**FINANCIAL ACCOUNTING SS 3**

**SECOND TERM**

**SCHEME OF WORK**

**WEEK TOPIC**

1 Purchase of Business

2 - 3 Accounting Ratios and Interpretation of Financial Statements

4 - 5 Public Sector Accounting

6 - 7 Public Sector Accounting

8 - 9 Branch Accounts

10 Introduction to Data Processing

**WEEK ONE**

**TOPIC: PURCHASE OF BUSINESS**

**CONTENT**

* **TERMINOLOGIES IN PURCHASE OFBUSINESS**
* **ACCOUNTING ENTRIES ILLUSTRATION**

**INTRODUCTION**

Purchase of business is the activity of buying or acquiring a business as a going concern. This means acquiring an existing business with the intention of continuing its operations . this acquisition cam be in any of the following ways

1. A sole trader acquiring the existing business of a sole trader
2. A partnership acquiring the business of another partnership or a sole trader
3. A company may be buying another or a partnership business.

In any of the acquisitions above , the assets and liabilities taken over by the purchasing businesses will be recorded in the same way.

**TERMINOLOGIES IN PURCHASE OF A BUSINESS**

1. **Vendor**. This is the person or partnership or company that sold the business to another. The vendor may be paid cash, cheque or in shares of the new company
2. **Purchase consideration**. The is the price which a purchaser would pay to the vendor in order to acquire his business
3. **Goodwill**. This is the excess of the purchase consideration over the net value of assets taken over. Net assets means total assets less liabilities . it is also called the net worth of the business.
4. **Capital reserve**. Where the purchase consideration is lesser than the net worth of the business, the difference is referred to as capital reserve.

**ACCOUNTING ENTRIES**:

1. Agreed purchase price

Dr.Business Purchase A/C

Cr. Vendors A/C

2. Take over value of assets

Dr.Assets Account

Cr. Business Purchase A/C

3. Agreed value of liabilities taken over

Dr. Business Purchase A/C

Cr. Liabilities A/C

4. Excess of purchase consideration over net asset

Dr. Goodwill

Cr. Business Purchase A/C

5. Excess of asset over purchase consideration.

Dr. Business Purchase A/C

Cr. Capital Reserve A/C

6. Settlement of the vendor’s A/C with cash

Dr. Vendor’s A/C

Cr. Cash A/C

7. Settlement of Vendor’s A/C with shares

Dr. Vendor’s A/C

Cr, Share Capital A/C

**Journal entries:**

**JOURNAL**

|  |  |  |
| --- | --- | --- |
|  | **Dr** | **Cr** |
|  | N | N |
| Asssets : fixtures | X |  |
| Motor vans | X |  |
| Debtors | X |  |
| Stock | X |  |
| Goodwill | X |  |
| Liabilities: creditors |  | x |
| Purchase consideration |  | x |
| Assets and liabilities taken over |  |  |
|  |  |  |
| Purchase of business account | X |  |
| Vendor account |  | x |
| Agreed purchase price of the business |  |  |
|  |  |  |
| Vendor’s account | X |  |
| Bank account or share capital account |  | x |
| Cash or share paid in full settlement |  | x |

**EVALUATION**

1. Explain the following terms:

a. Goodwill

b. Capital reserve

c. Purchase consideration

d. Vendor

2. List six factors which can create goodwill for any firm or organization.

**ILLUSTRATION**

Lanka had taken over the business of Olaiya on 31/1/99 on the bais of the last balance sheet as follows:

**Balance sheet**

N N

Capital 180,000 Premises 100,000

Creditors 60.000 Fixtures 45,000

Accruls 10,000 Motor car 55,000

Debtors 15,000

Stock 5,000

Bank 30,000

250,000 250,000

**ADDITIONAL INFORMATION**:

1. The purchase consideration to be N200,000
2. All assets and liabilities where taken over with the exception of bank
3. Assets to be re-valued are as follows :

Premises 140,000

Fixtures 40,000

Motor car 57,000

Debtors 13,000

Stock 10,000

4. The purchase price was paid on January 10th, 1999.

You are required to prepare

1. Journal entries in respect of the acquisition b)ledger A/C c) balance sheet

**SOLUTION:**

**JOURNAL**

**DR CR**

N N

Premises 140,000

Fixtures 40,000

Motor van 57,000

Debtors 13,000

Goodwill 10,000

Creditors 60,000

Accruals 10,000

Purchase of Business. 200,000

Assets and liabilities taken over

Purchase of business A/C 200,000

Vendor A/C 200,000

Purchase price per agreement

Vendor A/C 200,000

Bank A/C 200,000

Cash or share paid in full settlement

**B. LEDGER ACCOUNTS:**

**Business Purchase Account**

N N

Liabilities taken over Asset taken over

Creditors 60,000 Premises 140,000

Accruals 10,000 Fixtures 40,000

Purchase price 200,000 Motor van 57,000

Debtor 13,000

Stock 10,000

Goodwill 10,000

270,000 270,000

**Bank Account**

Vendor 200,000

**Vendor Account**

Bank 200,000 Purchase Consideration 200,000

**Goodwill Account**

Purchase of business 10,000

**Balance Sheet**

N N

Capital A/C 200,000 goodwill 10,000

Premises 140,000

Fixtures 40,000

Creditors 60,000 Motor van 57,000

Accruals 10,000 debtors 13,000

Stock 10,000

270,000 270,000

**Evaluation**

Explain the following: i. vendor ii. Purchase consideration

**GENERAL EVALUATION/REVISION QUESTIONS**

1. State six characteristics of depreciable assets
2. Explain three differences between a trial balance and a balance sheet
3. List seven errors that will affect the agreement of the trial balance
4. Explain the following : (i) real account (ii) nominal account (iii) personal account
5. List eight items that cause disagreement between Cash Book and bank statement balance

**Reading assignment**

Essential Fin. Accounting by O.A Longe page 299-307.

