | 4,400 |  |
| Less: Hire of band | 200 |  |  |
| Catering | 1,000 | 1,200 | 3,200 |
| Refreshment Bar |  |  |  |
| Takings |  | 2,660 |  |
| Less: cost of food |  | 1,400 | 1,260 |
|  |  |  | 29,390 |
| Less expenses |  |  |  |
| Caretaker’s wages |  | 8,000 |  |
| Repairs to club equipment |  | 1,700 |  |
| Heating and lighting |  | 1,800 |  |
| Secretary’s expenses |  | 840 |  |
| Depreciation: Pavilion (6% x 120,000) |  | 7,200 |  |
| :Equipment (wks. 4) |  | 8400 |  |
| : Motor roller (20% x N2000) |  | 400 | 28,340 |
| SURPLUS OF INCOME OVER EXPENDITURE |  |  | 1,050 |

**BALANCE SHEET**

**AS AT 31ST DECEMBER, 2004**

|  |  |  |
| --- | --- | --- |
|  | N | N |
| Fixed Assets at net book value |  |  |
| Pavilion |  | 112,800 |
| Club equipment |  | 33,600 |
| Motor roller |  | 1,600 |
|  |  | 148,000 |

**Current Assets**

|  |  |
| --- | --- |
| Stock of equipment for resale to members | 2000 |
| Subscription owing | 1,400 |
| Bank balance | 23,250 |
|  | 26,650 |

|  |  |  |  |
| --- | --- | --- | --- |
| Less current liabilities |  |  |  |
| Creditors | 900 |  |  |
| Subscriptions prepaid | 900 |  |  |
| Life subscriptions (wks. 3) | 1,720 | 3,520 | 23,130 |
|  |  |  | 171130 |
| Presented By: |  |  | 170080 |
| Accumulated fund at 1/1/04  Add surplus of income over expenditure |  |  | 1050  171130 |

Fund to encourage young people to train for sports N5000

Presented by savings fund N5000

**Evaluation**

Write short note on (a) subscription prepaid (b) subscription accrued

**Reading Assignment**

Financial accounting with Ease by Onafowokan O., Harold Randall pages 95-98

**WEEKEND ASSIGNMENT**

1. Life subscription A/C should have a (a) debit balance (b) credit balance (c) neutral balance (d) none of the above
2. Club sports equipment A/C should have a balance (a) credit (b) debit (c) debit and credit (d) neutral
3. Sales of a equipment to members is a form of (a) asset (b) trading (c) gambling (d) debating
4. Subscriptions accrued is an/a\_\_\_\_\_\_\_ (a) asset (b) liabilities (c) accumulated fund (d) working capital
5. Repair of club equipment is a \_\_\_\_\_\_ expenditure (a) revenue (b) capital (c) fixed (d) floating

**THEORY**

1. Write short notes on (a) annual subscription (b) life subscriptions (c) subscription prepaid (d) subscription accrued
2. Differentiate between life membership subscriptions and annual subscription of a non-profit-making organization.

**GENERAL EVALUATION QUESTIONS**

1. List five sources of income for a not-for-profit making organizations
2. State five differences between a Receipts and Payments Account and

an Income and Expenditure Account

1. State five uses of a Control Account
2. State six errors that will not affect the agreement of the trial balance
3. Explain the objective of transfer pricing in Manufacturing Accounts

**WEEK NINE**

**TOPIC: JOINT VENTURE ACCOUNTS**

**CONTENT**

1. Definition of Joint Venture.
2. Accounting entries required for joint ventures.
3. Practical illustration of joint ventures.

**Definition**

Joint venture is a business relationship of two or more persons or venturers, for the purpose of carrying on a particular transaction with the aim of profit making. The principle of Joint Venture borrows from partnership but the difference is that the Venture ceases operation immediate the purpose of its establishment is achieved.

Joint Venture is not a going concern.

Major account prepared are:

i. Individual Joint Ventures Account: basically, the individual in joint ventures prepares joint ventures account affecting him in his books.

ii. Memorandum Joint Venture Account: This is profit and loss account of joint ventures. In this account, profit or loss attributed to each joint-venturer is ascertained and shared between the individuals concerned.

**Accounting entries**

1. Debits all expenses to individual Joint Venture account.
2. Credited all revenue to Individual Joint Venture account.
3. In Memorandum Joint Venture account.

i. Credit both revenue of Joint Venture.

ii. Debits both expenses of Joint Ventures.

**EVALUATION QUESTIONS**:

1. State three similarities between Joint Venture and Partnership.

2. List four differences between Joint Venture and Partnership.

**Practical Illustration**: Biodun (Kaduna based) and (Kola Lagos based) agreed to enter into Joint Venture in 1992, for the purchase of textile materials in Onitsha and resell.