**Weekend Assignment**

1. Goodwill is a ------- (a) current asset ( b) intangible asset( c) current liability( d)fictitious asset
2. Vendor means the seller of the (a) business (b) asset (c) liabilities (d) capital
3. Capital reserve is( a) current assets( b) fixed assets (c) liabilities (d) equity
4. The double entry for payment of cheque to vendor is (a) Dr. vendor A/C, Cr. bank (b) Cr. Vendor,Dr. bank (c) Cr.cheque Dr. vendor (d) Dr. Vendor Cr. Cash
5. The double entry for agreed purchase price is (a) Dr.purchase of business A/C,Cr. Vendor (b) Dr. asset Cr. liabilities (c) Dr. Cash Cr. Vendor (d) Dr. Asset Cr. Cash

**THEORY**

1. Explain the accounting entries in purchase of a business by a partnership from a sole trader.
2. Explain i. Capital reserve ii. Goodwill on purchase of a business

**WEEK TWO AND THREE**

**TOPIC: ACCOUNTING RATIOS AND INTERPRETATION OF FINANCIAL STATEMENTS**

**CONTENT**

* Introduction
* Uses of ratio
* Disadvantages of using ratio
* Types of ratio – explanation
* Illustration

**INTRODUCTION**

To interpret accounts is to try to gain insight into the information value of financial statements , this can be done through analysis, evaluation ,criticism and comparison and all this is done by the use of accounting ratios. A ratio can be defined as the relationship that exists between two figures.

**USES OF RATIO**

1. Ratios are used in preparing industrial averages.
2. They can be used to interpret financial statements.
3. They help in comparing performances between and among related organizations.
4. Ratios help to measure the ability of a given entity to meet its short-term obligations.
5. They are used in evaluating the performance of companies in the same business

**DISADVANTAGES OF USING RATIO**

1. Ratios can easily be affected by inflation
2. They can be manipulated upon or abused
3. Different accounting policies affect ratio calculation

**TYPES OF RATIO**

1. Profitability and efficiency ratio
2. Liquidity ratio
3. Investment ratio

**PROFITABILITY AND EFFICIENCY**:

Profitability and efficiency ratios measure the effectiveness of the management as shown by the returns obtained on sales and capital invested. This can be broken down into the following.

1. Net profit%
2. Gross profit%
3. Returns on capital employed
4. Assets turnover ratio
5. Individual expenses items to sales ratio e.g advertising carriage outwards etc

Formulae:

1. NP% = NET PROFIT × 100

SALES 1

1. GP% = GROSS PROFIT × 100

SALES 1

1. Returns on capital employed ROCE. This measures management ability to utilize effectively the organizations resources.

It is PROFIT × 100

CAPITAL EMPLOYED 1

Where capital employed can be:

a) total asset b) total assets to current liabilities

1. ASSETS TURNOVER RATIO:

This ratio measures the turnover generated by assets and show how fully a company is utilizing its assets.

Formula: SALES

CAPITAL EMPLOYED

1. INDIVIDUAL EXPENSE TO SALES:

This helps to reveal the reason for improvement or reduction in the net profit to sales.

Formula: INDIVIDUAL EXPENSES × 100

SALES 1

1. LIQUIDITY RATIOS:

These ratios help in measuring the ability of an organization to meet its obligations as they fall due.Ratios under this heading are:

1. Current ratio or working capital ratio
2. Average stock
3. Stock to net current assets
4. Debtors ratio
5. Creditors ratio
6. Current ratio or working capital ratio: This ratio indicates the ratio of current assets to current liabilities. It shows the extent the firm can meet up with its short-term creditors. Low ratio implies lack of working capital while high ratio suggests too much of working capital or capital tied up.

Formula: CURRENT ASSETS CA

CURRENT LIABILITIES CL

1. ACID- TEST/LIQUID RATIO:

This ratio provides measures of the firm’s ability to meet its current liability. Should it fall below 1:1,the firm may have some difficulty in paying its debt.

Formula: CURRENT ASSETS – STOCK OR INVENTORY

CURRENT LIABILTIES

1. STOCK TURNOVER RATIO:

This is used to measure the number of times stocks are replaced during a given period.

Formula: COST OF GOODS SOLD

AVERAGE STOCK

1. AVERAGE STOCK: OPENING STOCK + CLOSING STOCK

2

**N.B**: Where there is no opening stock,average stock could be calculated by adding closing stock to purchases and dividing by 2

1. STOCK TO NET ASSET. This ratio is used to express the stock as a percentage of net assets.

Formula: = STOCK × 100

NET ASSET 1

1. DEBTORS RATIO: Debtors ratio measures the average collection period from debtors. It shows the average credit period given to debtors.

Formula: DEBTORS × 365 DAYS

CREDIT SALES

Long collection dates indicate poor credit policy.

1. CREDITORS RATIO: This ratio shows the average credit period received from suppliers.

Formula: TRADE CREDITORS × 365 DAYS

CREDIT PURCHASES

1. INVESTMENT RATIOS : These ratios used by investors to evaluate the return,which they receive from their investments, they cover the following:
2. Earnings per share ratio
3. Price earning ratio
4. Earning yield
5. Dividend yield
6. Dividend cover
7. **EARNINGS PER SHARE RATIO**: This ratio compares the net earnings attributable to the shares to the number of shares issued.

Formula: PROFIT AFTER TAX(PAT) - LESS PREFERENCE DIVIDEND.

NOS. OF EQUITY SHARE

1. **PRICE EARNING RATIO**: This ratio considers the average price of the share to the reported earnings per share.

Formula: MARKET VALUE PER SHARE

EARNINGS PER SHARE

1. **DIVIDEND YIELD**: This ratio measures the current actual returns on the shareholders investment.

Formula: DIVIDEND PER SHARE × 100

SHARE PRICE 1

1. **DIVIDEND COVER**: This ratio compares the earnings per share to the dividend per share.

Formula: EARNING PER SHARE = EPS

DIVIDEND PER SHARE DPS

Dividend cover is also called payout ratio.

**EVALUATION**

1. State three limitations to the use of accounting ratios in evaluating and comparing business organizations

2. List five uses of accounting ratios.

**ILLUSTRATION:**

The following was extracted from the books of capital ltd for two years, 31/12/001/002.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **2001** | | | | **2002** | |
|  | ₦ | ₦ | ₦ | | ₦ |
| Sales |  | 60,000 |  | | 90,000 |
| Less |  |  |  | |  |
| cost of sales |  |  |  | |  |
| Opening stock | 18,750 |  | 16,875 | |  |
| Add purchases | 37,500 |  | 68,250 | |  |
|  | 56,250 |  | 85,125 | |  |
| Less closing stock | 11,250 | 45,000 | 13,125 | | 72,000 |
| Gross profit |  | 15,000 |  | | 18,000 |
| Less expenses |  | 7.500 |  | | 6,750 |
| Net profit |  | 7,500 |  | | 11,250 |
|  |  |  |  | |  |
| Balance sheet | | | | | |
| Fixed asset |  |  |  | |  |
| Motor car |  | 15,000 |  | | 10,500 |
| Current asset |  |  |  | |  |
| Stock | 11,250 |  | 13,125 | |  |
| Debtors | 18,750 |  | 15,000 | |  |
| Bank | 3,750 |  | 1,875 | |  |
|  |  | 33,750 |  | | 30,000 |
| Less current liability | | | | | |
| Creditors | 3,750 | 30,000 | 7,500 | | 22,500 |
|  |  | 31,500 |  | | 33,000 |
| Financed by: |  |  |  | |  |
| Capitals |  | 28,500 |  | | 27,000 |
| Add net profit |  | 7,500 |  | | 11,250 |
|  |  | 36,000 |  | | 38,250 |
| Less drawing |  | 4,500 |  | | 5,250 |
|  |  | 31,500 |  | | 33,000 |

You are required to calculate the following ratios.

i. Gross profit ii. Net profit iii. Expenses as a % of sales iv. Stock turnover v. Current ratio vi. Acid – test ratio vii. Rate of returns on capital employed viii. Creditors /Purchases ratio ix. Debtors/sales ratio ix. Average stocks

**Solutions:**

1. GP% = GP × 100

SALES 1

2001 = 15,000 × 100 = 25%

60,000 1

2002 = 18,000 × 100 = 20%

90,000 1

1. NET PROFIT% = NP × 100

SALES 1

2001 = 7,500 × 100 = 12.5%

60,000 1

2002 = 11,250 × 100 =12.5%

90,000 1

1. EXPENSES AS A % OF SALES = EXPS. × 100

SALES 1

2001 = 7,500 × 100 = 12.5%

60,000 1

2002 = 6,750 × 100 = 7.5 %

90,000 1

1. STOCK TURNOVER = COST OF GOODS SOLD

AVERAGE STOCK

2001 45,000 = 45,000 = 3TIMES

(18750 + 11,250)1/2 15,000

2002 72,000 = 72,000 = 4.8 TIMES

(16,875 + 13,125)1/2 15,000

1. CURRENT RATIO = CURRENT ASSETS

CURRENT LIABILITIES

2001 = 33,750 = 9 = 9:1

3,750 1

2002 = 30,000 = 4 = 4:1

7,500 1

1. ACID TEST RATIO = CURRENT ASSET – STOCK

CURRENT LIABILITIES

2001 = 33,750 - 11,250

3,750

= 22,500 = 6 = 6:1

3,750 1

2002 = 30,000 – 13,125 = 1,687 = 225

7,500 7,500 10

= 2.25

1. **RETURNS ON CAPITAL EMPLOYED**

= NP × 100

CAPITAL EMPLOYED 1

**N.B:** Capital employed is total assets less current liabilities.

2001 = 7,500 × 100 = 23.8%

31,500 1

2002 = 11.250 × 100 = 34%

33,000 1

1. **CREDITORS/PURCHASES RATIO** = CREDITORS

PURCHASES

2001 = 3,750 × 365 DAYS 365 DAYS OR (12 MOS.)

37,500

= 36.5 DAYS OR 1.2 MONTHS

2002 = 7.500 × 365 DAYS

68,250

= 40.11 DAYS OR 1.3 MONTHS

1. **DEBTORS/SALES RATIO** = DEBTORS × 365 DAYS

SALES

2001 = 18750 × 365 DAYS

60,000

= 114 DAYS OR 3-8 MONTHS

2002 = 15,000 × 365 DAYS

90,000

= 60-8 DAYS OR 2 MONTHS

1. **AVERAGE STOCK** = (OPENING STOCK + CLOSING STOCK) ½

2001 = 18750 + 11250 = 15000

2

2002 = 16,875 + 13,125 = 15000

2

**EVALUATION**

1. What is the formula for stock turnover
2. What is the other name for stock turnover

**GENERAL EVALUATION/REVISION QUESTIONS**

1. What is depreciation
2. Explain the following methods of calculating depreciation (i) staight line (ii) reducing balance (iii) sum of the years digit
3. What is the difference between depreciation and amortization
4. State ten uses of the general journal
5. Explain the principle of double entry system

**READING ASSIGNMENT**

Essential Financial Accounting page 308-317

**WEEKEND ASSIGNMENT**

1. Which of the following formulae is for average stock?( a) (sales – returns)1/2 ( b) (opening stock + purchases)1/2 (c) (opening stock + closing stock)÷ 2 (d) net profit/2 + opening stock
2. What is the formula for stock turnover?

(a) cost of goods sold (b ) sales – returns ( c)sales ÷ returns (d) profit + sales - returns

average stock inwards

3. ROCE is calculated thus

(a) NP × 100 (b) SALES × 100 ( c) NP × 100 (d) GP + NP/SALES

SALES PURCHASES NET ASSETS

4. Acid – test ratio is obtained by (a) current assets – stock ( b) total assets – stock

current liabilities current liability

(c) current assets – current liability (d) current assets + current liabilities

5. When current asset is less than current liability it means (a) over trading (b) under trading (c) optimum

trading (d) counter trading

**THEORY**

1. Explain a) debtors /sales ratio b) creditors/purchases ratio
2. What will be revealed to a business when the above ratios are compared?