Biodun and Kola agreed to share the profit or loss in ratio 3:2 respectively. The following transactions took place.

1992 Feb. 1 Biodun made a cash purchase of goods N2,200

4 Kola bought N3,500 worth of goods

10 Biodun purchased goods for N4,000

15 Biodun sold goods for cash N5000 selling expenses N430

20 Kola sold goods for cash, N6,500

25 The remaining items were dispatched to Kaduna by Kola, transport expenses N600

27 Biodun sold goods N10,200

**Prepare**: (a) Individual Joint Venture account

(b) Memorandum Joint Ventures account

**Note**: In individual Joint Ventures account, if balance b/d is in the credit side, it implies that the persons or firm has received more than he is entitled to. So he need to pay the amount of the balance to the other party who has received less than his entitlement.

(a) In the books of Biodun:

**Solution Joint Ventures with Kola**

1992 N 1992 N

Feb. 1 Purchases 2,200 Feb. 15 Sales 5,000

“ 4 Purchases 4,000 Sales 10,200

“ 15 Selling expenses 430

“ 29 Share of profit 6,582

“ Bal. c/d 1988

15,200 15,200

Mar. 3 Cheque to Kola 1,988 M. I Balance b/d 1,988

In the Books of Kola:

**Joint Venture with Biodun**

1992 N 1992 N

Feb. 4 Purchases 3,500 Feb. 29 Sales 6,500

25 Transports Exp. 600 29 Balance c/d 1,988

29 Share of Profit 4,388

8,488 8,488

Mar. 1 Balance 1,988 Mar. 3 Cheque from Biodun 1,988

(b) In the books of Kola and Biodun:

**Memorandum Joint Ventures Accounts**

1992 1992

Purchases: Biodun 6,200 Sales Biodun 15,200

Kola 3,500 Kola 6,500

Selling exp. Biodun 430

Transport exp. Kola 600

Share of profit 10,730

Biodun (3/5 x 10, 790) 6,582

Kola (2/5 x 10,970) 4,388

21,700 21,700

**Evaluation Questilon**

1. Define Joint Venture.

2. Mention the major accounts prepared in Joint Venture.

**Reading Assignment**: Essential Financial Accounting page 343-348

**WEEKEND ASSIGNMENT**

1. The major account in Joint Venture are \_\_\_\_\_\_\_\_\_\_\_\_

(a) Individual Joint Ventures account and memorandum (b) Profit and Loss account and balance sheet (c) appropriation account and balance sheet (d) cash book and ledger

2. Expenditure of each joint venture is \_\_\_\_\_\_\_\_\_\_\_\_

(a) credited (b) debited (c) all of the above (d) none of the above

3. Revenue of each joint venture is \_\_\_\_\_\_

(a) credited (b) debited (c) none of the above (d) all of the above

4. In memorandum account revenue is \_\_\_\_\_\_\_

(a) Debited (b) Credited (c) averted (d) included

5. In memorandum account expenditure is \_\_\_\_\_\_\_\_\_\_\_\_\_\_

(a) included (b) excluded (c) debited (d) credited

**THEORY**

A & B entered into a Joint Venture in a consignment of 100 articles each costing N10.

A supplies such goods and sends them to B for sale, paying carriage there on N20. B is to have 10% commission on sales and the profit divided in the ratio of 2:1

It was found that 10 articles were below standard, and it was agreed that. A would take them back and sell them as his own goods without commission and loss thereon being borne sorely by A. It was further agreed that at the same time 5 articles be returned to A as he was in a position to effect a sale (on account of the Joint Venture) at N18 each, being a better price than what B could get. B sells the remaining articles (less 3 articles taken over by him at an agreed price of N 11 each) at N14 each. The carriage on the goods returned by B to A is N4, and it is agreed that N2 thereof relate to the cost of returning the articles and to be borne by A.

Show the accounts of A in B’s books. B in A’s books and Memorandum Joint Venture Account.

**GENERAL EVALUATION/REVISION QUESTIONS**

1. Explain the following : (a) bank loan (b) bank overdraft (c) standing order (d credit

transfer

1. State five reasons for making provision for depreciation on fixed assets
2. List four accounts found in each of the following (a) nominal ledger (b) private ledger

(c) general ledger

4 What is the difference between depreciation and amortization

5 List five examples each of assets associated with depreciation and amortization

**WEEK TEN**

**TOPIC: CONSIGNMENT ACCOUNT**

**CONTENT**

1. Definition
2. Accounting Entries
3. Practical illustration

**Note**

Consignment of good means the sending of goods by a supplier to his agent to receive, store and sell them on behalf of the supplier after which the proceeds, having deducted all expenses incurred, will be remitted to supplier. The sender of the goods is called consignor while the agent to whom the goods are sent is called consignee.