**WEEK FOUR - SIX**

**TOPIC: PUBLIC SECTOR ACCOUNTING**

**CONTENT**

* Meaning of Public Sector Accounting
* Differences between Public Sector Accounting and Private Sector Accounting
* Government sources of revenue
* Accounting procedures for revenue allocation/illustration
* Cost budget preparation and illustration

**Meaning of Public Sector Accounting**

Public Sector Accounting is the process of recording the financial transactions concerning the receipts and payments of government funds, in a systematic way, as well as their analysis and interpretation so as to guide governments and their agents in various financial decisions.

**Differences between Public Sector Accounting and Private sector Accounting**

Public Sector Accounting Private Sector Accounting

1. Accounting procedure is based on It is based principally on profit

provision of services maximization

2. It does not show creditors It shows creditors for goods

3. Revenues are derived from tax, fees, Revenues are derived from sales of goods

fines, etc.

4. The cost of assets are written off in The cost of assets are spread over the useful

one year life of the assets

5. It is prepared on cash basis It is prepared on accrual basis

6. Public sector accounting is based on It is governed by the companies and Allied

the constitution of the country Matters Act.

7. Public sector accounting report is to Private sector accounting report is to the

the general public shareholder.

**Governments Sources of Revenue**

Government revenue means the total income accruing to the government of a country. This can be classified under different tiers of government.

**a. Federal Government:** At the Federal level revenue sources are:

* 1. Direct and indirect taxes: e.g Personal income tax, withholding tax, corporation tax, capital gains tax, capital transfer tax, petroleum tax, tax export duties, tariffs, sales tax, purchase tax, excise duties etc.
  2. Mining: Royalties, sales of crude oil, rent on oil wells, quarrying licenses
  3. Fees and Licenses: Visa fees, passport fees, court fees, club registration, church and mosque registration, company registration etc.
  4. Income from investments and dividends from corporate organization
  5. Rent from government properties
  6. Revenue from armed forces external assignment, armed forces equipment rentage etc.

**b.** **State Government**: A state’s major sources of revenue are:

* 1. Statutory allocation
  2. Investment earnings
  3. Rent on government properties
  4. Rent of government offices, vehicles etc
  5. Special grants
  6. Personal income tax
  7. Fees from hospitals schools, courts
  8. Licences, motor, sales of liquors, patent medicine and motorcycle

1. **Local Government**: A local Government’s major sources of revenue are:
   1. Statutory allocation
   2. Special grant
   3. Radio and televsion license
   4. Tenement rates
   5. Fines
   6. Licences on sign post, market stall and liquors
   7. Loan from state
   8. Income from street naming etc.

**Accounting procedures for revenue allocation**

Statutory allocation is the grant from Federal Government to the States and Local Governments. Apart from the statutory allocation various formulae have been devised on various occasions to ensure fair sharing of the total revenue among the three levels of government. The principle usually adopted are:

1. Derivation basis
2. Equality basis
3. Population basis
4. Independent revenue

**Illustration**

The government of Nigeria approved N18,000,000 to six local government areas. The allocation was distributed as follows:

1. Equity basis 75%
2. Population basis 25%

Local government Population

A 6,000,000

B 4,000,000

C 7,000,000

D 1,000,000

E 3,000,000

F 2,000,000

23,000,000

B. Local government generated the following additional revenue:

N

Radio and television licences 100,000

Court fines 250,000

Liquor licences 400,000

Sign post 20,000

Tenement rates 50,000

Expenses salaries 1,150,000

Transport 20,000

Repairs 200,000

Maintenance of cars 60,000

Stationery 25,000

Medical expenses 15,000

Medical expenses 7,600

Park Fees 60,000

You are required to prepare:

1. A statement showing the allocations made to each local government
2. Receipts and payments accounts of B Local Government for the year ended 31st December 1999.

**Solution**

Statement of Allocation of Fund

1. Equity Basis 75% = 75% x 18,000 = N13,500,000

Equity allocation = 13,500,000 = 2,250,000

6

Therefore each of the local government will receive **N2,250,000**

1. Population Basis 25% = 25% x 18,000,000

**= 4,500,000**

Local government A = A’s Population x 4,500,000 =600,000 X 4,500,000

Total population 23,000,000

= **N1,173,913**

Local government B = B’s population x 4,500,000

= Total population

= 4,000,000 x 4,500,000

23,000,00

= **N782,609**

Local government C = C’s population x 4,500,000 = 7,000,000 x 4,500,000

Total population 23,000,000

= **N1,369,565**

Local government D = D’s population x 4,500,000 = 1,000,000 x 4,500,000

Total population 23,000,000 = **N586,957**

Local government E = E’s population x 4,500,000 = 3,000,000 x 4,500,000

Total population 1 = 23,000,000 = **N5586,957**

Local government F = F’s population x 4,500,000 = 2,000,000 x 4,500,000

= Total population = 23,000,000 = **N391,304**

**Statement of allocation of Fund**

Local Population Basis Equity Basis Total

Government

N N N

A 1,173,913 2,250,000 3,423,913

B 782,609 2,250,000 3,032,609

C 1,369,565 2,250,000 3,619,565

D 195,652 2,250,000 2,445,652

E 586,957 2,250,000 2,836,957

F 391,304 2,250,000 2,641,304

4,500,000 13,500,000 18,000,000

**B. Local Government Receipt and payments Account**

Receipts N Payments N

Allocation 3,032,609 Salaries 1150,000

Radio and TV 100,000 Transport 20,000

Tenement rates 50,000 Electricity 200,000

Court 250,000 Repairs 60,000

Liquor 400,000 Maintenance 25,500

Sign post 20,000 Stationery 15,000

Park fees 60,000 Medical expenses 7,600

Balance c/d 2,434,509

3,912,609 3,912,609

**EVALUATION**

1. List eight sources of revenue available to a state government.

2. State five differences between private sector accounting and public sector accounting.

**PREPARATION OF PERSONNEL COST BUDGET**

Budget: A budget is quantitative statement of income and expenditure.

The personnel cost budget is prepared to show the analysis of the basic salary and allowances of the staff members of each government ministry department in a particular year.

**PROCEDURES FOR PREPARING THE COST BUDGET**

1. Identification of different positions in the ministry or parastatals
2. Calculation of the number of staff in each post
3. Identification of grade level.
4. Calculation of the basic salary, allowances, etc.

**ANNUAL INCREMENTAL RATE**

1. If the officers are not on first step of their salary; the formula below will be used for calculating staff total emolument

Formula (new stop 1 ) incremental rate) + basic salary

**Illustration**

Position No Grade Level Salary

Director General 1 17 300,000 x 50,000

Director 4 16 200,000 x 30,000

Assume the staff are on step 3

**Solution**

Director general: = (New step – 1) incremental rate + basic salary

= (3 – 1) 50,000 + 300,000

= 2(50,000) + 300,000

= **N400,000**

4 Director = (New step – 1) incremental rate + basic salary

= (3 -1) 30,000 + 200,000

= 2(30,000) + 200,000

= 60,000 + 200,000

= **N260,000**

2. When employees are on step one

Illustration: The following information was extracted from the ministry of finance on 31/10/99.

Post Grade Level No. in post Rate

DG 17 1 40,000 x 4000 – 60,000

Directors 16 3 32,000 x 3600 – 53,600

Chief Accountant 14 4 28,000 x 2400 – 44800

Additional information

Grade Level Housing Transport

12 and above 8400 P.A 6250 P.A

07 and 11 3600 P.A 2500 P.A.

Workings

One DG’s Basic salary = 40,000

Housing allowance = 8400

Transport allowance = 6250

3 Directors’ basic = 32000 x 3 = 96,000

Housing allowance = 8400 x 3 = 25,200

Transport allowance = 6250 x 3 = 18,750

4 Chief Accountants

Accounts’ Basic Salaries = 28,000 x 4 = 112000

Housing allowance = 8400 x 4= 33,600

Transport allowance = 6250 x 4 = 25,000

**Solution**

**PERSONNEL COST BUDGET**

Post Grade No Basic Housing Transport Total

N N N N

Director General 17 1 40,000 8400 6250 54650

Directors 16 3 96000 25200 18750 139950

Chief Accounts 14 4 112,000 33600 25,000 170,600

248,000 67,200 50,000 365,200

Total Personnel Emolument = N365,200

**Evaluation**

1. Define Public sector accounting
2. List seven items of government expenditure.

**GENERAL EVALUATION QUESTIONS**

1. What is depreciation?
2. Explain the following methods of calculating depreciation (i) staight line (ii) reducing balance (iii) sum of the years digit
3. What is the difference between depreciation and amortization?
4. State ten uses of the general journal
5. Explain the principle of double entry system.

**READING ASSIGNMENT**

1. Essential Financial Accounting by O.A. Longe, Pages 376-388
2. Simplified Bookkeeping and Accounting by Femi Olatunji, Pages 489-513

**WEEKEND ASSIGNMENT**

1. Public sector accounting is done on -------------basis (a)credit (b)cash (c)hire purchase (d)installmental payment
2. Government parastatal accounting system is on -------------basis (a)cash (b)accrual (c)General (d)all of the above
3. Public sector accounts reports are to the -------------(a)shareholders (b)directors (c)public (d)customers
4. The chief accounting officer to the government ministries is (a)auditor general (b)minister of finance (c)secretary to the federal government (d)accountant general of the federation
5. The formula for calculating emolument where employees are on step 4 is
   1. (4-1) x salary (b)(4+1) x salary (c) (4-1) incremental rate (d) (4-1) incremental

rate + basic salary.

**Theory**

1. State the formula to apply for (i) calculating emolument when employees are step 1 and (ii) when employees are on step 3
2. State seven differences between the public and private sector accounting

**WEEK SEVEN**

**TOPIC: INTRODUCTION TO BRANCH ACCOUNTS**

**CONTENT**

* Meaning of Branch Accounts
* Division of Branch Accounting
* Formats and Illustration

# Meaning of Branch Accounts

A branch Account is a system of accounting adopted to record the transactions of a small part of a business organization which has or has not some degree of independence.

**Divisions of Branch Accounting**

The divisions can be:

1. Where the head office keeps all the accounts: This happens where the branch is fully dependent on the head office. In this case the following accounts are kept.
2. Branch stock A/C
3. Goods sent to branch A/C
4. Branch stock adjustment A/C
5. Branch debtors A/C (where credit sales are allowed)
6. Branch bank A/C
7. Branch profit & loss A/C
8. Where the branches keep separate accounts: This happens where a branch is semi-autonomous. In this situation the following accounts are kept to show the relationships:
   1. Branch current A/C in head office books
   2. Head office current A/C in branch books

## Pricing Methods

Three different pricing methods are available for charging goods to branches. They are:

* 1. At cost Price: This is used when the goods concerned are perishable so that branch managers can use their discretions to avoid losses.
  2. At cost plus a percentage: This helps the head office to exercise control over the branch by stating the required percentage profit.
  3. At selling price: This is a measure of control also where the branch has no choice but to sell the goods at the selling price given.

Note: Where the cost plus a percentage method of pricing is used, two method of accounting can be used also:

1. Double column or a memorandum column method
2. Branch adjustment method.

Memorandum or double column method.