**ACCOUNTING ENTRIES**

In the Books of the consignor you will open

(a) Consignment account

i. Debits all expenses relating to goods consigned

ii. Credits all revenue relating to goods consigned

(b) Goods sent on consignment account

i. Debit trading a/c with the value of goods consigned

ii. Credit consignment account

(c) Bank account (Extracts)

i. Debit proceed from consignee (agent) after deducting all expenses incurred.

ii. Credit all expenses incurred by the consignor.

(d) Consignee account i. Debit sales account

ii. Credit all expenses incurred in respect of sales

**EVALUATION QUESTION**

1. Define the term consignment of goods

2. Explain a. Consignor b. Consignee

**Practical Illustration**

On January 1, 1995, Pfizer Product Plc consigned 10 cartons of visine eye drop to Standard Pharmacy at N150 per carton. In the course he paid N400 for freight charges, N140 for insurance, and N850 for advertisement. On receiving the goods on January 5 Standard Pharmacy incurred the following expenses. Storage N100, wages N380, selling expenses N120. By January 24, Standard Pharmacy had sold all the articles and realized a total sum N21,500 in the following analysis is sales by cash N20,000, Credit sales to Kunle N1,500. The agreed commission was 3% and del-credere commission was 2% of the total sales. Required

1. Prepare the account submitted by consignee on 31/1/95

2. Prepare all necessary account to record the transaction in the books of the consignor.

**Solution**

1. Account sales submitted by Standard Pharmacy

N N

Sales 21,500

Less: Storage 100

Wages 380

Selling expenses 120

Commission: General (0.03 x 21,500) 645

‘’ Del-credere (0.02 x 21,500) 430 (1,675)

Sight draft enclosed 19,825

2. In the books of Pfizer Product Plc. (consignor)

**Good sent on consignment account**

Trading a/c (N1,500 x 10) 15,000 consignment 15,000

**Consignment Account**

Goods sent on consignment 15,000 standard pharmacy 21,500

Bank: freight cheque 400

Advertisement 850

Insurance 140

Standard Pharmacy

Storage 100

Wages 380

Selling expenses 120

Commission: General 645

Del-credere commission 430

P&L a/c (profit) 3,435

21,500 21,500

**Bank account (Extracts)**

Standard Pharmacy 19,825 Consignment N

Freight charges 400

Advertisement 850

Insurance 140

**Standard Pharmacy account (consignee)**

Consignment: sales 21,500 Consignment N

Storage 100

Wages 380

Selling expense 120

Comm. General 645

Del-credere 430

Bank 19,825

21,500 21,500

**EVALUATION QUESTION**

1. List the accounts that are opened to record consignment of goods.

2. Explain the treatment of consignment outwards in the balance sheet.

**Reading Assignment**

Simplified Bookkeeping and A/C, Femi Olatunji 260 -265

**Weekend Assignment**

1. The person that sends goods to another person for the purpose of selling it is (a) collector (b) consignor (c) consignee (d) none of the above
2. The person who received the goods on behalf of another is (a) consignor (b) collector (c) consignee (d) none of the above
3. Consignment of goods means (a) receiving of goods (b) producing of goods (c) sending of goods (d) all of the above
4. In Goods sent on consignment account, consignment is (a) Debited (b) credited (c) all of the above (d) none of the above
5. In consignment account, advertisement is (a) revenue (b) expenses (c) income (d) none of the above.

**SECTION B**

On February 1, 1997 Fadeke Stores consigned 100 cases of electric clippers to her agent Bimbo, at N3,000 per case sundry expenses N420. Bimbo expenses are: warehousing N20 Railways charges N150, selling expenses N50. On April, Bimbo sold the whole consignment for N380,000 and all receipt were taken in cash. Commission Bimbo 3% plus a delcredere commission to of 1% on sales. On 13th April Bimbo prepared his account sales which, together with bank draft for-remittance, was sent to Fadeke. Required to prepare.

a. The account sales sent by Bimbo

b. The necessary ledger accounts in the books of consignor (Fadeke)

**GENERAL EVALUATION/REVISION QUESTIONS**

1. What are books of prime entry
2. List any seven books of prime entry
3. Explain the following concepts (a) business entity (b) going – concern
4. What is a ledger
5. List and explain three classification of ledger accounts