This method combines two accounts:

1. Branch Stock Account which appears in the invoice price column and
2. Branch Stock Adjustment Account which appears in the “cost price” column However the use of this method requires some items or transactions to be shown at the same price in the two separate columns. These items are:

1. Cash sales 2. Credits sales 3. Cash remitted to head office

4. Cash in transit 5. Sundry expenses from takings (ie sales)

6. Sundry expenses paid out of cash 7. Cash taken stolen.

Thus, the adoption of the memorandum or double column method, in cost plus percentage pricing system, requires the following accounts:

1. Branch stock A/C with double column i.e. memorandum branch A/C
2. Goods sent to branch A/C (entries in this A/C are made at cost price only)
3. Branch P & L A/C//

Formats of the three Account above:

Memorandum Branch Stock A/C

Invoice cost Invoice cost

Price Price Price Price

N N N N

Stock at start X X Rent to head office X X

Goods sent to Branch x x credit sales x x

Gross profit C/D x cash sales x x

Allowance of selling price x x

Goods stolen x x

Cash stolen x x

Expenses paid

Out of takings x x

Normal loss x x stock at close x x

X x x x

**Goods sent to branch A/C (at cost)**

N N

Returns to branch x branch stock A/C x

Transport to head Office

Trading A/C x

X x

### Branch profit & Loss A/C

N N

Branch stock A/C Gross profit x

Sundry expenses x (from memo.

Branch Stock A/C)

Stock stolen at cost price x

Cash stolen X

Net profit x

X x

**Evaluation questions**

1. What is a branch accounts

2. State the pricing methods in branch accounts

**Illustration**

Suzi Ltd operates a head office in Lokoja and branch office in Lagos. All goods are purchased by Lokoja and sent to Lagos at cost plus 25%. The following information were given for the year ended 31/12/04.

N

Credit sales 3,500

Goods sent to branch at cost 50,000

Returns to head office at cost 500

Cash takings remitted to H.O. 10,000

Stock at close at cost price 12,500

Cash takings stolen 150

Sundry expenses paid out of takings 950

Goods stolen at cost 40

Allowances off selling price 100

You are required to prepare

* + 1. Branch A/C in the head office books including the necessary A/Cs
    2. The P & L A/C for the ended 31/12/04

The system of accounting the head office uses is the memorandum column method.

Solution

Step 1: Calculate the selling price (or invoice price) using the mark-up of 25% on cost

1. Selling price of goods sent to branch

Profit = mark-up x cost price

= 25/100 x 50,000 = N12500

1. Selling price = cost + profit

= 50,000 + 12500

= N623,500

1. Selling price of returns to Head office

= cost + mark-up

= N500 + (25/100 x 500)

S. P = N500 + 125 = N625

1. Selling price of stock at close

= cost + mark-up

= N12500 + (25/100 x 12500

S. P = N12500 + 3,125 = N15,625

1. Selling price of goods stolen

= cost + mark-up

= N40 + (25/100 x N40)

S. P. = N40 + 10 = N50

step II: Preparation of branch stock A/C using memorandum colum

#### Memorandum branch stock A/C

Invoice cost Invoice cost

Price Price Price Price

N N N N

Goods sent to branch 62,500 50,000 Rent to head office 625 500

Gross profit C/D - 9140 credit sales 3500 3500

x cash remitted to H. Office 10,000 10,000

cash takings stolen 150 150

sundry expenses 950 950

goods stolen 50 40

Allowance off selling price 100 - stock at close 15624 12500

62500 59140 62500 59140

### Profit & loss A/C

N N

Sundry expenses 950 Gross profit B/D 9140

Cash stolen 150

Goods stolen at cost 40

Net profit 8000

1. 9150

**Evaluation questions**:

1. State four objectives of Branch Accounting.

2. State five reasons why branches may decide to keep their accounts rather than the Head office doing so.

**GENERAL EVALUATION QUESTIONS**

* 1. State five characteristics of depreciable assets
  2. Explain three reasons why an accountant will consider end- of- year adjustments
  3. Differentiate between bad debts and provision for bad debts
  4. Differentiate between bank statement and bank reconciliation statement
  5. State four reasons for making provision for depreciation

**Reading Assignment**

Simplified and Amplified Financial Accounting – page 466-487

Essential financial Accounting by O.A. Longe and others pages 375-379

**Weekend assignment**

1. If the cost of goods is N10,000 and there is a 25% mark-up on it, then the selling price is ----------(a)N10,000 (b)N10,200 (c)N12,500 (d)N13,500
2. If the cost of an article is N500 the company’s profit margin is 20% then the selling price is ----------(a)N6250 (b)5000 (c)72250 (d)6000
3. If the margin allowed by a business is 25% then the business mark-up is ----------(a)20% (b)30% (c)311% (d)50%
4. If the profit on cost price is 1/5 then the profit on selling price is ----------(a)1/2 (b)1/3 (c)5% (d)1/4 (e)1/6
5. The margin on sales of a trader is 15% therefore the trader’s mark-up is ----------(a)12/7 (b)15/17 (c)3/20 (d)3/17

**THEORY**

1. Fill the following gaps

Mark-up Margin

If i. 10% i. Then ----------?

ii. ----------? ii. If 30%

iii. 3/7 iii. Then----------?

1. State the main pricing methods in branch accounting.

**Week EIGHT AND NINE**

**Topic: PREPARATION OF BRANCH ACCOUNT**

**Content**

* Branch Adjustment Method
* Accounting Entries
* Formats and Illustration
* Where branches keep separate Accounts

**Branch Adjustment Method of Branch Accounting**

Unlike the memorandum or double column method, under this method, the profit loading will be taken to a separate A/C called “Branch adjustment A/C”. Under this method the following are the main A/C that will be prepared:-

1. Branch stock A/C – at invoice price
2. Branch stock adjustment A/C showing profit loading
3. Goods sent to branch A/C – based on cost price
4. Debtors A/C (where goods are sold or credit)
5. Branch P & L A/C

**Accounting Entries**

1. When goods are sent to branch Dr. Branch stock A/C at invoice price Cr. Goods sent to branch A/C (at cost)
2. When there are sales – cash or credit Dr. Cash A/C with cash sales Dr. Debtors A/C with credit sales Cr branch stock A/C with cash or credit sales.
3. Stock at start.

Dr. branch stock A/C – (with invoice price) Cr. Branch stock adjust A/C (profit loading)

1. Stock at close

Dr. Branch stock adjust A/C (profit loading)

Cr. Branch stock A/C with invoice price

1. Returns to head office.

Cr. Branch stock A/C at invoice price

Dr. Goods sent to branch A/C at cost price

Dr. Branch stock adjustment A/C with profit loading

1. Transfer to other branch

Cr. Branch stock A/C at invoice price

Dr. Goods sent to branch A/C at cost price

Dr. branch stock adjustment A/C with profit loading

1. Allowances of selling price or reduction in selling price

Dr. branch stock adjustment A/C (total allowance )

Cr. Branch stock A/C (total allowance)

1. Goods in transit

Dr. branch stock adjustment A/C (with profit loading)

Cr. Branch stock A/C (with invoice price)

1. Goods lost in transit

Dr. Branch stock adjustment A/C (with profit loading)

Dr. Goods lost in transit A/C (at cost price and write it off to P & L A/C)

Cr. Branch stock A/C (at invoice price)

1. Goods stolen or deficiencies

Cr. Branch stock A/C (invoice price)

Dr. Branch stock adjustment A/C (profit loading)

Dr. Goods stolen A/C (with cost price)

1. Cash Stolen

Cr. Branch stock A/C (Total amount)

Dr. Defalcation A/C (total amount) to be written off to P & L A/C

1. Goods returned by customers to head office

Cr. Debtors A/C (invoice price)

Dr. goods sent to branch A/C (cost price)

Dr. Branch stock adjustment A/C (profit loading)

1. Balance of adjustment A/C will be transferred to branch profit and loss A/C
2. The goods sent branch A/C will be closed by transferring the balance to H.O. trading A/C. Formats

**Branch Stock Account (invoice price)**

N N

Stock at start x goods transferred to another branch x

Goods sent to branch x cash sales x

Credit sales x

Expenses paid out of takings x

Reducting in selling price x

Goods in transit x

Returns to H.O. x

Cash stolen (pilterage) x

Normal loss x

Cash in hand x

Bal c/d stock at close x

xx xx

Goods sent to Branch A/C (cost price)

Return to H.O x Branch stock A/C x

Transfer to other branch x

Bal C/D transp. To H.O

Trading A/C x

x x

**Branch stock adj. or branch mark-up Account profit loading**

**N N**

Profit on return to H. O x Profit on opening stock x

Profit on stock at close x profit on goods sent to branch x

Profit on goods returned

By customers to H.O x

Profit on goods in transit x

Normal loss (selling price) x

Profit on goods stolen x

Profit on return to other

Branch x

Reduction in selling price x

GP to branch & P&L A/C

c/d x

xx xx

**Branch P & L A/C**

N N

Cost of goods stolen x Branch stock Adj A/C b/d x

Sundry expenses x

Cost of goods lost in transit x

Cost stolen x

Net profit c/d x

xx xx

**Evaluation questions**

1. What are the entries involved in selling goods on credit by a branch?

2. What is the purpose of preparing branch stock accounts?

**Illustration**

Suzuki Ltd has a head office in Lagos and a branch in Ibadan. All goods are purchased by the head office and sent to Ibadan at cost plus mark-up of 1/3 of the selling price. During the year to 31/12/05 the following transaction took place at Ibadan.

N

Goods received from Lagos 360,000

Goods returned to Lagos 3360

Bad debt 1192

Cash received from debtors 137248

Cash discount given 3616

Cash sales 201600

Credit sales 144,000

The following additional information is relevant

1/1/05 31/12/05

N N

Stock in hand at selling price 32160 42000

Debtors 13216 15160

You are required to prepare

* + 1. Branch stock A/C
    2. Goods sent to Branch A/C
    3. Branch stock adjustment A/C
    4. Branch debtors A/C

Solution:

**Suzuki Ltd**

Branch stock A/C (invoice price)

N N

a. balance b/f 32160 cash sales 201600

Goods sent to branch branch debtors

At cost (2/3 x 360,000) 240,000 -credit sales 144,000

Branch stock adj. goods return

Profit loading (1/3 x 360,000) 120,000 to H.O.

Cost – (2/3 x 3360) 2,240

Branch stock

Adjust-profit

Loading (1/3x3360) 1,120

Branch stock

(The difference) 1,200

bal (c/d stock

at close 4,200

39216 39216

b. Goods sent to branch A/C (cost price)

N N

Branch stock

Goods returned to H.O A/C (2/3x360,000) 240,000

Cost (2/3x3360) 2240

Transferred to

H.O. trading A/C

(Balancing figure) 237,760

240,000 240,000

c. **Branch stock adjustment A/C (profit loading)**

N N

Branch stock A/C bal b/f (1/3x32,160 10,720

Less in stock 1200 branch stock A/C 120,000

Returns to H.O (profit on G.S.B

(profit on it 1/3x3360 1120 (1/3x360,000)

Profit on closing

Stock (1/3x42000) c/d 14,000

Branch P&L A/C GP c/d 114,400

130720 130720

Bal b/d 14000

d. **Branch debtors A/C**

**N N**

Bal b/f 13216 cash received from debtors 137248

Credit sales 144,000 Discount allowed 3616

Bad debt 1192

Bal c/d 15,160

157216 157216

Bal b/d 15160

**Evaluation questions**

1. Explain the following pricing methods used in preparing branch accounts

(a) cost price (b) cost plus a percentage (c) selling price

2. List any five items that may feature in the Branch stock Adjustment Account.

**GENERAL EVALUATION QUESTIONS**

1. List five source documents used in preparing the Cash Book
2. State five factors to be considered in determining the depreciation charge for a fixed asset
3. State five differences between capital expenditure and revenue expenditure
4. State three features of each of the following (a) cash book (b) trading account (c) profit and loss account
5. Differentiate between prime costs and overhead costs

**Reading assignment**

Essential Financial Accounting O. A. Longe, Pages 379-383

**Weekend assignment**

1. Branch stock A/C is prepared to show:
   1. cost price of goods sent to branch
   2. Gross profit in goods sent to branch
   3. Invoice price of goods sent to branches
   4. None of the above
2. In branch accounting, the entries for bad debt written off are:
   1. Dr. Branch stock A/C Cr. Debtors A/C
   2. Cr. Bank A/C Dr. debtors A/C
   3. Cr. Debtors A/C, Dr. branch P&L Mc to branch A/C
3. If the margin of a trader is 30% than the mark-up of the trader is

(a)25% (b)33% (c)40% (d)43%

1. The balancing figure in the goods sent to branch A/C is (a)transfer to branch debtors A/C (b)credit to branch stock A/C (c)transfer to branch P&L A/C (d)transfer to head office trading A/C
2. A branch sold goods on credit for N5000. The accounting entries are debt branch debtors A/C N5000 and credit.

(a) goods sent to branch A/C N5000 (b)branch stock adjustment A/C N5000 (c)branch stock A/C N5000 (d)branch profit & loss A/C N5000

**Theory**

1. What purpose does each of the following serve?
   1. Branch stock A/C
   2. Branch stock adjustment A/C
   3. Goods sent to branch A/C
2. Show a comprehensive format of a branch stock A/C

**WEEK TEN**

**TOPIC: INTRODUCTION TO DATA PROCESSING**

**CONTENT**

* Definition of terms
* Stages of Data Processing
* Methods of Data Processing
* The Electronic Computer

Data Processing is the process of producing meaningful information from raw data. It describes the series of actions taken to produce useful information by collecting all items of data together and performing operations on them. The aim of data processing is to convert raw data into information.

**Data**: Data represent the raw unprocessed input element introduced into a system from which useful information is extracted. Data is used to describe the facts and figure obtained which have not been grouped, related or evaluated in any way.

**Information**: Information consist of data which have been recorded organized classified and processed into useful and meaningful form. It is the output element of a data processing system.

**QUALITIES OF A GOOD INFORMATION**

(i) Accuracy

(ii) Timeliness

(iii) Completeness

(iv) Relevance

(v) Up to date

(vi) Cost effectiveness

**DATA PROCESSING STAGES**

(i) Origination

(ii) Preparation/Sorting

(iii) Input

(iv) Processing

(v) Output

(vi) Storage

(vii) Distribution

**METHODS OR TECHNIQUE OF DATA PROCESSING**

(a) Manual Data Processing

(b) Mechanical Data Processing

(C) Electronic Data Processing

**EVALUATION**

1. Differentiate between data and information.

2. List five qualities of a good information.

**THE ELECTRONIC COMPUTER**

Characteristics of a Computer

i. Speed – high speed of operation

ii. Storage – Large storage volume

iii. Versatility – Can be used to perform wide range of tasks

iv. Diligence – It can perform similar operations at the same speed and accuracy at all times.

v. Automatic – Tasks are performed automatically based on the programme (instructions) given to the computer.

**ELEMENTS OR COMPONENTS OF A COMPUTER**

1. **INPUT DEVICES** – i. .e. the unit through which data are fed into the computer e.g. keyboards, terminals, optical mark readers optical character readers, magnetic ink character readers.

2. **CENTRAL PROCESSING UNIT** – This is the part of the computer that carry out the computations and calculations. It is made up of

(a) The control unit

(b) The Arithmetic and Logic Unit

(c) The Internal Memory or Storage

3. **OUTPUT DEVICES** – These are used to transmit processed data to the users e.g printer, visual display units, plotters.

4. **STORAGE DEVICES** – These are external storage devices used to hold information that would be required by the users of the computer e.g. diskettes, magnetic tapes, punched cards etc.

**APPLICATION OF COMPUTERS IN AN ACCOUNTING ENVIRONMENT**

Computers are used in finance and accounting for such applications as

1. Payroll system

2. Nominal Ledger (or General Ledger) system

3. Stock Control System

4. Maintenance of Fixed Assets Register

5. Reconciliation of Accounts/Auditing

6. Automatic cheque clearing system

7. Purchase Ledger System

8. Sales Ledger System

9. Financial Planning Services

10. Preparation of Management Reports

11. Financial Forecasting/Projections and Budgeting

12. Computation of job cost estimates

13. Electronic fund transfer e.g. from one bank to another.

**EVALUATION**

1. What is a Computer?

2. List and explain three methods of data processing

**GENERAL REVISION QUESTIONS**

* 1. List six accounts found in the nominal ledger
  2. List six accounts found in the general ledger
  3. State two uses of the trial balance
  4. List five examples of accounts that have debit balances
  5. List four examples of accounts that have credit balances

**READING ASSIGNMENT**

Simplified Book-keeping and Accounting page 487-501

**WEEKEND ASSIGNMENT**

1. The fourth stage of the accounting information system is \_\_\_\_\_\_\_\_\_\_\_\_

(a) recording (b) interpreting (c) summarizing (d) classifying

2. In the permanent storage device, DASD means\_\_\_\_\_\_\_\_

Direct Access Systems Device (b) Direct Access Storage Device (c) Data Access System Device (d) Data Access Storage Device

3. The input output and central processing units are the basic components of a computers \_\_\_\_\_

(a) memory (b) software (c) printer (d) skill

4. The computer that functions by taking discrete numbers and performing mathematical calculation is called \_\_\_\_\_\_

(a) mainframe (b) digital (c) hybrid analogue

5. Which part of the computer system does the keyboard device belong to \_\_\_\_\_\_

(a) output unit (b) logic unit (c) input unit (d) control unit

**THEORY**

1. Mention and explain with diagrams, the stages of data processing.

2. State four reasons why some firms still use manual data processing instead of electronic data processing.